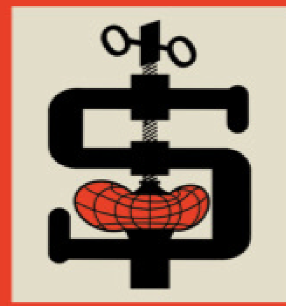
The Economist

MAYHEM IN MARKETS

A week of turmoil and what it means for the world economy



OCTOBER 1ST–7TH 2022

THE PRINCE

THE INSIDE STORY OF THE WORLD'S MOST POWERFUL MAN


RIMOWA
BORN IN GERMANY.
ENGINEERED FOR THE WORLD.
INGENIEURSKUNST
SEIT 1898*
*THE ART OF ENGINEERING SINCE 1898

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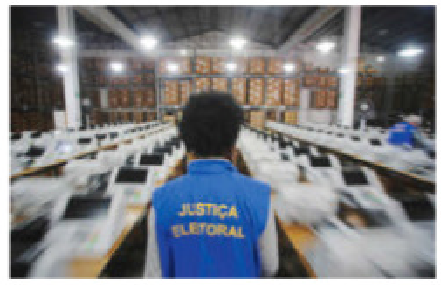

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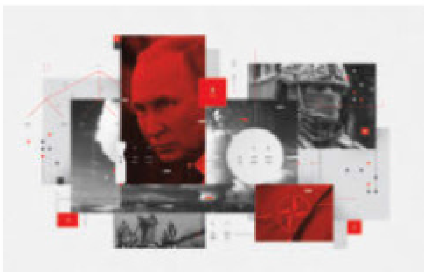

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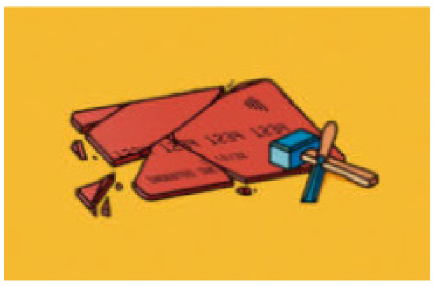

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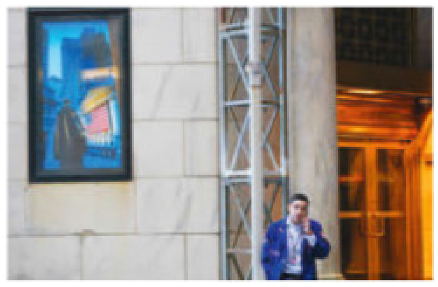

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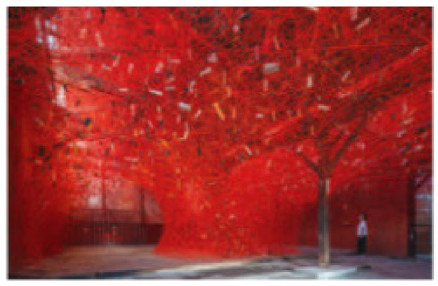

Economic & financial indicators

Graphic detail

Obituary

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to take part in *"a severe contest between intelligence, which presses forward, and an unworthy, timid ignorance obstructing our progress."*

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Italy's nationalist right triumphed at a general election. An alliance of three parties headed by Giorgia Meloni's Brothers of Italy won a solid majority in both houses of parliament. Ms Meloni is all but certain to become Italy's first female prime minister. Though her party has neo-fascist roots, she has tried to present a reassuring face to voters. She promises not to ban abortion or gay civil partnerships, and to stick broadly with Italy's economic reform plans as agreed with the European Commission in Brussels. The markets seemed relaxed about her victory.

Russia staged sham referendums in four partly occupied provinces of **Ukraine**. Residents were asked, sometimes at gunpoint, whether they wanted their land to be annexed by Russia. The Kremlin's local puppets announced that nearly everyone voted Yes. If Vladimir Putin formally annexes the provinces, he could then claim that Ukrainian troops defending their own country are on "Russian" soil. Ukraine dismissed Mr Putin's theatrics and vowed to keep fighting. Ukrainian forces were reportedly close to surrounding the occupied town of Lyman, a supply hub.

Russian men desperate not be sent to fight and die in Ukraine fled from **Russia**. Hundreds of thousands have left so far. The Kremlin has not yet banned the exodus, but security officers were posted at some border crossings to serve call-up papers to fugitives. Protests against the draft erupted all over Russia, fuelled by revelations that new recruits were being asked to bring their own supplies. At least 20 recruiting centres were attacked.

Explosions caused leaks from two underwater **gas pipelines** linking Russia and Germany, Nord Stream 1 and 2. The supply of Russian gas to Europe was unaffected, since Mr Putin had already halted deliveries via Nord Stream 1 and Nord Stream 2 had never won permission to operate. Russian media blamed sabotage by America or Ukraine. Others suspect the Kremlin was behind it, perhaps in the hope of frightening Europeans into reducing their support for Ukraine.

Japan held a state funeral for Abe Shinzo, a former prime minister who was assassinated by a lone gunman in July. The funeral divided Japan. Though Abe was a giant on the world stage, he was not universally liked at home. Many Japanese were angry at the cost of the funeral, and at links between the ruling Liberal Democratic Party, to which Abe belonged, and the Unification Church, a religious group that some describe as a cult, to which his killer attributed his anger.

Pakistan replaced its finance minister as inflation soared, driven by fuel and energy prices and a weak currency. The new man, Ishaq Dar, has held the job three times before. He promised to control prices and cut interest rates.

Storm watch

Hurricane Ian bore down on western Florida. More than 2m households lost power as surges of water caused flooding. Ian had earlier hit Cuba, knocking out electricity across the entire island. It came a week after Hurricane Fiona crossed the Caribbean. In Puerto Rico an estimated 244,000 people are still without power. Fiona's remnants battered Canada's Atlantic provinces and eastern Quebec, causing widespread damage.

The IMF predicted that **Guyana's** economy would grow by 57.8% this year. The discovery of oil in 2015 has enriched the small South American country, which borders Venezuela. The IMF thinks that oil production will double this year.

Days before voting starts, polls indicated that Luiz Inácio Lula da Silva, a leftist former president, will win **Brazil's** presidential election. Some polls suggest he could defeat the incumbent, Jair Bolsonaro, a right-wing populist, in the first round on October 2nd.

Protests continued in dozens of towns across **Iran**, following the death in police custody of Mahsa Amini, a young woman accused by morality police of being improperly dressed. Women sick of pious strictures joined men fed up with being ruled by corrupt theocrats. The authorities said at least 41 people had died; human-rights groups said the true figure was at least twice as high. Ebrahim Raisi, the ultra-conservative president, said that Ms Ahmini's death was "tragic", but indicated that he would not tolerate further unrest.

King Salman of **Saudi Arabia**, mindful of his frail health at the age of 86, appointed his son, Crown Prince Muhammad, already the country's de facto ruler, to be prime minister, a post previously held by the monarch. He also made another son, Prince Khaled, minister of defence.

The International Criminal Court in The Hague started hearing a case against Mahamat Said Abdel Kani, who is accused of war crimes and crimes against humanity in the **Central African Republic**. Mr Kani, who pleaded not guilty, is alleged to have been a leader of the Seleka, a mainly Muslim militant group that toppled the government and seized power in 2013.

Niger stopped the transit of fuel shipments to **Mali**, apart from those going to a UN peacekeeping mission. The fuel embargo adds pressure on Mali, which is growing increasingly isolated in the region since its government was overthrown by army officers in two coups. The junta has angered its neighbours by steadfastly refusing to hand power to civilians and, more recently, by detaining soldiers from Ivory Coast who were supporting the UN mission.

The American Senate broke an impasse to approve a bill that will temporarily **fund the government** and keep it running past the end of the fiscal year. Trying to avoid a government shutdown has become an annual game of brinkmanship between Democrats and Republicans.

A separation of powers

Mitch McConnell, the Republicans' leader in the Senate, endorsed a bill that would change the rules for counting **electoral votes** in Congress after a presidential election. The bill aims to prevent events like the protests of January 6th 2021, when supporters of Donald Trump stormed the Capitol. It would clarify that the vice-president's role in the count is ceremonial, a response to Mr Trump's demand that Mike Pence overturn the voters' wishes.

Hong Kong ended its covid-19 quarantine policy for arriving international travellers, which had been in place for two and a half years. Testing and monitoring measures still apply. The city's business leaders want other restrictions lifted, too. Some fear that Hong Kong, Asia's main financial centre, will be eclipsed by Singapore.

Markets took fright at the British government's announcement of **huge tax cuts**. The cuts, laid out by Kwasi Kwarteng, the new chancellor of the exchequer, include reductions to payroll taxes, income taxes and stamp duty. Investors were perturbed by the amount of borrowing required to pay for the cuts, the biggest for half a century. Mr Kwarteng had disregarded common practice by not asking the Office for Budget Responsibility, an independent watchdog, for its assessment. The Treasury tried to reassure markets by announcing that he would unveil a medium-term fiscal plan, but not until November 23rd.

An omnishambles

The pound against the dollar
2022, $ per £

Source: Refinitiv Datastream

"The markets will react as they will," said Mr Kwarteng after producing his tax cuts. The **pound** was hammered, dropping briefly to its lowest level on record against the dollar. It also fell sharply against other currencies. The cost of British **government debt** soared; the yield on ten-year bonds rose to 4.3%, up by one percentage point over a week. Banks withdrew hundreds of mortgage products because of the uncertainty. Citing a "material risk" to Britain's financial stability, the Bank of England intervened. It said it would buy long-term government bonds for 13 days on whatever scale is necessary "to restore orderly market conditions".

The rout in British gilts was the most dramatic element of a wider sell-off in **government bonds**. Yields have been rising as the Federal Reserve talks tough on inflation. The yield on the US ten-year Treasury bond touched 4% before falling back. **Stockmarkets** also had a rollercoaster week. The S&P 500 fell to its lowest level in nearly two years and the Dow Jones Industrial Average entered bear territory when it reached 20% below its peak in January.

The **IMF** urged Britain to re-evaluate the tax cuts. It said it was monitoring the situation and was "engaged with the authorities", statements it would normally make when a developing economy faces a sudden crisis. The fund said it would not recommend introducing a "large and untargeted" fiscal package, "given elevated inflation pressures".

Sterling is not the only **currency** to have tumbled against the dollar this year. The euro and the yen have also fallen. The Chinese yuan dropped this week to a near 14-year low, threatening to break its trading range around the dollar, despite interventions by China's central bank. The Indian rupee sank to a new low.

The World Bank forecast that **China's economy** will expand by just 2.8% this year, in part because of the country's stringent covid lockdowns. The bank projected that average growth in the rest of East and South-East Asia would outpace that of China for the first time.

House prices in America rose by 15.8% in July, year on year, according to the S&P CoreLogic Case-Shiller Index. In June prices rose by 18.1%. The decline of 2.3 percentage points in the growth rate was the largest ever for the index. With interest rates on the rise, mortgage finance has become more expensive, which could see home prices continue to cool.

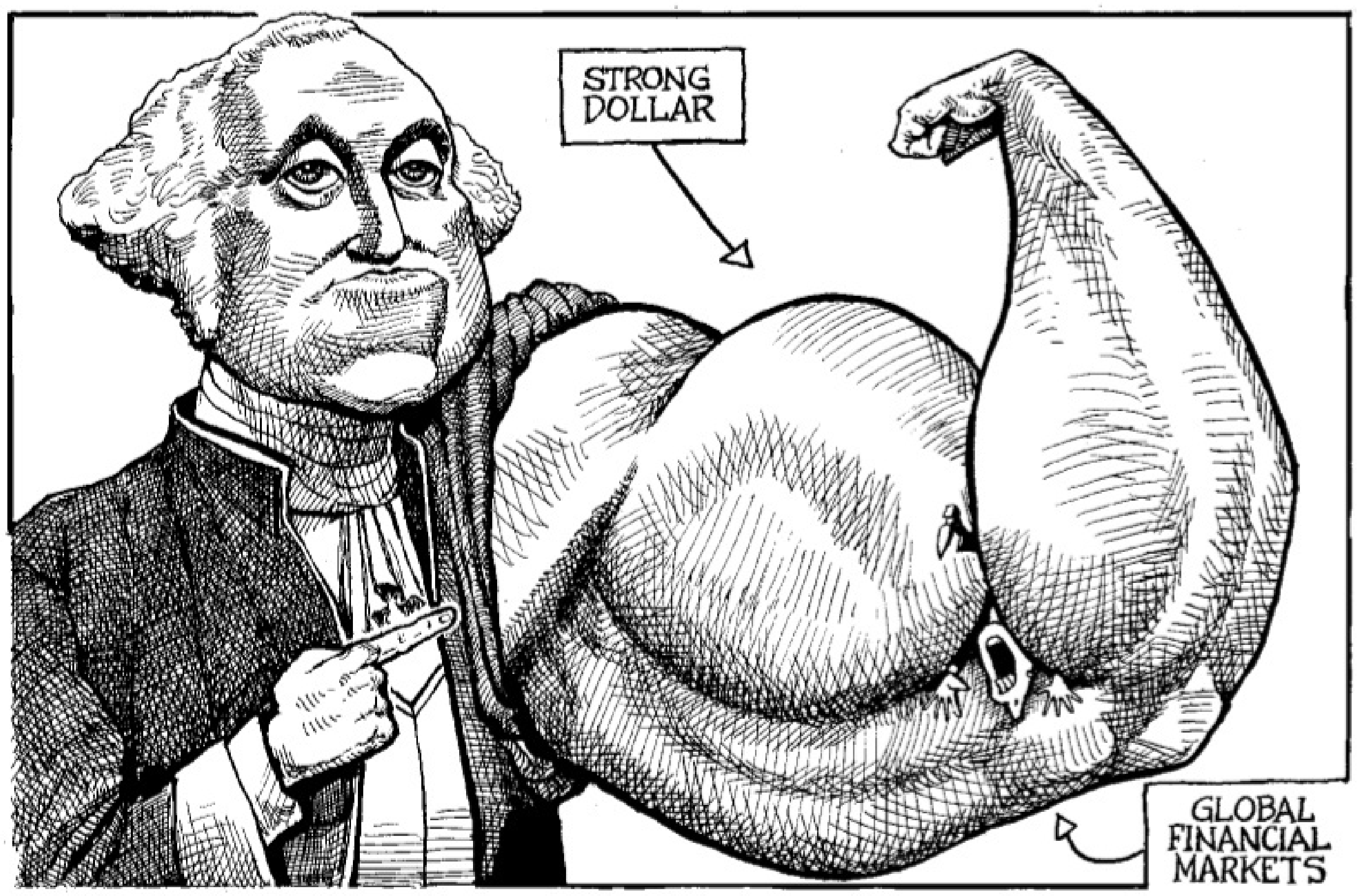
Electric milestones

America's Department of Transportation approved plans to develop **infrastructure for electric vehicles** in all 50 states, and build a network of charging points covering 75,000 miles (120,700km) of highway across the country. Meanwhile Hertz struck a deal with BP's EV charging business to build a network of stations for its rental cars. Hertz is aiming for 25% of its fleet to be electric by the end of 2024.

Porsche made its stockmarket debut on the Frankfurt exchange. Volkswagen priced the stock at €82.50 ($79.80) a share, the top end of the price range it had laid out. The IPO is the biggest in Europe for a decade, making Porsche one of the largest carmakers worldwide by market value.

A pre-trial hearing was held on **Elon Musk's** decision to withdraw his takeover offer for **Twitter**. The hearing deliberated over which documents will be allowed as evidence. Twitter's lawyers said Mr Musk had not provided them with any research backing his claim that the platform hosts more fake and spam user accounts than it acknowledges, which is the thrust of Mr Musk's case for ditching the deal. The trial starts on October 17th.

Unilever announced that Alan Jope will retire as chief executive at the end of 2023. Mr Jope's tenure saw much upheaval at the consumer-goods giant, which ended its Anglo-Dutch dual structure and based its single headquarters in London. Earlier this year it abandoned plans to buy GlaxoSmithKline's consumer healthcare business. Mr Jope believes that brands "without a purpose" have no future at Unilever. The company's purpose-driven approach was lambasted in January by Terry Smith, an investor, who said that "repeating corporate gobbledegook is not a solution" to improving performance.



The Economist

The Prince

How to make sense of China's enigmatic ruler—and the threat he poses at home and abroad

Xi Jinping was 31 when he arrived in Iowa in 1985. A junior Communist Party official at the time, he was on a two-week tour to learn about animal feed. His hosts liked him and he liked them. The highlight of his trip was a two-night stay with families in the small town of Muscatine. Mr Xi slept in a room decorated with posters from "Star Trek" and "Star Wars". He tried popcorn for the first time. By all accounts, he loved Iowa.

Embroidered stories like this led many observers to be optimistic in 2012, when Mr Xi became China's leader. His father was a revolutionary pioneer, who later backed economic opening and reform as a provincial boss. Mr Xi grew up as a "princeling", a child of party royalty. Some guessed he would follow in his father's pragmatic footsteps. But he has taken a different path.

Far from being a reformer, Mr Xi sees himself as a restorer—of the party and its central role in society, and of China and its role in the world. He has amassed more power and wielded it more ruthlessly than any Chinese leader since Mao Zedong. As his power has grown, so has China's ambition. At the party's five-yearly congress, starting on October 16th, Mr Xi will almost certainly be given another term as supreme leader, possibly setting him up as ruler for life. Understanding his origins and his beliefs has never been more important.

That is the aim of our eight-part podcast series, "The Prince", and of this week's Briefing. In dozens of interviews, people who have studied Mr Xi up close and from afar explained to us what motivates him. The result is a portrait of an enigmatic man whose plans hold troubling implications for China and the world alike.

The heart of Mr Xi's plan is to restore the Communist Party, which had faded from the lives of many people. He came of age in the Cultural Revolution, when Mao upended society by mobilising the Red Guards to attack intellectuals and officials deemed insufficiently loyal. Mr Xi's father was tortured. His half-sister took her own life. Mr Xi was sent to live in a cave in the countryside for seven years to learn the virtues of hard work.

According to party mythology, the experience transformed Mr Xi from an entitled princeling into a man of the people. A source quoted in an American diplomatic cable saw it another way: Mr Xi survived "by becoming redder than red". Rather than reject the party after Mao's purges, he dedicated himself to restoring it. The party, to his mind, was the only institution able to prevent such chaos from recurring. So it made sense for its leaders to turn to him in 2012, when many thought the party had again lost its way. To save it, they believed, it needed discipline and a renewed sense of purpose.

China's president has given it that in spades. His anti-corruption campaign set a new tone—and doubled as a purge of his rivals. He has since reinjected the party into all aspects of life. Party committees have been set up in private firms and reinvigorated at the neighbourhood level, where grassroots members help enforce his "zero-covid" policy. Mr Xi has created party bodies with new powers to oversee government ministries. As he says, "Government, the army, society and schools, east, west, south, north and centre—the party leads them all."

Mr Xi wants to restore China, too. In 2018 a new revelation of the president's philosophy laid out ten principles for diplomats to follow. Top of the list was maintaining the authority of the party. Second was "realising the rejuvenation of the Chinese nation". Whereas Mao united the country and Deng Xiaoping helped it prosper, Mr Xi believes he will be the one to make it great again. He talks of a West that is in decline and of the world experiencing "great changes unseen in a century". The phrase has roots in the late Qing era, when China was humiliated by foreign powers. Mr Xi has turned it on its head.

There is nothing odd about a big power wanting a big say in global affairs. But China's regime sees today's world order as a Western imposition, and wants to rewrite the rules. "The Chinese people will never allow any foreign forces to bully, oppress or enslave us," he said last year, marking the centenary of the party's founding. "Anyone who dares to try to do that will have their heads bashed bloody against the Great Wall of Steel forged from the flesh and blood of over 1.4bn Chinese people."

That is music to the ears of nationalists, who revere Mr Xi and revile foreign critics. Many of them believe the West is racist and self-centred. Their hubris, paranoia and frustration are a combustible mix. In August, when America's Speaker of the House of Representatives, Nancy Pelosi, visited Taiwan, nationalists called for her plane to be shot down. They believe America and a growing NATO alliance provoked Russia's invasion of Ukraine, which Mr Xi tacitly backs as a challenge to the West. Today's China reminds some Western diplomats of Japan in the 1920s and 1930s.

The contest between China and the West is, above all, one between competing philosophies. Western governments believe success comes from letting people choose their own destiny. China's rulers believe that individuals must sacrifice their liberties, privacy and dignity for the greater good—as defined by the party. Mr Xi espouses a maximalist version of this. Lately it has not been going well. Under the fuzzy banner of "common prosperity", he has reasserted state control over the economy and hobbled some of China's most successful firms. His plan to tame the property market lies in tatters and bad loans weigh perilously on the economy. Another pressing problem is his zero-covid policy. To keep most of China virus-free, officials impose draconian lockdowns on huge areas with tiny outbreaks. At first that saved many lives, but it has now become yet another drag on output. Fed up with the rules, people have begun to flout them (see Chaguan).

Restoration tragedy

When Mr Xi took over in 2012, China was changing fast. The middle class was growing, private firms were booming and citizens were connecting on social media. A different leader might have seen these as opportunities. Mr Xi saw only threats. At home he is assembling a high-tech apparatus of incentives and coercion designed to restore party control. Abroad, he is posing a challenge to the American-led order that the world should resist. ■

Britain in crisis

How not to run a country

Liz Truss's new government may already be dead in the water

IT WAS MEANT to usher in an era of economic growth. Instead the 25-minute statement that Kwasi Kwarteng, Britain's new chancellor of the exchequer, gave on September 23rd kickstarted a crisis. By unveiling £45bn ($48bn) of unfunded tax cuts, alongside temporary measures to help with energy bills, Mr Kwarteng spooked financial markets in spectacular fashion. Most of the tax cuts and emergency spending had been signalled, but the vaunted supply-side reforms needed to pay for them were vague and the new government's approach to the public finances was cavalier. Worse, the backdrop to Mr Kwarteng's epic budget-busting was a slump in bond markets that raised borrowing costs for even the most creditworthy governments.

As investors took fright, gilt yields surged, prompting the Bank of England to say on September 28th that it was ready to buy unlimited quantities of long-dated bonds to restore order to financial markets. Earlier, the pound had crashed to its lowest level ever against the dollar. Although sterling has since rebounded, markets still imply a 40% chance that it will reach parity with the dollar. Comparisons between Britain and emerging markets swirled; the IMF slammed Mr Kwarteng's plan. After the worst start to a new administration in memory, people are already asking how long the new prime minister, Liz Truss, may last.

Yet another Conservative leadership contest would be ridiculous rather than ruthless. And Mr Kwarteng's budget is unlikely to lead to a balance-of-payments crisis. Britain has a flexible exchange rate, it has minimal debt denominated in foreign currencies and its central bank is independent from the government. Even so, the economic and political damage from the past week is immense—and immensely frustrating.

Ms Truss and Mr Kwarteng are right to want to boost Britain's anaemic rate of growth. Some taxes, such as stamp duty, are ripe for change. The financial-services industry needs to be championed, not ignored. The chancellor has signalled important supply-side reforms: he wants to speed up infrastructure projects and housebuilding; a more liberal immigration regime is mooted. If the government acted in these areas, it could make a real difference. But incredibly, only three weeks into the Truss premiership, her growth agenda may already be damaged beyond repair (see Britain section).

One reason for that is economic. The reaction to the budget means that it will hurt growth, not boost it. The weaker pound causes higher imported inflation, eroding real incomes. The Bank of England has resisted pressure for an emergency rate rise, but it has signalled unequivocally that a big increase will come in November. That will add to the government's own interest payments and harm people with mortgages.

What's more, growth depends on a framework of policy stability, and this was a wholesale abandonment of long-standing Tory attachment to sound public finances. Huge tax cuts, the centrepiece of Mr Kwarteng's budget, were never going to pay for themselves. Talk of Caracas-on-Thames is over the top, but instability deters the very investors that the government aims to attract. The fact that the budget dodged independent scrutiny from the Office for Budget Responsibility, a watchdog, was another signal of fiscal recklessness.

A further reason to doubt Ms Truss's ability to bring about growth is her government's evident incompetence. Britain has been stuck in a 15-year productivity rut. Getting out of it requires not just boldness, but thoughtful policy. The mini-budget and Mr Kwarteng's subsequent decision to dangle the prospect of even more cuts point to blind conviction of the flat-earther variety. The government's refusal to face up to the need for more constructive relations with the European Union, Britain's biggest trading partner, and insistence on a bonfire of EU laws by the end of 2023 fit into the same mould.

Last, Mr Kwarteng has poisoned the politics of growth. Britons are lukewarm about a growing economy and wary of the sacrifices required to achieve it. In a poll for *The Economist* from before the mini-budget, only 49% of voters agreed that growth does more good than harm. By 53% to 16%, they agreed that "the government should spend more on health care and pensions, even if that means spending less on infrastructure and science".

Insularity is pervasive. By a margin of 57% to 24%, respondents said they would favour giving priority to the views of local residents and protecting the countryside, even if that produced less housing. In research for Demos, a think-tank, a large chunk of the public said they would oppose a university or college opening in their town if "the town attracts more people from elsewhere". The localism of MPs reinforces this insularity. The share of MPs born in the same region as the constituency they represent has risen from 45% to 52% in a decade; for new MPs it is 60%.

Cutting taxes is the politically easy bit of a growth plan, in other words. But by needlessly cutting the top rate of tax on the highest earners and whacking homeowners with higher mortgage payments, the government has associated growth with unfairness in the public mind. That impression will strengthen as Ms Truss slashes public spending to regain market confidence. She has badly dented her capacity to convince her own party of genuinely growth-enhancing but unpopular measures, such as streamlined planning and more immigration. The risk is now that Tory MPs pocket the tax cuts and reject the reforms that might one day help pay for them.

Lost for words

The government cannot afford fresh calamities. Mr Kwarteng is due to unveil new rules for fiscal sustainability in late November. He should move faster than that. Ms Truss should cancel the cuts to income tax, focus on investment incentives rather than the headline rate of corporation tax, and expand levies on energy producers to fund help with energy bills. The supply-side reforms due to be unveiled soon need to be watertight in their design and presentation. Even then it will be hard to escape the shadow of the past few days. In its first weeks the new government has shredded its own reputation, unleashed higher inflation, forced emergency action from the central bank, and made growth harder. Just imagine what it can do in a month or two. ■

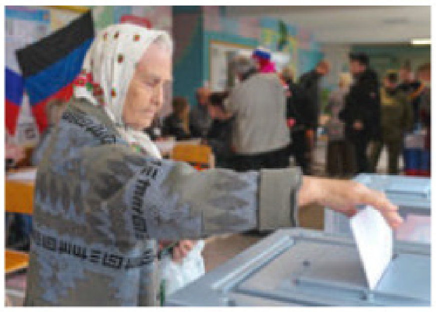
Russia and Ukraine

Baloney ballots

Phoney polls do not make Ukrainian land Russian, whatever Vladimir Putin says

When the result of a vote is announced as 99% for something, you can conclude that the ballot was rigged and the riggers want you to know it. So it was this week with the sham referendums that President Vladimir Putin's men illegally organised in four partly occupied provinces of Ukraine. Accosted on their doorsteps by men with guns, residents "agreed" that the invading power, Russia, should annex their land. To be fair, the 99% was recorded only in Donetsk, one half of the Donbas region. In Luhansk, the other bit, support was lukewarm: only 98%. And in Kherson and Zaporizhia provinces the vote was a nail-biter: Yes was in the high 80s or low 90s.

Mr Putin's referendums, which took place over five days and ended on September 27th, were not designed to be believed, but to threaten. As *The Economist* went to press on September 29th, they looked set to be followed by a speech from Mr Putin to the Russian parliament, and perhaps then a formal motion to incorporate a big slice of Ukraine into the Russian Federation, as happened to Crimea in 2014.



If this transpires (predicting anything about Russia is tricky these days, especially over such a preposterous scheme), Mr Putin will try to claim that he has won a great victory (see Europe section). More outrageously, he may also claim that Ukrainian troops currently holding large parts of those four provinces are in fact occupiers, and that if they try to take back their land they will be invaders.

The logic is topsy-turvy and mendacious. But it would aim to suggest that if Western countries continue to arm Ukraine they will be abetting attacks on Russian soil. This is something the West has so far been careful to avoid. To Mr Putin and his advisers, annexing all this Ukrainian land may seem a clever way to deter the West and indeed Ukraine from further efforts to repel his invading army. It is essential that their ploy fails.

As we report in our International section, the danger of nuclear escalation seems higher today than at any time since the Cuban missile crisis 60 years ago this October. Mr Putin doubtless hopes that annexation will cause Ukraine's supporters to fear that the risk has been cranked still higher, to a level where the West's resolve will crack.

In this nerve-racking situation, it is worth remembering that the land Mr Putin is about to annex is not part of Russia. Moreover, surrendering to nuclear blackmail will only invite more of it. The West made that mistake in 2014 by, in effect, acquiescing to Mr Putin's theft of Crimea from Ukraine. As one of Mr Putin's predecessors said: "If you encounter mush, you proceed."

If the risk of escalation is growing, it is not because of the charade of the referendums, but because Mr Putin is losing the war. He has always faced the problem that defeat would spell humiliation and possible overthrow. That is why he has repeatedly brandished the nuclear card since February. He could have gone nuclear before the referendum but, despite many setbacks, he has not. Equally, annexation would not oblige him to: it is better seen as a desperate attempt to signal that he means business.

What to do? America is right to have made plain that if Mr Putin fired a nuke, the consequences would be dire. Probably, they would involve NATO directly using conventional weapons to destroy his bases and forces in Ukraine. The West should prevail upon China and India to make clear that they, too, would be against a nuclear strike.

Ukraine, meanwhile, should press on. Mr Putin last week ordered a panicky mobilisation of 300,000 troops, causing unhappiness in Russia and the emigration of hundreds of thousands of young men who wish to avoid the draft. Protests are spreading and some 20 recruitment offices have been attacked. Russia is making no real gains. It may even have resorted to the weird tactic of blowing up its own gas pipelines in the hope that this would scare the West. Despite Mr Putin's threats, the West should keep helping Ukrainians to defend themselves. ■

The world economy

The rate shock

Markets are reeling from higher interest rates. The world economy is next

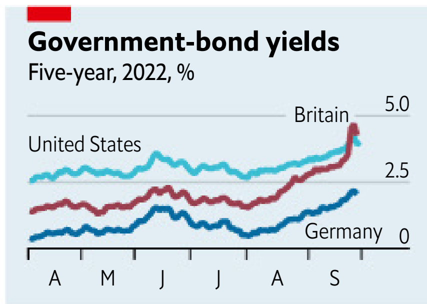
The world's financial markets are going through their most painful adjustment since the global financial crisis. Adapting to the prospect of higher American interest rates, the ten-year Treasury yield briefly hit 4% this week, its highest level since 2010. Global stockmarkets have sold off sharply, and bond portfolios have lost an astonishing 21% this year.

The dollar is crushing all comers. The greenback is up by 5.5% since mid-August on a trade-weighted basis, partly because the Fed is raising rates but also because investors are backing away from risk. Across Asia, governments are intervening to resist the depreciation of their currencies. In Europe Britain has poured the fuel of reckless fiscal policy on the fire, causing it to lose the confidence of investors (see leader). And as bond yields surge, the euro zone's indebted economies are looking their most fragile since the sovereign-debt crisis a decade ago.

The primary cause of the market chaos is the Federal Reserve's fight with inflation. Because the Fed has lost the first three or four rounds since prices began to surge in 2021, it is now swinging harder (see Finance & economics section). The central bank expects to raise the federal funds rate to nearly 4.5% by the end of the year and higher still in 2023. The outlook for rates is rippling through America's financial system. The cost of 30-year ▸▸

mortgages is nearly 7%. Junk-bond yields are already over 9%, which has caused the issuance of new debt to dry up. Bankers who underwrote leveraged buy-outs when yields were lower are suddenly finding themselves hundreds of millions of dollars in the red (see Business section). Pension funds which gorged on opaque private assets in pursuit of higher returns when rates were lower must now tot up their losses as risky investments slump in value.

Yet it is outside America where the financial effects of the Fed's monetary tightening have been most severe. The surging dollar is painful for energy importers that were already grappling with higher costs. China has responded by making it harder to short the yuan, which in the offshore market hit a record low against the greenback on September 28th. India, Thailand and Singapore have intervened in financial markets to support their currencies (see Free exchange). Excluding China, emerging-market currency reserves have fallen by over $200bn in the past year, according to JPMorgan Chase, a bank—the fastest fall in two decades.



Advanced economies can usually withstand dollar strength. Today, if anything, they are showing greater signs of immediate stress. Some of the worst-performing currencies in 2022 are from the rich world. Sweden raised rates by a full percentage point on September 20th and still saw its currency fall against the dollar. In Britain surging yields on government debt have failed to attract much foreign capital. The Bank of Korea is lending currency reserves to the national pension fund so that it buys fewer dollars in the open market. In Japan the government has intervened to buy yen for the first time this century, despite the apparently ironclad determination of the central bank to keep interest rates low.

Part of the explanation for the pressure on advanced-economy currencies is that many central banks have hitherto failed to keep pace with the Fed's tightening—but with good reason, because their economies are weaker. The energy crisis is about to plunge Europe into recession. South Korea and Japan are suffering the knock-on effects of an economic slowdown in China, brought about by its housing crisis and zero-covid policy.

A strong dollar, in effect, exports America's domestic inflation problem to weaker economies. They can support their currencies by raising rates in line with the Fed, but only at the cost of even lower growth. Britain has the worst of both worlds. Markets now expect the Bank of England to set the highest rates of any big rich economy next year but sterling has slumped all the same. If the bank follows through with rate rises, the housing market could collapse.

Even America's economy, which has been resilient in the face of headwinds this year, is unlikely to keep growing through an interest-rate shock as severe as the one it now faces. House prices are falling, banks are laying off staff (see Buttonwood) and FedEx and Ford, two economic bellwethers, have issued profit warnings. It is only a matter of time before the unemployment rate starts rising. A slowing economy is ultimately necessary to restore price stability—it would be madness for the Fed to tolerate annual inflation of 8.3%, much of which is home-grown. But higher rates will damage the real economy and cause suffering. The world's financial markets are just waking up to that, too. ■

Companies and greenery

All talk, no trousers

The fundamental contradictions of ESG are being laid bare

Can profit-seeking companies really help save the planet? The question has long dogged the practice of environmental, social and governance (ESG) investing. Judging by the giddy growth in all things ESG, you might have thought the answer to it must be Yes. More than $35trn of assets worldwide are said to be monitored using some sort of sustainability lens, an increase of 55% since 2016. Investors, banks and businesses have signed up to a series of alliances, from the GFANZ and the GSIA to the PRI and the IIGCC, pledging to bring down their own carbon emissions and those of their portfolios. And bosses of S&P 500 companies now mention ESG nine times a quarter in earnings calls, on average, compared with just once, if at all, in 2017.

But as the focus shifts from words to deeds, the contradictions in ESG are becoming brutally clear. It is the mission of companies to generate long-term value for their investors. That might sometimes align with the aim of decarbonisation. Unfortunately, it will often be more profitable for a business to dump costs, such as pollution, on to society than to bear them directly. And in places without a consensus on climate policy, getting involved in greenery can bring clashes with both regulators and investors. Unless governments resolve the dilemma, ESG is doomed to fall short on actions.

One illustration of the tensions in ESG is the political firestorm in America around BlackRock, a huge asset manager (see Schumpeter). Republican attorneys-general in 19 states accuse it of misusing its market power by boycotting fossil-fuel firms. The company rejects the charge. Meanwhile, watchdogs in New York, a Democratic state, complain that BlackRock is not green enough. The controversy could come at a cost to the business: Texas, a Republican state, plans to ban its pension funds from dealing with the firm.

No wonder that some financial institutions are getting cold feet about green alliances. JPMorgan Chase and Morgan Stanley were among the Wall Street giants threatening to quit a subgroup of the Glasgow Financial Alliance for Net Zero (GFANZ), a coalition co-chaired by Mark Carney, a former governor of the Bank of England. Standards for members were subsequently changed. Two pension funds, Australia's Cbus Super and Austria's Bundespensionkasse, have already left.

Critics offer lots of reasons for the jitters. Membership of GFANZ, which includes firms overseeing $130trn in assets, has been touted by some as evidence of anti-competitive behaviour. Other questions swirl. Can pledges be made without investors' approval? Would missed pledges put firms on the hook for legal action? And why comply with onerous rules if you don't have to?

Firms, too, are discovering that speaking out has repercussions. In 2019 the Business Roundtable, a group of corporate bigwigs, said that the objective of a company should be to benefit its stakeholders. Jamie Dimon, the boss of JPMorgan Chase who was then the group's chairman, has now taken to denying that he is "woke". Unilever, a consumer-goods firm, has cast itself as a sustainability icon, but its shareholder returns have lagged far behind those of its rival, Nestlé. On September 26th Unilever's boss, in only his fourth year in the job, announced plans to step down (see Business section).

The ESG dream was that capital markets would penalise those firms that ignored the looming costs of climate change on their businesses. But in practice the costs are too uncertain and distant to play a big part in firms' or investors' financial calculus. Most companies can win the gains of appearing green while avoiding the cost of decarbonising by paying lip-service to green goals. According to Climate Action 100+, a group of investors, more than two-thirds of the world's 166 biggest greenhouse-gas emitters have promised to reach net zero by 2050 or sooner. But less than a fifth have medium-term targets; a similarly low share have set out quantified decarbonisation strategies.

No shortcuts

It falls to governments to reconcile the goals of profit maximisation and a safer climate. The best way of doing this is to set a high enough price on carbon, forcing companies to internalise the costs of their dirty activities, so that going green is also good for the bottom line. Mandated standards and disclosures must be brought in more quickly, to help firms assess their exposure to higher carbon prices. Companies can help save the planet—but only if doing so is good for business. ■

Rebellion in Iran

Is this time different?

If the protests gather momentum, there is no knowing how they will end

THE MOST poetic scenes are sometimes the most powerful. A young woman dances in front of a bonfire, then tosses her headscarf into the flames. A lone old lady, her white hair uncovered, shuffles down the street waving her headscarf in tune to the words "Death to Khamenei!" Such acts of defiance against Iran's supreme leader and his regime, prompted nearly a fortnight ago by the murder of a young woman arrested by the "morality police" for not covering all her hair, have spread to dozens of Iranian cities. They mark the most menacing threat to the ayatollahs' dictatorial rule for many years.

Revolutions are often sparked by individual acts of courage. Witness the self-immolation of a vegetable-seller in Tunis that started the wave of rebellions that raced across the Arab world in 2011. Several times in the past dozen or so years Iranians have erupted against their regime, only for huge demonstrations to fizzle out under the lash of a well-practised system of repression. Might this time be different?

It is impossible to predict, as Iran is closed to the world's press. Anger is certainly more widespread than ever before. The unrest has drawn in young and old. It has encompassed Iranians from every corner of the country, including Kurds and other minorities. So far it is women who have shown the most exhilarating bravery. But if Iran's men weigh in with equal valour, the removal of a vile system, though still unlikely in the short run, may no longer be inconceivable.

The dominant part played by women in the protests is new. Another difference is that the demands are more drastic. Young people, connected to their contemporaries elsewhere on social media, are chafing more furiously than ever under the rule of grey-bearded clerics. Since 2012 income per head has stagnated, leaving legions of Iran's 85m-plus people destitute. Inflation has soared. The environment has palpably suffered. Rivers have run dry. Farmland is parched. For many Iranians the only path to a decent life is emigration.

And the regime is more rotten than ever. It is keen to blame Iran's ills on foreigners. For sure, American-led sanctions have deepened the economic distress, but the chief perpetrator of the people's poverty is the regime itself. Under its corrupt theocracy swathes of the economy are controlled by military men and ayatollahs whose policies, even at the best of times, seem designed to scare off foreign investors. Hardliners dominate Iran's parliament, and most relatively reform-minded politicians have been barred from running in elections.

Moreover, after decades of aggressive foreign policy, Iran is isolated. It backs militias in Iraq and Lebanon and brutal leaders in Syria and Yemen. It menaces the Gulf states. And it persists with nuclear plans that terrify Israel and unnerve the region. Recent efforts to revive the UN-backed deal that curbed Iran's nuclear programme look doomed. While protests continue, President Joe Biden would be unwise to re-engage with the regime or risk seeming to offer the ayatollahs a lifeline.

To be candid, there is little the West can do to encourage the rebellion, especially at a time of turmoil elsewhere in the world. Sanctions have weakened the regime, but have plainly failed to bring it down. Enough of Iran's oil leaks into countries that care nothing for human rights, particularly China, which has long been a buttress of Iran's economy. The most vital help that Western governments can give to Iran's brave resisters is to ensure that sanctions do not bar them from access to internet services or to tools such as VPNs that help them evade censorship and surveillance.

It will be up to Iranians to get rid of their rotten regime. So far the protests have been spontaneous and disorganised. No potential leader has emerged. More than a decade after the opposition Green Movement was suppressed, its champions remain muzzled. Real change may yet come from within the ranks of disgruntled clerics, though that scenario has often failed to materialise. This latest revolt may eventually fade, as previous ones did. But one day Iranians will cast off not just their veils but also their joyless overlords. It cannot come too soon. ■

For king and country

There is another crucial benefit of a constitutional monarchy not mentioned in your leader on King Charles III ("Into the Carolean era", September 17th). The armed forces swear allegiance to a monarch, not a president or a prime minister. For most members of the armed forces this oath of allegiance is an important commitment, and serves to ensure that the government of the day cannot easily usurp the constitution by means of force.

A good example of this protection was the attempted Spanish coup d'état in February 1981. In a televised address King Juan Carlos I denounced the coup, calling for the rule of law and the democratic government to continue. It was that royal address which fatally undermined the insurrection. Even Britain could be vulnerable either to a coup or, more plausibly, a government seeking to distort Britain's unwritten constitution to its advantage. The fact that legislation requires royal assent, and that any military enforcement of such plans relies on the armed forces' loyalty to the monarch, gives us a degree of civil protection not open to the citizens of countries such as Brazil or Turkey.

DAVID SCOTT
Port St Mary, Isle of Man

As with so many other millions of Americans, I viewed the funeral for Queen Elizabeth II in absolute awe of the sheer majesty of the event. More moving for me was the immense gravity of the occasion, observed by the throngs of mourners who lined both sides of the funeral procession like an endless, silent honour guard. We Americans, as one people, have no national leader in whom to entrust the best of who we are. Franklin Roosevelt comes to mind. But Abraham Lincoln may have been the last president whose stature is truly globally recognised. It is in his honour that we raised a temple to enshrine our enduring gratitude.

As a testament to her selfless and constant devotion to fulfilling the duties as head of state, the queen deserves no less. I'm reminded of the Royal Albert Hall and the Victoria and Albert Museum. Can anyone doubt that Elizabeth II stands on equal footing with those illustrious luminaries in British history?

STEVEN POKORNY
Urbandale, Iowa

The queen did indeed bow her head at the world war memorial in Dublin in 2011, as A.N. Wilson observed in his piece on the art of the queen's communication (By Invitation, September 17th). But what was more remarkable was the queen's visit to the Garden of Remembrance, where she bowed her head to those who fought for Irish freedom. That was an even more extraordinary and deliberate piece of body-language communication, all things considered.

MICHAEL MCLOUGHLIN
Dublin

Similar to such newbie global entertainment influencers as Hollywood, Amazon Prime, Netflix, YouTube, and so on, the British monarchy is a unique national treasure in more ways than one. In 2017 Brand Finance estimated that the royal family cost £292m ($376m) a year, while generating a "gross uplift" of £1.8bn to the economy. Its intangible value, the economic benefits that the monarchy was expected to generate between 2018 and 2022, was £42bn.

RAMSAY WOOD
London

Comparative disadvantage

"America Inc" (September 17th) referred to the spending that the United States plans to invest in infrastructure as "vast". This is undoubtedly true. However, it is worth considering the relative figures. Although clean-energy technologies in America are expected to benefit from more than $50bn-worth of spending, China alone accounted for 30% of the global clean-energy investment in 2021 ($380bn according to the International Energy Agency). And although the CHIPS Act, signed recently by Joe Biden, is expected to provide $52bn for semiconductor research and development, TSMC, a Taiwanese chip manufacturer, expects to spend almost twice that to boost its capacity. "Everything is bigger in Texas" may no longer be big enough.

M.J. FAHERTY
London

In defence of Norway

The charge that Norway is "profiteering" from the war in Ukraine is a new low (Charlemagne, September 10th). Although it is not a member of the European Union, Norway follows the bloc's rules and edicts puritanically. It always preferred long-term energy-supply contracts to stabilise prices, but had to accept the EU's own market-based rules. Now that those self-same rules have suddenly seen gas prices soar, Europeans have the gall to point fingers at Norway.

We seem to forget that the energy crisis had already started before Russia's invasion of Ukraine. After the invasion, Norway responded admirably to the EU's calls for more energy, nearly pumping its own hydro-resources dry and sending Germany vast quantities of gas to replenish its stocks for the coming winter. How churlish, then, to suggest now that Norway's gains after observing European regulations are indecent and embarrassing.

Nor is it clear why Norway, which has managed its own energy resources so prudently, should subsidise greener-than-thou countries like Germany, which is closing its own nuclear- and gas-production facilities. As for European solidarity, and despite pleading by America and Poland, Germany shunned Norwegian gas in its headlong pursuit of cheaper gas from Russia's Nord Stream 2 pipeline.

According to *The Economist*'s own estimates, BASF's flagship factory alone uses half as much gas as the whole of Denmark ("The high cost of low pressure", July 16th). So, it's not in the least bit obvious why Norway should now also subsidise Germany's consumers, or, indeed, its gas-guzzling industry. Rather than advising Norway to accede to further EU demands for relief, EU countries should stop sniping and biting the all-too-willing hand of Norway when disaster befalls them.

DALE DORÉ
Oslo

Cracking up

You asserted that Vladimir Putin "is suffering the first cracks in his carefully cultivated aura of invincibility" ("Getting the job done", September 17th). Unfortunately, I suspect that reports of Mr Putin's weakness are greatly exaggerated. *The Economist* published a cover story, "Putin's Russia: The cracks appear", more than ten years ago (December 10th 2011).

PATRICK GOURLEY
New Haven, Connecticut

Not a pleasant swim

Lexington's excellent article on the recovering health of New York's waterways following an environmentally destructive history, describes "bubbles as big as basketballs" surging from the bottom sludge (September 3rd). He also noted the continual mixing of human sewage with storm-water run-off.

However, this is a great advance from the historically oblivious policy of dumping raw sewage into New York's water. As a youth in the 1950s, swimming in Jamaica Bay, one had to be alert to the sudden presence of "Coney Island whitefish", floating used condoms that meant the nearby sewer pipe had opened.

JIM BURKE
Santa Fe, New Mexico

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INTERNATIONAL MONETARY FUND

The Prince among princelings

Xi Jinping is the most powerful Chinese leader since Mao. *The Economist* has spent nine months exploring what shapes his thinking

Just over ten years ago, Xi Jinping disappeared. He was then China's leader-in-waiting, about to acquire a slew of titles that would make him arguably the most powerful man on Earth. Without explanation, his aides cancelled meetings with foreign dignitaries, including America's then secretary of state, Hillary Clinton. Western analysts were baffled.

Outside observers are acutely sensitive to such absences. Over the past few days a prolonged stretch with no public sightings of Mr Xi again triggered wild rumours about his political welfare: on September 27th he put paid to them by visiting an exhibition highlighting the Communist Party's achievements under his rule. But in 2012 those withdrawals from diplomatic appointments felt different. It was two weeks before Mr Xi resurfaced. To this day analysts wonder about what happened then and what it meant.

Speculation about why Mr Xi went dark has ranged from a health problem to an assassination attempt. Chris Johnson had recently left the CIA, where he had worked as a China analyst. He thinks it was probably Mr Xi's riposte to Communist Party elders who—while backing his rise to the top—had bristled at his eagerness for power unfettered by their opinions. "Find someone else to take the job, then," Mr Johnson imagines Mr Xi as having told them. "It was a good opportunity for him to show, 'I'm not going to be dictated to by any retired person'," reckons the ex-spook. Mr Xi wanted to be "not just the first among equals, but just plain first."

If that theory is correct, Mr Xi got his way. He has shown more might and ruthlessness than any leader since Mao Zedong, who died in 1976. *The Economist* is this week releasing an eight-part podcast, called "The Prince", to examine Mr Xi's rise.

He has conducted sweeping purges of the party and security forces to remove the corrupt and political enemies (including many allies of those elders). He has turned a fractured party that had disappeared from many ordinary people's lives into an omnipresent, ideologically re-charged, tech-enabled machine. He has crushed dissent: wiping out much of civil society, building a gulag for Muslims in Xinjiang and gutting Hong Kong's freedoms.

Mr Xi has turned sand banks in the South China Sea into fortresses, threatened Taiwan with military exercises near the island's coast and increased the deployment of nukes to keep America at bay. He has beefed up China's global power, using its economic heft in a battle for political influence with the West, which he scoffs at as being chaotic and in decline.

On October 16th the party will convene a five-yearly congress. It will last about a week and will reshuffle a broad swathe of the ruling elite. The new group will then meet to choose the core leadership for the next half-decade. It is almost certain that Mr Xi will be reappointed as party leader and military chief, and that he will be reconfirmed as president early next year. This will be unprecedented in the post-Mao era. The norm for these posts has been a maximum of two five-year terms. Mr Xi, it appears, has decided to be ruler for as long as he wants.

The past ten years have revealed a lot about his thinking. But as tensions grow with America, not least over Taiwan, studying his character has become an ever more pressing task. Could he be another Vladimir Putin, willing to take enormous risks to secure his territorial ambitions? How much does it matter to him if China and the West part company? Is he animated by a Marxist spirit that will upend the post-Mao economic order? Will he allow an obsession with preventing the spread of covid-19 to cripple one of the world's biggest engines of economic growth?

Over the past few months *The Economist* has spoken to a wide range of people with insights into Mr Xi's personality, from former officials in the West to Chinese familiar with the secretive world of their country's elite and the influences that may have shaped Mr Xi's political preferences as he rose to power. Some of their observations are quoted in this article. Audio extracts can be heard in *The Economist*'s podcast series by one of this newspaper's writers on China, Sue-Lin Wong. It is now available, in full, online and on all major podcast apps.

The conclusions of this series have grim implications for China and the world. When Mr Xi assumed power in 2012 some observers were cautiously optimistic that he would turn out to be some kind of reformer: not another Mikhail Gorbachev, but at least someone who would rule with a lighter touch and try to get along with the United States and the West. Those hopes were dashed as it became evident that Mr Xi was determined to amass immense power, wield it ruthlessly against his own and the party's critics, and use it to turn China into a global power of which the West would be in awe. The personal attributes that set Mr Xi on this path will keep driving him along it. So will the forces around him: a nationalistic elite, a party ever fearful of losing its grip and a public that welcomes a strongman.

Those optimists a decade ago included Chinese people familiar with the party's inner workings. One of them was Li Rui, who had served as a deputy minister and as Mao's personal secretary in the 1950s, had later spent nine years in jail for criticising Mao and who had been restored to high office in the 1980s under Deng Xiaoping. After his retirement he remained an outspoken advocate of economic and political reforms until his death in 2019. "Once Xi Jinping became the number one, my father was so happy," recalls his daughter, Nanyang Li, who now lives in America. "My father told me, now is good...we have hope for our political system."

Mr Li should have been well placed to judge. In 1982-84 he served in a crucial role as a deputy chief of the party's Organisation Department, an agency that manages China's vast bureaucracy and helps select officials for promotion. He was tasked with setting up a new office within it called the Young Cadres Bureau. Its job was to identify and groom young officials who could become China's future leaders. The bureau compiled a list of 1,100 of them. Of the 14 men who were appointed to the pinnacle of power—the Politburo Standing Committee—after the party congress in 2007 and the following one in 2012, all but two were on that list drawn up four decades before. Mr Xi, who became general secretary in 2012, was on it. Mr Li had sent a subordinate to investigate his suitability.

So why were he, and many others, so wrong in their guesses about how Mr Xi would turn out as China's leader? There are two main reasons. First, assessments in 2012 of Mr Xi's personality were based largely on his family ties. He was the son of Xi Zhongxun, a veteran of the revolution that brought the party to power in 1949. The elder Mr Xi, who died in 2002, had been purged by Mao and rehabilitated by Deng. He was an economic reformer who, under Deng, oversaw the creation of China's first "special economic zone"—what is now the dynamic megacity of Shenzhen. That experiment in capitalism had made the party's conservatives squirm (some hardliners refused even to go there). Like father, like son, is a common feature of Chinese political culture. Many expected that the son of such a reformist pioneer would be of similar kind.

Mrs Xi's the one

The other reason was a dearth of information. Before Mr Xi emerged as leader-in-waiting in 2007, he had kept his head down. His wife, Peng Liyuan (pictured), was a singer of patriotic folk ballads and opera songs and far more famous than he (she has ten albums on Spotify). After the Chinese army crushed the Tiananmen Square protests in 1989, she had performed on the square for the troops.

Mr Xi was a little-known politician who had neither said nor done anything striking. Unusually for a leader-in-the-making, he had spent 17 years in one province—Fujian on the south-eastern coast—before getting his first job as a provincial party chief in 2002 in neighbouring Zhejiang. Alfred Wu was a journalist for state media in Fujian who was assigned to cover Mr Xi's activities. It was a dull job. "He was very quiet and a little bit timid," says Mr Wu, who is now at the National University of Singapore. "People never imagined that he will become the national leader."

In 2011, the year before Mr Xi took power, Joe Biden—then America's vice-president under Barack Obama—went to China to meet Mr Xi, who by then was vice-president of his country, too (a clear sign that he had risen to become heir apparent). Mr Biden was accompanied by Evan Medeiros, who was the National Security Council's China director. There was "very little that we knew" about Mr Xi, recalls Mr Medeiros. Mr Biden tried to build a rapport with China's future leader: they awkwardly played a little basketball together during a visit to a school. Mr Xi came across as a "very controlled and very careful politician", says Mr Medeiros.

Not much has changed. Since taking over, Mr Xi has given no face-to-face interviews to Western journalists, nor held any press conferences except brief ones alongside foreign leaders during state visits. His speeches often are not released until long after they are delivered (for example, one that discussed the Soviet Union's collapse and the "extremely great risks and challenges" involved in keeping the Chinese Communist Party in power into the distant future was published on September 15th, well over four years after he gave it). Unlike Mr Putin, he does not give rambling monologues on state television. While extending China's power globally, Mr Xi has kept himself cloaked in mystery. His recent disappearance from public view followed a trip to Central Asia that was his first abroad since covid-19 was declared a pandemic.

Mr Biden's visit to China in 2011 did provide a glimmer of insight. Daniel Russel, who was Mr Medeiros's boss in the White House, recalls a dinner at which Mr Xi "talked at some considerable length" about the upheavals that had been toppling authoritarian leaders in Arab countries that year. Mr Xi mused on what might have caused these events: he pointed to corruption, factionalism within ruling parties and leaders' loss of touch with ordinary citizens and their needs. The same things could topple the Communist Party if it failed to get its act together, Mr Russel recalls him saying.

Perhaps the biggest mistake made by observers at the time was underestimating how much Mr Xi was driven by a fear of the party's collapse, how far he would go to prevent it, and how widely shared his concerns were within the ruling elite. Much of Mr Xi's behaviour as leader, including his chest-thumping nationalism, can be explained as a response to the anxieties he conveyed to Mr Biden in 2011.

He was right to sense danger. China had been changing dramatically in the few years previously. A large home-owning middle class had emerged within the previous decade or two. With the rapid growth of private enterprise, the party's grassroots presence had withered: by then most urbanites felt little connection with it. Social media had just emerged as a tool for communication; smartphone ownership was surging. Across China people were using these technologies to share grievances. Small NGOs were springing up, championing the rights of the downtrodden.

And splits were emerging in the party. A rival to Mr Xi, Bo Xilai, was vying for attention in the south-western region of Chongqing, where he was party chief. Mr Bo—charismatic and good-looking—was winning public support by ostentatiously fighting corruption and appealing to lingering nostalgia for the supposedly fairer days of Mao, when the state provided housing and health care for urbanites.

Mr Bo, a member of the Politburo, was arrested for corruption and abuse of power early in 2012. After Mr Xi took over, months later, he put Mr Bo on trial. He was sentenced in 2013 to life in jail. Officials suggested that he had plotted a coup. Several others, including China's former security overlord, Zhou Yongkang, and two retired generals, were accused of being in cahoots. Assets worth more than $14bn were seized from Mr Zhou's family and associates.

Many analysts were surprised by Mr Xi's ability to topple such powerful people. Mr Zhou had held the highest rank of anyone convicted of corruption since 1949. The generals had served as the most senior uniformed officers in the party commission that controls the armed forces. The trial of Mr Bo and the round-up of these men in the first three years of Mr Xi's rule was a political drama rivalling that of the arrest in 1976, soon after Mao's death, of the Gang of Four—the ultra-radicals who had orchestrated Mao's vicious Cultural Revolution.

The purge was enabled by two crucial features of Mr Xi's power and personality. The first is the support he enjoyed within the elite. The West saw a country that had weathered the storm of the global financial crisis of 2007-09 and was rising fast. Inside China, however, party insiders were less optimistic. They privately criticised Mr Xi's lacklustre predecessor, Hu Jintao, for having let the country drift and the party lose its discipline. For the party to survive, they believed, it was essential to inject it with a renewed sense of purpose, and to tighten control over it. Mr Xi's talk of a "Chinese dream" of the country's "great rejuvenation" struck a chord with many.

Redder than red

The other asset that Mr Xi enjoyed was his pedigree. In China, Mr Xi is known (in whispers) as a *taizi*, or princeling. The word is most commonly applied to the offspring of leaders, especially the children of Communist China's founders. Members of this group enjoy political advantage. Among the first 600 or so promising young officials identified by the Young Cadres Bureau in the early 1980s, about 5% were princelings. In the Politburo Standing Committee that Mr Xi took charge of in 2012, the majority were.

Our podcast series is called "The Prince", the title of Niccolo Machiavelli's work on how to be a ruler. As Machiavelli wrote, some 500 years ago, "Hereditary states…are maintained with far less difficulty than new states, since all that is required is that the Prince shall not depart from the usages of his ancestors." Mr Xi may disagree with how easy that makes it sound (Machiavelli himself might have written differently about a colossus such as China). But the Chinese president clearly believes that preserving the party's traditional ideological rhetoric—no matter how out of keeping with many aspects of today's state-led capitalism—is vital for keeping its 97m members in lockstep and himself in charge.

In 2009 the American embassy in Beijing sent a classified cable to Washington (later published by Wikileaks) about the assessment of one unnamed—but clearly trusted—Chinese academic who had known Mr Xi early in the Chinese leader's career. "Our contact is convinced that Xi has a genuine sense of 'entitlement', believing that members of his generation are the 'legitimate heirs' to the revolutionary achievements of their parents and therefore 'deserve to rule China'," said the dispatch. Mr Xi was not driven by ideology, it quoted the scholar as saying, but had chosen to survive by "becoming redder than red". By cloaking himself in communism, he would be seen by the party elite as a safe pair of hands.

In terms of how Mr Xi has chosen to craft his image, the contact proved more correct than the optimistic liberals. In the past few months officials around the country have been made to watch (yet another) film about the collapse of the Soviet Union in 1991. The documentary points to a big lesson: that the giants of communism's past must not be criticised. Attacking Stalin, as the Soviet leader Nikita Khrushchev did in 1956, sowed the seeds of ruin.

Mr Xi is no Maoist. He wants to bring private entrepreneurs to heel but not eliminate them, as Mao did—their contribution to the economy is too valuable to be dispensed with. Unlike Mao, who was happy to wreck party structures in pursuit of Utopian goals, Mr Xi wants to strengthen the country's political and economic framework, keeping the party firmly in control.

To Mr Xi, the party as an institution matters more than it did to Mao. During the Cultural Revolution, Mao tried to purge his critics by unleashing the Red Guards—spontaneously formed gangs of radicals, independent of the party. In many places they seized local power, attacking party officials and party organisations for being "reactionary", or insufficiently Maoist. Mr Xi's family was among those targeted. His father was tortured. His half-sister killed herself to avoid similar treatment.

That experience may have bolstered Mr Xi's belief in a strong party. It needed beefing up to prevent chaos like that again. Giving freer rein to the masses was dangerous. "What I see is not just the superficial things: the power, the flowers, the glory, the applause," said Mr Xi in 2000. "I see the cow sheds"—meaning Red Guard detention houses—"and how people can blow hot and cold."

Few people dare to blow cold about Mr Xi—those who have done so have been jailed or otherwise punished. He has used the party as his weapon, injecting party committees into private firms and reviving them in neighbourhoods. Party cells have been leading the mass mobilisation of people to enforce covid-related lockdowns, round up virus-carriers and put them in supervised quarantine, and conduct endless nucleic-acid tests and door-to-door inspections. In Xinjiang party secretaries were given the final say over who would be sent to detention camps for "deradicalisation". Mr Xi has created new party groups, often with himself in charge, to oversee the work of government ministries. As he puts it: "East, west, south, north and centre—the party leads everything."

As does Mr Xi. He is in charge of all of the government's main portfolios, including economic policy, which previous general secretaries had put in the hands of the prime minister. After next month's party congress, when the new leadership line-up is revealed, much attention will be paid to the unprecedented third term as general secretary that he will almost certainly be granted. But given the power he has, he had always been likely to remain paramount leader even if he had decided to give the job of party chief to someone else. Even Deng, who tried to introduce a more orderly system of succession, wielded ultimate authority years after stepping down.

Mr Xi, who is 69, is therefore likely to rule, formally or informally, for as long as he is fit enough to do so. He could, conceivably, be toppled, but that would be difficult in the high-tech surveillance state he has created. In his remaining years, little is likely to change in China or abroad to the extent that he would decide not to rule with an iron fist or challenge America.

Yet Mr Xi remains haunted by the fate of the Soviet Union and still sees enemies at home. Despite what appears to be strong public approval of his rule, he has reason to worry. In the past couple of years he has been waging war against a "political faction" in the police. Officials say it was posing a "serious threat to political security". In the past few days the alleged ringleader, Sun Lijun, who had served as a deputy minister of public security, was given a suspended death sentence that could be commuted to life in prison without parole. Several others were given lengthy jail terms.

A new helmsman

As the economy slows, the public's support may ebb. Mr Xi will be even more inclined to clamp down on dissent, and will become even more suspicious of private business-people in charge of giant firms who might challenge his policies. He has identified himself personally with China's "zero-covid" strategy. Despite its heavy drag on the economy, and ever louder grumbling from citizens affected by draconian lockdowns, he is unlikely to abandon it until he is sure that doing so will not lead to a surge in deaths. But as a nationalist he is unlikely to hasten use of foreign vaccines that would enable China to make a swifter exit.

Abroad, Mr Xi will remain just as determined to chip away at American power in China's neighbourhood and beyond. He sees a growing threat from America, as it tries to strengthen bonds with democratic countries to counter Chinese influence and to sever Chinese access to cutting-edge technologies. It is not known what he truly thinks of the war in Ukraine, but he will continue to back Russia diplomatically, seeing it as a vital bulwark of authoritarianism. Taiwan should continue to worry. Mr Xi has not shown signs of being a reckless risk-taker like Mr Putin. Especially given Mr Biden's repeated suggestions that America would defend Taiwan militarily, he cannot be sure of swift victory should he decide to try to conquer it (a bigger challenge in some ways than subduing Ukraine, given its terrain and distance from the mainland). But taking Taiwan remains a stated party goal. Mr Xi is rapidly building up the hardware needed to do so.

Optimists may pin hope on change for the better in China when Mr Xi eventually passes from the political scene. They may be proved right. More liberal-minded leaders have occasionally risen in Communist China, though never to the apex of power. But the broader political elite that helped Mr Xi's rise—including retired leaders, generals and the princelings—may prefer to keep China on much the same political track after he is gone.

As Mr Xi puts it, China is experiencing "changes not seen in 100 years" at home and globally. Amid such uncertainties, most of the ruling elite would probably like a firm hand on the tiller—another "helmsman", as fawning officials are beginning to call Mr Xi—just as they appreciated Deng's decision to send the army into Tiananmen Square. Despite his larger-than-life, domineering personality and rule-changing ways, Mr Xi represents continuity in Chinese politics as much as change. Even imagining a China without him, it is hard to be sanguine. ■

"The Prince" podcast

The full eight-part series of "The Prince" is available on all major podcast apps, on *The Economist* app, and also at **economist.com/theprincepod**

Midterm effects

A chronicle of gridlock foretold

WASHINGTON, DC

What would Republicans do with a House majority?

ASK ANY physicist: big ideas can fit into tight spaces. Kevin McCarthy, the leader of the Republican minority in the House of Representatives, is an unlikely fan of extreme concision. Yet the man who will probably be the next Speaker of the House if Republicans retake control of the chamber after the midterm elections in November managed to fit his party's agenda on a single two-sided notecard. "They have no plan to fix all the problems they've created," Mr McCarthy said of his Democratic rivals at the big unveiling held on September 23rd in Monongahela, Pennsylvania (intentionally set in Washington County rather than Washington, DC). "So, you know what? We've created a Commitment to America," he said, brandishing the postcard plan for rescuing the republic from the inside pocket of his suit jacket.

Republicans have a long-standing problem with explaining what they stand for. For years the party has been better defined by what it is against—critical race theory, defunding the police, socialism and wokery. Donald Trump was not a policy guy. Mitch McConnell, the Republican minority leader in the Senate, has not released a formal agenda, perhaps because many of the specifics would not be popular. Rick Scott, a senator from Florida who chairs the National Republican Senatorial Committee, learned this lesson after releasing a lengthy policy agenda. Democrats leapt upon its insistence that all Americans pay some federal income tax and that safety-net programmes, including Social Security and Medicare, be renewed by Congress every five years.

Mr McCarthy's Commitment to America is consciously styled after the Contract with America released by Newt Gingrich in 1994, ahead of his successful takeover of Congress. The new version is comparatively brief and unspecific. Standard Republican platitudes about curbing wasteful spending and promoting tax cuts and deregulation to boost growth feature prominently. The few specific policy recommendations—cutting permitting time for energy projects, offering signing bonuses for 200,000 new police officers and barring transgender women from female sports—are not as bold as the 1994 edition, which pledged to slash congressional committee staff by one-third, create a modest child allowance and remake the welfare system.

That is not for lack of trying. Various task forces of Republican lawmakers laboured for months to craft a specific agenda. But the caucus, which spans all the way from Marjorie Taylor Greene, an ultra-Trumpy conspiracy theorist who has called for the defunding of the FBI (and who was seated right behind Mr McCarthy as he spoke in Pennsylvania), to social moderates such as Nancy Mace, seems united only by its choice of enemies.

"If you like freedom, you should support the freedom of any two people to marry whoever they want, right?" says Ms Mace, who represents a district in South Carolina. "If you're going to ban abortion, you need to make sure women have access to contraception." Unlike the progressive left, which has been effectively whipped into submission by Nancy Pelosi, the current Speaker, conservative House Republicans have been unafraid to torpedo their own leaders. They sent John Boehner and Paul Ryan, the last two Republican Speakers, to early retirement. ▸

→ Also in this section

In the likeliest scenario, which would see Republicans winning a House majority and Democrats hanging on to the Senate, the prospects for substantive legislation would decline to zero. Currently, with both houses in Democratic control, the ten senators required to override a filibuster have a veto. From January, the number of vetoes would increase. Mr Biden's formal one and the implicit veto held by members of the House Freedom Caucus (an influential group of conservative Republicans) would make three. The result would be something like the latter half of Barack Obama's presidency, in which Republicans extracted maximal leverage when must-pass legislation such as budgetary reauthorisation or re-upping the debt ceiling approached.

This would be the case even though there are subjects on which Democrats and Republicans actually agree. "I think you could see criminal-justice reform," says Brian Ballard, a Republican lobbyist in Washington and Florida. And, he adds, "there's this weird, growing kind of consensus that high-tech barons of today are like the oil barons were a few generations ago." Both parties are hawkish towards China and favour spending to prevent a possible military takeover of Taiwan. Dislike of big business is bipartisan now. "The days of the Chamber of Commerce being the chief policy officer of the Republican Party are gone," says Mr Ballard. But translating shared animosity into legislation is difficult. Republicans are sceptical of businesses for their overzealous embrace of environmental, social and governance (ESG) investment, for instance, whereas many Democrats argue that large corporations are not taking "stakeholder capitalism" seriously enough.

Not passing legislation would leave a Republican House plenty of time for other pursuits. James Comer, a Republican from Kentucky who is the favourite to chair the powerful House Committee on Oversight and Reform, has already penned his agenda. The first person of interest is Hunter Biden, the president's son, who has a messy history of drug addiction and a worrying penchant for dodgy overseas business dealing—and whose leaked laptop is probably authentic but also a treasure trove of damaging information. "The reason we're investigating Hunter Biden is because we believe that he has compromised Joe Biden," says Mr Comer. "We believe that a lot of the decisions he's made on energy policy are based on shady business deals with Hunter Biden."

Ms Mace, the moderate Republican representative who also sits on the oversight committee, agrees on the need for the investigation. "I don't dabble in conspiracy theory, but when Mark Zuckerberg gets up there and admits that the FBI told him to bury the Hunter Biden laptop [story] three days before an election, that gives me heartburn." Mr Comer has been labouring unsuccessfully to access the "suspicious activity reports" that American banks have filed against the president's son. With majority control of the committee, the Treasury Department would be obliged to provide them. The other priorities could also be unpleasant for the president. "Number two: the covid origination. Number three: border security," rattles off Mr Comer.

There are already some clamours for the House to impeach the president if Republicans win a majority. The exact charge varies. The most Trump-aligned members are also calling for Alejandro Mayorkas, the secretary of homeland security, to be impeached over the administration's handling of the border. Both would be spectacles with little chance of success. Mr Comer is shrewd enough to see that. "We're going to have members that get a lot of retweets and stuff about impeaching, and at the end of the day—I say this all the time—the House can impeach, but the Senate's not going to convict," he says. "But at the end of the day, we've got to fix the problems that Joe Biden's created." ■

Hurricane Ian

Unnatural disaster

A devastating hurricane tests the Sunshine State

"THE SEA was walking the earth with a heavy heel." That is how Zora Neale Hurston described the brutal hurricane and accompanying storm surge that hit Florida in 1928, in her novel "Their Eyes were Watching God". On September 28th a heavy heel trampled Florida again. After ravaging Cuba Hurricane Ian made landfall on Florida's west coast with winds approaching 150mph (240kph).

Areas including Port Charlotte and Punta Gorda, south of Tampa, were told to expect storm surges the height of a two-story building. As *The Economist* went to press, more than 2m customers in Florida had no power. Eric Silagy of Florida Power & Light, a grid operator, predicted that whole parts of the grid may have to be rebuilt. Ian is likely to be remembered as one of the most expensive natural disasters on record.

The governors of Georgia, North Carolina, South Carolina and Virginia also declared states of emergency, but Florida will suffer the most damage. It has experienced around 40% of hurricanes in America, more than any other state. Around three-quarters of its 22m residents live in coastal areas. Slow-moving hurricanes such as Ian exact an especially harmful toll, because they produce a double whammy: long-lasting rainfall and a storm surge.

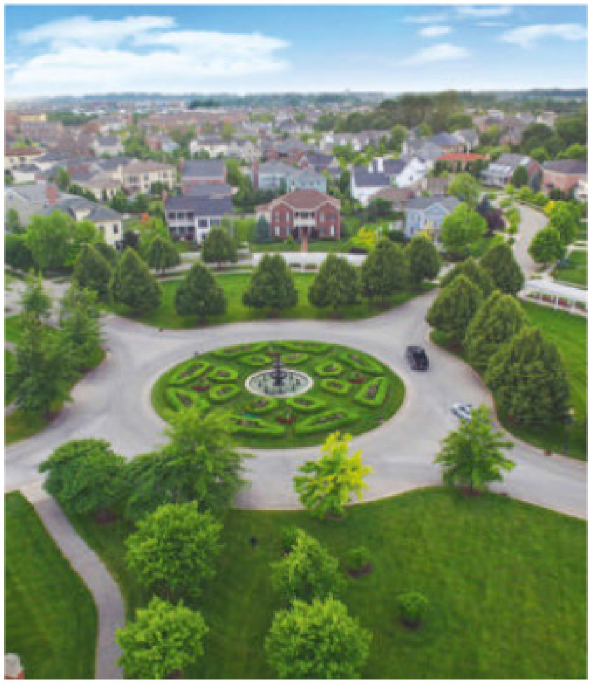
In advance of Ian's landfall President Joe Biden spoke with Florida's Republican governor, Ron DeSantis, and pledged to offer federal resources. Mr DeSantis, who is rumoured to be eyeing a run for president in 2024 and is seeking re-election as governor in November, has used Ian to show his "management side and not just his political side", says Susan MacManus of the University of South Florida. Handling hurricanes boosted the popularity of two predecessors, Jeb Bush and Rick Scott.

In addition to clean-up, Mr DeSantis will have to contend with Florida's dysfunctional and expensive property-insurance market. Even before Hurricane Ian, lawsuits and fraud had been pushing home-insurance costs up. In May Mr DeSantis signed a bill aimed at improving matters, but that was not nearly enough to address the immediate crisis, warns Mark Friedlander of the Insurance Information Institute, a research outfit.

There is also a broader risk to Florida's economy. Real estate generates around a fifth of the state's GDP. Between 2010 and 2020 Florida's population grew by nearly 15%, double the national rate. From January 2020 to August 2022 the average house price in Florida rose by more than 62%, compared with a national average of 42%, according to Zillow, a property firm.

Home values will probably now decline. That could stimulate demand. But the storm is more likely to halt in-migration in the short term. For people who had been considering moving to places that Ian has ravaged, "I would think this would give you pause," says Teri Johnston, the mayor of Key West. The property boom that Florida enjoyed in the 1920s ended when two hurricanes walloped the state. When Ian clears, Mr DeSantis may find that he has to grapple with an economic storm. ■

Heeling over



Urbanism

The joy of roundabouts

CARMEL, INDIANA

Growth is popular, if it is well planned

In 1995, when Jim Brainard, then a lawyer, fought the Republican primary to become the mayor of Carmel, Indiana, his city was a modest suburb of Indianapolis with a population of around 35,000 people. Walking around its sprawling tract housing, and talking to residents about what they wanted for their town, he found a theme. People said things like: "I wish I could walk to a restaurant." On winning the primary, knowing that he wouldn't face much opposition in the general election, Mr Brainard devoted himself to studying urban planning. "I have a theory that our architecture got very boring and bad about the time we all got in cars and stopped walking around looking at it," he says.

Since Mr Brainard became mayor Carmel's population has almost tripled, to over 100,000 people. A few decades ago it had only a small central "historic district". Now it has an actual "downtown" full of apartments, restaurants and shops, as well as a fancy music auditorium and two theatres. In summer families rock up on bicycles to watch children's films projected on a screen in a new square. Nearby streets are lined with terraced houses that resemble Victorian ones, even though they were built in this century. Visitors on foot do not have to cross enormous expanses of tarmac to get anywhere.

A majority of Americans now live in suburbs. But while their residents are changing much like America, becoming more diverse, older and with a wider range of incomes, many of the suburbs themselves have barely changed in decades. Most new housing in America is built either in brand new tracts at the edge of big cities or in apartments in the centre. With the right policies, however, America's suburbs could produce plenty more housing, argues Alan Mallach, a fellow at the Centre for Community Progress, a non-profit. They have more land, are close to jobs, and already have infrastructure in place. Carmel offers lessons on how to achieve that. It is also a case study of the enormous power a single mayor can have to create change, if he or she can sell it.

The key to Mr Brainard's power was not only the realisation that many people like to live in more walkable neighbourhoods but also that providing them can save the city money. Low-density suburbs cost a lot to maintain: when houses are further apart they need longer roads and sewage lines, and the bin men have to travel further between each one. A single mile of road can cost $15m to build, and must be maintained. A new block of flats, by contrast, adds far less to a city's expenses, and yet their residents still pay property taxes. Even terraced houses cost a lot less.

In the past 20 years Carmel has taken advantage of this using "tax increment financing". To illustrate how this works, Mr Brainard points to an ageing strip mall which the city has purchased. Its nine acres of land, most of which is used for parking and is empty much of the time, currently generates around $61,000 in tax revenue each year. The city is working with a developer who will rebuild it with five-storey apartments and shops, with parking underground. This costs a lot upfront (the city has to subsidise the parking to get the developers on board) but Mr Brainard reckons that when it is finished it will generate $3m per year in property taxes. Even after servicing the loan, that will leave a hefty chunk behind for the city. "Sprawl kills cities," he says.

Unlike suburbs in places such as New Jersey or outside Washington, Carmel is densifying without the benefits of a decent regional public-transport system. That requires hiding the cars underground. But it also brings in one of Mr Brainard's other innovations, the roundabout. The city now has 145 of them, far more than any other American city. Because they slow down cars and make "T-Bone" collisions less likely, roundabouts are safer. The city's traffic-death rate is a fifth of the rate nationwide. But because cars do not get stuck at lights, roundabouts also increase capacity. That allows the city to grow without needing to widen its roads. In a few places it has even narrowed them. It has shrunk one that goes through the centre from five lanes to just two. Now the city sells T-shirts boasting about its roundabouts.

How big could Carmel get? Asked this, Mr Brainard jokingly notes that Manhattan supports 1.6m people on half of the land area. Increasing its population 30 times might be difficult: even with underground garages and roundabouts, all those cars still take up space. In reality, Carmel looks more like a richer version of Milton Keynes, a city of 200,000 people in southern England that is also famous for its roundabouts. But growth works. Drawn by the new residents, employers have moved in too, and more people now commute to work in Carmel than leave it each day. With housing getting less affordable in big cities, and many suburbs struggling with the costs of ageing infrastructure, it provides a promising model of how to improve. A few mayors could make a trip to Indiana to see how to do it. ■

Midterm maths

The new swing voters

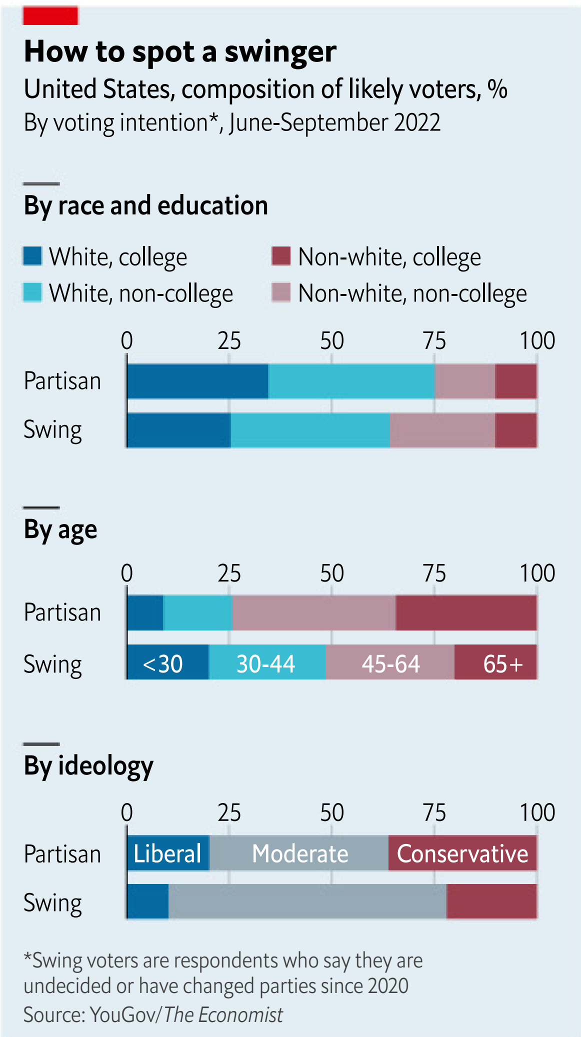
WASHINGTON, DC

The most sought-after voters are young, urban Hispanic men

To win an election in America, a candidate must get at least one more vote than their opponent (unless they are running for president). Parties have therefore focused on two groups when debating electoral strategy: base and swing voters. Coveted archetypes of the latter group have included the "soccer moms" of the 1990s and 2000s and suburbanites through most of the 2010s. With political polarisation rising ever higher, readers may be forgiven for assuming that swing voters are a dying breed. In reality, they have been kept relevant by tight elections in which a small number of them can decide the outcome.

According to a schema developed by V.O. Key Jr, a venerable American political scientist, in "The Responsible Electorate", a 1966 book published posthumously on his behalf, voters can be divided into three groups. There are so-called "stand-patters" (partisans who vote for the same side year after year), "switchers" and new voters. According to Mr Key, switchers made up one-eighth to one-fifth of voters in the years between 1940 and 1960.

Today switchers number in the single digits. *The Economist*'s analysis of polls, conducted on our behalf by YouGov, puts them at 3%. On top of that, 83% of voters who currently say they are "definitely" or "probably" going to vote in November are standing pat. Some 8% are new voters who ▸▸



did not take part in the 2020 election and the remaining 7% are undecided.

For a group that makes up just one in every 30 voters—and still only one in every ten if you include the uncertain ones, too—much fuss is made over swing voters. That is fair: as vote-intentions calcify, who is really left to persuade? Yet parties may be surprised by the characteristics of swing voters this year.

According to our polling, the party-switchers are a new breed of young, diverse Americans. Nearly 14% are Hispanics and 18% are African-American. They are less likely to be college-educated than the stand-patters, they are more male and more urban. Half are under 45.

But perhaps most striking is their moderation: two-thirds describe themselves as moderates, according to our polling. The average swing voter this year is a young Hispanic male without a college education who lives in a city and who considers himself to be a moderate.

But what does he care about? Nearly 30% say they care about the economy and inflation above all else, the same as for partisans, making this the top issue. The biggest difference is over abortion; it is the top issue of 9% of partisans but just 4% of vote-switchers. Carlos Odio of Equis Labs, a Latino-focused polling firm, says Latino voters think the Democratic Party does not talk about the economy as much as Republicans do, and they feel the party may not value "hard work". The Republican Party has not won them over yet, though. The Senate rides on which way they swing. ■

The labour market

Forgotten men

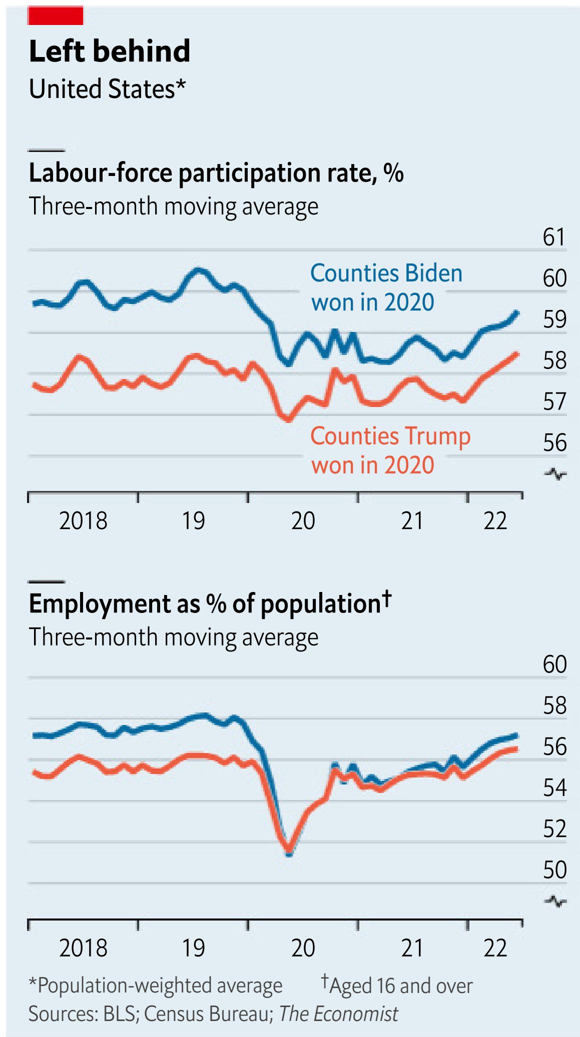
NEW YORK

Trump counties are recovering faster than Biden counties

Despite winning just 17% of counties in the 2020 presidential contest, President Joe Biden captured most of America's economy. The counties he won were far more economically vibrant than those he lost, accounting for 68% of job growth between 2016 and 2019, according to the Economic Innovation Group (EIG), a research outfit. The Brookings Institution, a think-tank, reckoned that nearly three-quarters of national GDP was generated in Biden counties before the pandemic hit.

When covid-19 arrived, that employment disparity disappeared. Both sets of counties saw steep employment drops, but those that Mr Biden won were hit harder. In May 2020 employment levels were 11% lower in Biden counties than they had been in January, while Trump counties fell by 9%. Biden counties' employment to population ratio, a measure of the share of people over the age of 16 working, fell below that of Trump counties (see chart). By June 2022 on average Trump counties had not only bounced back, but had surpassed their pre-pandemic employment and labour-force participation rates. Biden counties are not yet close to a full recovery.

What accounts for this difference? Demography, industry composition, local policies and attitudes towards covid all played a part. Biden counties were far more likely to be urban, where retaining a job often required using public transportation or huddling with colleagues. They also had a larger concentration of service work—dry cleaners and baristas were more likely to



be out of a job during lockdowns.

EIG found that the retail and hospitality sectors bounced back faster in rural areas and small cities, which Mr Trump won. High rates of remote work among highly educated Biden county residents hit in-person consumption, stunting local economies and slowing job growth. The exodus from big cities hurt too.

Republicans tend to judge the economy unfavourably when Democrats are in office and vice versa—attitudes flip when administrations change over. But for all the blame Republicans have pinned on Mr Biden for today's food and petrol prices, the familiar story about left-behind America needs an update. ■

Boomtime in real America

The Supreme Court

Back to the bench

NEW YORK

Clashes over gay rights, affirmative action and elections promise a noisy term

THREE MONTHS after scrapping abortion rights, fortifying the right to bear arms and bulldozing the church-state wall, the Supreme Court's six-justice conservative majority will take to the bench on October 3rd to reconsider more areas of American law and life. Sprinkled among the 27 cases the court has agreed to hear in its new term (about half of its eventual docket) are a few that—like last year's crop—offer opportunities to overhaul decades-old principles.

Among the longest-enduring precedents under review are decisions permitting universities to consider race in admissions. In *Regents v Bakke* (1978) and *Grutter v Bollinger* (2003), the justices told admissions committees they cannot set racial quotas but may consider applicants' race as one factor among many to achieve the "educational benefits that flow from a diverse student body".

In a pair of cases involving Harvard University and the University of North Carolina being argued on October 31st, Edward Blum, a conservative campaigner, argues that *Grutter* is "grievously wrong" and should be overturned. After ending up one vote short six years ago in *Fisher v University of Texas*, Mr Blum has brighter prospects with revamped tactics, a new organisation, Students for Fair Admissions (SFFA), and a court that has been transformed by Donald Trump's three appointees.

SFFA argues that Harvard "crudely" considers racial identity, favours black and Hispanic applicants and discriminates against Asian-Americans by giving them "by far the worst scores" in soft metrics like "integrity", "courage" and "kindness". Harvard contends race plays no part in these ratings. Both universities argue—in line with conservative justices' concern with the original meaning of the constitution—that the framers of the 14th amendment "embraced measures that took race into account", such as the Freedmen's Bureau (providing land, education and other aid to African-Americans), "far more expansively" than the limited uses of race in their admissions procedures.

Race is also at the centre of *Merrill v Milligan*, a case coming up on October 4th that asks what section 2 of the Voting Rights Act of 1965 (VRA) says about redistricting battles in Alabama and beyond. In January a federal district court found that Alabama's new congressional map discriminated against black voters, who make up about 27% of the population, by including only one black-majority district among its seven. It ordered the legislature to redraw the map with a second black-majority district. Over dissents from the three liberal justices and Chief Justice John Roberts, the Supreme Court promptly blocked that order. Now the court will revisit a complex test laid out in *Thornburg v Gingles*, a 1986 case explaining when a map falls foul of the VRA by diluting minority voters' power.

According to Michael Li of the Brennan Centre for Justice, a think-tank, the justices risk turning the VRA on its head by holding that it is "somehow racially discriminatory" to "remedy racial discrimination". But Mr Li worries more about what a win for the plaintiffs in the affirmative-action cases might mean for voting rights. If the 14th Amendment is read to require strict race-neutrality, state-level rules for electoral maps to keep so-called "communities of interest" together may be lost, too.

An even more radical outcome is possible in *Moore v Harper*, a case asking whether state legislatures may dictate the terms of congressional elections unburdened by provisions in their state constitutions or rulings of their state courts. *Moore* stems from a gerrymandered map drawn to ensure that in North Carolina—where Democrats and Republicans poll evenly in national elections—ten of the 14 congressional districts would go to Republicans. When the North Carolina Supreme Court deemed the map a violation of the state constitution's "free elections clause", Republican legislators balked and asked the US Supreme Court to declare them all-but autonomous under the constitution.

Most scholars consider the "independent state legislature theory" illogical and inconsistent with the text and history of the constitution. But four justices flirted with it in the run-up to the 2020 presidential election—possibly making *Moore* contingent on the vote of Justice Amy Coney Barrett, who has not yet expressed a view. Richard Pildes, a law professor at New York University, says a victory for the plaintiffs could "massively destabilise" federal elections. Curbs on partisan gerrymandering would be just one type of rule to fall. Mr Pildes notes that a host of other voter-initiated amendments and state-constitutional provisions—including mail-in voting rules, voter-ID requirements and Alaska's ranked-choice voting—"might all suddenly be unconstitutional".

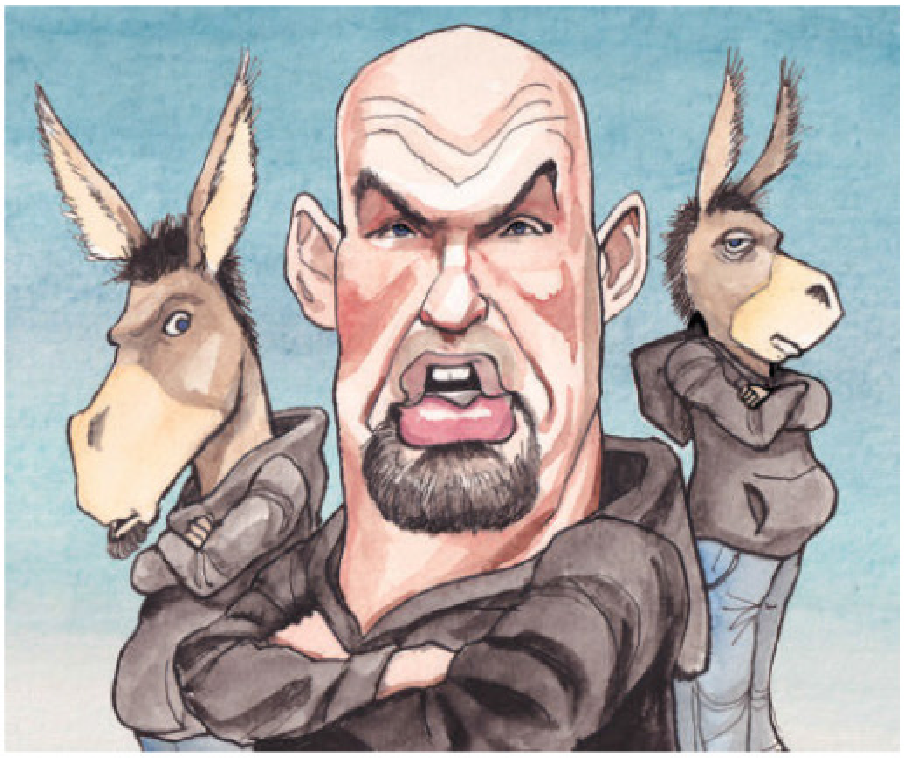
Then, in a rehash of a 2018 clash between LGBT rights and religious scruples, *303 Creative v Elenis* involves Lorie Smith, a website designer who wants to start making websites for straight—but not gay or lesbian—weddings. This time the First Amendment claim against Colorado's anti-discrimination law involves freedom of speech, not the free exercise of religion. According to Amanda Shanor of the University of Pennsylvania, this framing poses tricky questions for the justices.

Less ideological but equally fraught cases include disputes over California's strict rules for raising pigs (which might make life difficult for pork producers in other states) and what counts as "fair use" in a copyright case involving an Andy Warhol portrait based on a photograph of Prince, the musician. Justice Ketanji Brown Jackson takes over for her former boss, Stephen Breyer, amid a flurry of contentious cases, historically low approval for the Supreme Court among the public and swirling questions about its legitimacy. ■

The other legislature

Lexington | The style of a Democrat

John Fetterman is a savvy politician. His party can learn from him



James Carville, who made his bones in Pennsylvania politics before helping elect Bill Clinton president, said that between the Philadelphia and Pittsburgh suburbs the state "is Alabama without the blacks." The push-and-pull between the multi-ethnic liberal cities and the white conservative hinterland tends to result in statewide politicians who are centrist and conventional, even a bit dull. The term-limited Democratic governor, Tom Wolf, is bearded and reasonable, like a 1980s sitcom dad. The retiring senator, Pat Toomey, was one of just seven Republicans who voted to convict Donald Trump after his impeachment for inciting the January 6th attack on the Capitol. The state's other senator, Bob Casey, is one of the few pro-life Democrats left. They seem like nice guys.

This year's crop of statewide candidates is odd. Yes, Josh Shapiro, the Democratic gubernatorial candidate and current attorney-general, is a centrist. But the Republican candidates for senator and governor are Trumpist deviations. Doug Mastriano, running for governor, was at the attack on the Capitol and tried to overturn Pennsylvania's election results in 2020. Mehmet Oz, the senate candidate, is a doctor who made his fortune hawking pseudoscience on TV. Then there is Mr Oz's opponent, John Fetterman, Pennsylvania's lieutenant-governor.

At least superficially, Mr Fetterman defies all political convention. Well over two metres tall, bald and goateed, he sports a hoodie and baggy shorts regardless of weather or occasion. At rallies he extends his long arms, taking the crowd in a virtual hug and revealing the tattoos lining his forearms: on the left, "15104," the postcode for Braddock, a rough steel town in western Pennsylvania; on the right, nine dates, each representing a Braddock resident's violent death during his 13 years as mayor there.

Somehow Mr Fetterman has managed to encompass Pennsylvania's diverse communities within his political embrace. In the primary he easily dispatched a congressman, Conor Lamb, who offered the tidy barbering and tidier centrism that make up the tried-and-tested formula for winning in Pennsylvania. Mr Fetterman proved more appealing to Democrats in the state's suburbs and cities, and in its Alabama, too. Black or white, centrist or progressive, Democrats saw something in his eccentric biography and appearance that inspired their hopes and earned their trust.

Mr Fetterman may not be all things to all people, but he does offer something for everyone. He is a gun owner who supports gun-control legislation, an environmentalist who does not oppose fracking. Progressives are happy he backed Bernie Sanders for president in 2016. Yet during the primary Mr Fetterman ran away from the label "progressive" and he was hard to distinguish, in policy terms, from Mr Lamb. Even some of his seemingly progressive positions, such as legalising marijuana and reforming the criminal-justice system, enjoy broad support, not just among Democrats but also among Republicans.

What Mr Fetterman presents that has seemed most widely appealing has been a middle finger to the political establishment. It was no accident that he had far fewer endorsements from elected officials than Mr Lamb. Indeed, Mr Fetterman seems to have gone out of his way not to ingratiate himself with other politicians. Nancy Patton Mills, the former chair of the state Democratic party, says he is "aloof" and "an introvert." Others are not so kind. Danielle Friel Otten, a Democratic state representative, says she is "indifferent to him personally," and that when she meets "people who say, 'He's such a good man,' I ask, 'Have you met him?'"

Mr Fetterman's fashion choices and his antic, mischievous presence on Twitter signal the same rejection of politics. It takes nothing away from his success at presenting himself as an outsider to note that it must require careful calculation. It cannot be easy for a Harvard man, one who was supported by his wealthy family well into his 40s, to consistently project such working-class authenticity. Poor Mr Oz, with his yen for crudités, has been unable to fake it. He is the perfect foil for Mr Fetterman.

Mr Fetterman is a canny, ambitious politician. He turned the lieutenant governor's role, historically a sinecure in Pennsylvania, into a launching pad, visiting every county during his 2018 campaign and then doing so again in office. He was also astute enough to recognise that he had a clearer path to winning office as a senator than as governor during this election cycle: Mr Lamb, for all his establishment support, was a weaker opponent than Mr Shapiro, who had already won statewide.

Shtick shift

There is nothing wrong with any of that. Politicians need to be good at politics, and authenticity can be both shtick and, as in Mr Fetterman's case, authentic; there is no doubting his commitment to the people of Braddock. But Mr Fetterman's appeal in defying politics-as-usual faces two big challenges, one immediate and one longer term. The first is that he suffered a stroke in May, and although he returned to the campaign trail in August he appears infrequently and does not take questions. He has agreed to just one debate, in October, and has insisted on accommodations for what his campaign says are lingering auditory-processing problems. Mr Fetterman may well be on the way to a full recovery. But if his impairment is more serious than his campaign has said, he will seem like the slipperiest sort of politician.

The longer-term challenge is that appearing to buck the establishment and to offer a new kind of politics can get you only so far. Then you actually have to do something. Politicians of both parties can indeed learn from Mr Fetterman's success, not about fashion but about the public's impatience for change, a message it has tried to send election after election. No doubt people would enjoy seeing the likes of Chuck Schumer and Mitch McConnell swan about in shorts and hoodies. But what they would really like is to see them make the country safer and more prosperous. ■

Brazil's election

Are the polls right?

SÃO PAULO

Pollsters say President Jair Bolsonaro will lose. But their methods are under fire

JUST AFTER 8am on September 27th, five days before the first round of a presidential election, a worker from Brazil's most prominent polling firm, DataFolha, stops pedestrians at a five-way intersection in São Paulo to ask whom they plan to vote for. He selects his subjects—an old man in a baseball cap, a young woman with a nose piercing—according to age and sex quotas that reflect the electorate. He asks them to point to their candidate's name on a chart (circular, to lessen bias), and records their answers on a tablet.

Over the next few days 440 DataFolha workers in 332 municipalities planned to speak to some 6,800 voters. Within hours of the final interviews, the results would be announced on a nightly news programme watched by a third of Brazilian households.

Although in-person polls have long been considered the best way to gauge voting intentions in a vast and unequal country, changes in society and polling are putting that belief to the test. Increased access to mobile phones (now in 95% of households) and the internet (90%) have brought in new pollsters and techniques. The pandemic speeded up these trends. As a result, 974 polls have been registered at the electoral court in this election season, twice as many as during the previous presidential race, in 2018. The share of in-person surveys has dropped from 70% to 60%.

Nearly all polls show Brazil's right-wing populist president, Jair Bolsonaro, trailing his rival, leftist former president Luiz Inácio Lula da Silva, by at least six percentage points (see our poll tracker online). Mr Bolsonaro says that any result other than his re-election would be "fraud". He denounces major pollsters like DataFolha and Ipec, which show Lula with such a big lead (14 and 17 percentage points, respectively) that he could win in the first round.

The wide divergence in the polls has led to debates about methodology that echo those that have taken place in the United States and elsewhere. Stakes are high. If Lula's victory is even as big as DataFolha suggests, Mr Bolsonaro's bogus claims of fraud will convince fewer people.

DataFolha, which conducts surveys on the streets, and Ipec, a descendant of Ibope, which goes door to door, have correctly predicted every presidential race since 1989. An analysis by Jota, a news site, found no big difference in accuracy between face-to-face and telephone polls in 2018. But the latter are considered a "subspecies", says Daniel Marcelino, an analyst at Jota. That is because they may undercount poor voters, who have fewer phones.

Face-to-face polls may have the opposite problem. Wealthier Brazilians, who increasingly live in gated communities and work from home, may be underrepresented. The belief that in-person polls in the right places provide a near-perfect data set, and thus need no weighting after the data are collected, has also been called into question by the wide range of estimates of how many voters are poor. Whereas Ipec finds that 55% of voters report having a household income less than twice the minimum wage (2,424 reais, or $450, a month), Ideia, a telephone poll, weights its sample using the official estimate of 39%. Lula, who does well among the poor, performs best in face-to-face polls; telephone polls show Mr Bolsonaro doing less badly.

Most firms admit that they could do a better job of estimating how many people will not vote. Voting is obligatory in Brazil, but fines are low and abstention can be as high as 20%. While pollsters know that non-voters tend to be poorer and less educated, which could hurt Lula, they have yet to make use of "likely-voter models", ▸▸

which give low-voting groups less weight, says Felipe Nunes, boss of Quaest, a six-year-old firm that conducts in-person polls. Most simply ask questions in the final week of the campaign to weed out people who are likely to abstain.

There is less consensus about whether Brazil has a "shy-voter" problem, in which voters either don't tell pollsters the truth or don't talk to them at all. Raphael Nishimura of the University of Michigan thinks that Bolsonaro supporters who don't trust polls might be loth to take part.

But shy voters may also be fearful Lula supporters: three have been murdered by Mr Bolsonaro's backers. "The more society gets polarised, the more human-interaction effects become an issue," says Andrei Roman of Atlas Intelligence, a firm that conducts online polls. Its latest shows Lula ahead by seven percentage points.

Bolsonaro supporters point out that in 2018 DataFolha's poll on the eve of the election showed that he would get 40% of the vote, whereas in fact he received 46%. Some experts also consider this the result of polling errors. Luciana Chong, the head of DataFolha, says the snapshot was accurate at the time. "A lot can happen from Saturday to Sunday," she says. Mr Bolsonaro gained last-minute votes from Brazilians who were undecided and from supporters of other candidates who voted tactically to beat Mr Bolsonaro's leftist rival.

This year is different. A record proportion of voters say they have made up their minds. Even so, Lula's campaign is seeking to convince backers of Ciro Gomes and Simone Tebet, candidates with around 5% apiece, to vote tactically to give Lula victory in the first round. That would be a win for established pollsters, too. ■

Bello Peru's degraded politics

An incompetent president, a discredited Congress and a lack of parties

Political volatility is part of the image of Latin America, even if it often doesn't correspond to reality. But the term hardly does justice to the government of Pedro Castillo in Peru. In just 14 months in office Mr Castillo has managed to get through 72 ministers. The latest, appointed on September 23rd, was his fourth defence minister this year. Five of his appointees were censured by Congress. Many others were palpably unqualified, or involved in scandals ranging from claims of corruption to wife-beating. Most worryingly, some were sacked by the president seemingly because they tried to do their jobs. That applies to a couple of interior ministers.

Mr Castillo is an accidental president with no political experience and, it is clear, no aptitude for the job. He got it because many Peruvians could not bring themselves to vote for his opponent, Keiko Fujimori, a conservative accused of corruption (which she denies). A rural schoolteacher and union activist who ran for a far-left party, he claimed to represent poor Peruvians. In office, he has achieved almost nothing. The core of his government is his extended family and associates from his home province of Chota in northern Peru. The prosecutor's office has opened six investigations into Mr Castillo and his family, three concerning public contracts. He denies wrongdoing. A daughter is in custody and a nephew is on the run.

The sickness in Peru's body politic goes well beyond the presidency. Congress, whose 130 members represent some 16 parties or groups, has seen two failed attempts to impeach the president, who retains the support of a blocking minority. More than 40 belong to nominally left-wing parties. Some conservatives are happy to have a weak government which shares their interest in dismantling regulation of private universities and informal transport companies, or in opposing feminism. Many of the legislators fear that removing Mr Castillo would trigger a public demand for a fresh general election. They are following their immediate interests, says Alberto Vergara, a political scientist. "Some want to keep a salary they would never earn elsewhere, some to extract bribes, or to place people in ministries." Another impeachment bid is now under way. Edward Málaga, an independent legislator who drew up the motion, reckons he has around 80 of the 87 votes he needs. "The aim is that the president doesn't inflict further damage on the country," he says. But many doubt that he will succeed.

Local elections on October 2nd are unlikely to improve things. They ought to be important: mayors and regional governors control two-thirds of public investment. With political parties barely relevant, most victors will be independent local figures. More than 600 have been involved in criminal-court cases. No wonder that Ipsos, a pollster, in a survey published three weeks before the election found that four out of five people hadn't decided whom to vote for.

Even by contemporary Latin American standards the degradation of Peruvian politics is extreme. Alberto Fujimori, Keiko's father, who ruled as an autocrat in the 1990s, set out to weaken political parties. Society has become less organised in a country where more than 70% of workers toil in the informal economy and less than 5% are in unions. Recent rule changes that bar re-election to Congress or local government have made it harder to pursue a political career. "Now there's not just a lack of parties but of politicians," says Mr Vergara.

Mr Castillo's presidency intensifies a pattern of volatility. There have been four presidents and two Congresses in the previous five years. In the past this kind of political deadlock would have provoked the army to step in. Those days seem to have gone in Latin America. One candidate to fill the vacuum is Antauro Humala, a former army officer with fascist views. He was released in August after 17 years in jail for leading an uprising that killed six people. He appeals to those resentful of the domination of the country by Lima, the capital (as did Mr Castillo). But he may struggle to find broader support.

Peru's instability is surprisingly stable. Some analysts are starting to think that, improbably, Mr Castillo may see out his five-year term. But uncertainty is cutting investment and economic growth. Erratic government is undermining the effectiveness of administration. Mr Málaga is right that the president is damaging the country. The problem is that removing him won't necessarily end the damage or the volatility.

Japanese politics

Moments of silence

TOKYO

Abe Shinzo's state funeral has divided the country and battered the popularity of Kishida Fumio

ABE AKIE emerged from a black car on September 27th clad in a black kimono, carrying her husband's ashes in a box. She paused before Kishida Fumio, Japan's prime minister, and the two bowed deeply to each other, before leading a procession past a military honour guard and into Tokyo's Budokan arena. Inside, Japanese elites and foreign dignitaries had gathered to pay their final respects to Abe Shinzo, the former prime minister who was assassinated on July 8th.

Mr Kishida offered the first of several moving eulogies, in which he celebrated Abe's legacy and recalled their close friendship. "I will forever remember you fondly as a man of wholehearted sincerity and exquisite compassion who took the utmost care of his friends, and as a husband who loved his wife Akie profoundly," he said.

Abe's murder was a deep personal loss for Mr Kishida. But it is causing the prime minister political grief, too. In the two months since it happened, poll after poll has brought him bad news. Nikkei, a Japanese media giant, found approval of Mr Kishida's government plunging from 57% last month to 43% in September (see chart on next page). *Mainichi*, a daily, put his approval below 30%. These are alarming numbers for the head of a party that tends to eject leaders who appear unpopular.

It had all seemed to be going so well, too. A few days after the assassination Mr Kishida led his Liberal Democratic Party (LDP) to a thumping victory in upper-house elections, marking his second straight electoral triumph. His approval ratings were well above 50%, as they had been since he took office last October. He appeared poised to enjoy what observers called a "golden" period, with his position in the party secure and the next parliamentary elections three years away.

But the public balked at the LDP's plans for a state funeral for Abe. This might strike foreigners as innocuous—all American presidents are entitled to such a commemoration. Yet most Japanese were opposed to the government's decision to honour Abe in this way.

Mr Kishida said he intended the state funeral to be a sign of Japan's intent to "defend democracy". But to many it looked more like an attempt to stifle criticism of Abe's legacy. "They're trying to create an atmosphere where it's hard to express dissent—they make you feel bad for speaking ill of the dead," said Miyaguchi Takae, who was among thousands of people protesting about the plan in front of Japan's parliament on August 31st. Moreover, the cost—some ¥1.66bn ($11.5m)—struck many Japanese as exorbitant. Others have been taken aback by the historical echoes. State funerals for high-ranking officials were common during Japan's imperial era as a means to unite the public around the emperor. It is rare for post-war leaders to be honoured in the same way.

The public mood shifted soon after the assassination. Once the initial shock to this peaceful country had worn off, attention turned to the killer, Yamagami Tatsuya, who said he murdered the former prime minister because of his links to the Unification Church, a cult-like religious group that Mr Yamagami's mother had joined. The killing shed light on the LDP's murky ties to the outfit, which run deeper than many Japanese had known. It reinforced the sense that too much in Japanese politics happens behind the curtain, away from the public eye. The result was rising anger with the government.

Rather than announcing a swift break with the church, as some close to him advised, the prime minister hemmed and hawed, hoping to avoid internal party feuds and waiting for attention to fade. Frustration grew. Japanese media latched on to the Unification Church. Television ▸

talk shows paraded people who said it had wronged them.

Founded in South Korea and popularly known as the "Moonies", after the founder, Moon Sun-myung, the church made common cause with Japanese anti-communists, including Abe's grandfather, in the 1960s. It then spread widely in Japan. It is best known for arranging marriages between its followers and staging mass weddings. It has faced criticism for its practice of extracting exorbitant fees for spiritual goods: Mr Yamagami's mother is said to have donated ¥100m to the group.

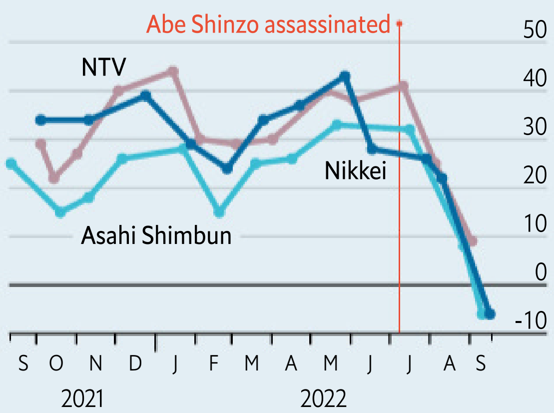
Mr Kishida's belated attempts to draw a line under the scandal only made matters worse. In August he reshuffled his cabinet, in part to distance himself from figures linked to the Unification Church. Yet more than 20 ministers and vice-ministers turned out to have ties to it. The LDP later conducted an internal survey which found that nearly half of its 379 lawmakers had links to the church, from receiving campaign support to attending its events.

Many Japanese would like to see a more complete accounting of party ties to the church. What they got instead was the LDP's attempt to lionise Abe who, for all his international acclaim, was a divisive figure at home. He "may have been the longest-serving prime minister, but he was not the most popular," notes Hirakawa Eri, a political commentator.

Mr Kishida's backers hope that the spectacle of foreign leaders paying respect to Abe will prove why the event was necessary. On the day of the funeral, more Tokyoites came out to lay flowers for Abe than to protest. "I am filled with gratitude," said Seki Yukie, one of the mourners. If those feelings fail to improve Mr Kishida's standing, he could turn to one of Abe's favoured tools for re-establishing control: snap elections. Yet while the LDP would probably win—none of Japan's bumbling opposition parties has managed to capitalise on the frustration with the government—Mr Kishida might not emerge looking any shinier.

On the turning away

Japan, net approval rating of Fumio Kishida's cabinet, by selected pollster, %



Source: News reports

Rising prices, though less acute than elsewhere in the rich world, have riled voters; that may be one reason for the government's decision, on September 22nd, to prop up the yen for the first time in 24 years. And despite having been in office for a year, the prime minister has no big policy achievements to point to. He has failed to flesh out his signature "New Capitalism" agenda. Nearly a year after he took power, observers still wonder what it might mean.

The coming Diet session, which opens on October 3rd, offers the prime minister an opportunity to buff up his image. He has signalled a desire to change Japan's energy policy by backing a return to nuclear power, and to bolster its defence by spending more on it. He now has less political capital to take on such thorny issues, but also more need to make a mark. Mr Kishida prides himself on being a good listener. But to survive, he will need to speak up. ■

Kazakhstan

Capital punishment

ALMATY

Guess which city holds the record for the most name changes?

THE CAPITAL of Kazakhstan has had many names over the years. It started life as Akmolinsk, at its founding as a Russian military outpost in 1830. Then, from 1961, it was Tselinograd, Russian for "virgin lands city", to mark its place at the centre of Soviet expansion to the steppe. At the country's independence from the Soviet Union in 1991, it was renamed Akmola, or "white tomb". And in 1998, soon after it became the capital, it got a fresh name: Astana, or "capital".

Until 2019, that is, when it became Nur-Sultan. This was in honour of Nursultan Nazarbayev, who served as the country's president from independence until that year, when he voluntarily stepped down. And now the city, already the Guinness World Record holder for having the most name-changes, has renamed itself yet again. On September 17th it reverted to Astana. "Capital" is in, Nur-Sultan is out.

In more ways than one. The city was renamed Nur-Sultan by Kassym-Zhomart Tokayev, Mr Nazarbayev's chosen successor, in deference to his patron. They ruled as a duo until January, when violent unrest triggered by fuel-price rises rocked the country, leading to some 230 deaths and forcing Mr Tokayev to ask Russia for help in restoring order. Mr Nazarbayev emerged with his reputation in tatters amid suspicions that his cronies were involved in fomenting the violence. Mr Tokayev says the turmoil was an attempt to topple him, though he has named no names.

The removal of Mr Nazarbayev's name from the capital is the most tangible sign yet that the cult of personality he built up is being dismantled. In June a referendum on a package of political reforms stripped him of his remaining privileges. In September the government abolished the celebration of "First President's Day" as a public holiday in his honour. His relatives have taken blows to their political and economic muscle, too.

Mr Tokayev has pledged "a radical reset of the entire political system" to restore the public's faith in the government. Reforms approved at the referendum in June will allow political opposition to thrive, he insists—although there is still no sign of any. At the start of September he announced another huge reform, cutting the number of terms a president can serve from two to one, while extending that term from five years to seven. Parliament immediately rubber-stamped the change.

On September 21st Mr Tokayev called a presidential election for November 20th, more than 18 months early. He will win in a landslide. Critics have accused Mr Tokayev of a power grab via his presidential term extension. But his new single seven-year term will end in 2029, just five months after he would have left office had he served two five-year terms. Mr Tokayev has vowed not to seek more time in office than he is permitted under the new constitution. He has refrained, however, from promising not to change the name of the capital again.

We'll always have Nur-Sultan—or not

Labour shortages

Hostel to fortune

SYDNEY

Australia needs foreign backpackers to come back

Asian countries blessed with natural beauty, sunshine and copious local beer sometimes consider backpackers a curse—unwashed, promiscuous cheapskates who party too hard and spend too little. Not Australia. Backpackers spend time enjoying its white sands and oceans of booze, true. But they also work to fund their travel, providing the country with a steady supply of cheap, low-skilled labour.

Before Australia sealed itself off at the start of the covid-19 pandemic in 2020, tens of thousands of backpackers flocked to the country every year. They came mainly from Britain, Ireland and mainland Europe. Australia's borders reopened in February, but the backpackers are nowhere to be seen. That is causing problems across the country. The number of temporarily resident "working holiday-makers", as visa-holders allowed to do both are known, plunged from 141,000 at the end of 2019 to 44,000 in July (see chart).

As a result, not only do pubs, restaurants and hotels have fewer patrons; they are running short of staff, too. Bars struggle to serve customers. Hotels have closed rooms for lack of cleaners. "We don't get Australians applying for this work," says Liam Ganley, a publican in Melbourne who has been so desperate for staff that he offered to pay for people to migrate from Britain and Ireland. Two of his group's four venues have cut their opening hours because he cannot fill his roster.

Nor is the labour shortage restricted to big, sexy cities. It hits remote corners of the country, too. Backpackers normally fill jobs in sparsely populated resort towns as they follow the tourist trail along the Great Barrier Reef. They are allowed to extend their stay if they spend time picking fruit and vegetables on farms (though some work in poor conditions, for less than the minimum wage). Before the pandemic, backpackers supplied Australia with 80% of its seasonal farm labour. When they left it created a shortfall of 26,000 harvesters. Some farmers have had to leave crops rotting in their fields.

Australia is struggling to find skilled workers, too. Covid restrictions are not the only reason for that. The government pumped up the economy with fiscal stimulus during the pandemic. Its unemployment rate has plunged by almost two percentage points since covid emerged, to 3.5%, the lowest in nearly half a century.

Packed up

Australia, working holiday-maker visa holders
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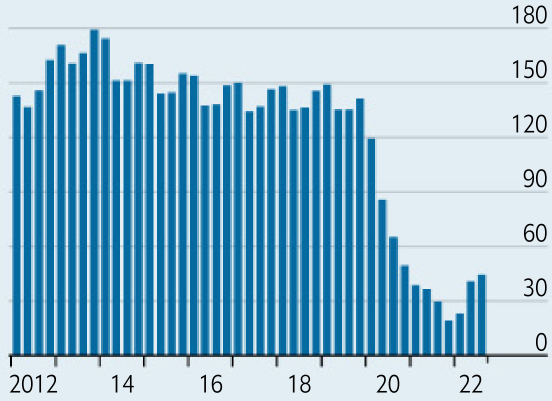


Source: Department of Home Affairs

Some half a million positions are sitting unfilled—more than the number of out-of-work Australians. Among members of the OECD, a club of mostly rich countries, only Canada is suffering worse labour shortages. But the border closure also means that Australia has emerged from the pandemic with 500,000 fewer migrant workers than it would otherwise have had, reckons CEDA, a think-tank in Melbourne.

The new Labor government, elected in May, wants immigrants of all stripes to return. On September 2nd Anthony Albanese, the prime minister, said that he would increase the intake of skilled migrants, including nurses and engineers, by more than a fifth, to 195,000 a year. Yet visa-processing has been held up by administrative backlogs. Nearly 1m applications are awaiting approval. To speed up the process Mr Albanese has promised A$36m ($24m) to the home affairs department, which handles visas, so that it can recruit some 500 more staff.

Plans of this sort would cause a backlash in many rich countries. But Australia has had high immigration rates for years without much grumbling. Nevertheless, Mr Albanese's efforts will do little to plug the shortage of less-skilled temporary migrants such as backpackers. (Foreign students, another big source of casual labour, have also yet to return in their old numbers.) There is no cap on how many such workers are allowed in, so employers can only sit and wait.

They worry that Australia no longer looks as appealing to youngsters. Backpackers still fear being caught out by abruptly closed borders or cast into lockdown, they argue. "We are talking about lasting damage that will take years to repair," says Nick Lester of Captain Cook Cruises, which gives tours of Sydney's harbour, and is scraping by with about a third of its normal staff. It will take until 2024 for net overseas migration to claw its way back to pre-pandemic levels, CEDA predicts. For Australia's stricken businesses, that is an awfully long time. ■

Trade and subsidies

Electric storm

SEOUL

A failure of diplomacy and planning sparks anger in South Korea

Chung Eui-sun could be forgiven for feeling betrayed. In May the chairman of the Hyundai Motor Group, a South Korean carmaker, promised President Joe Biden that his firm would invest $10.5bn in America, including $5.5bn for a big new plant in Georgia, which would start producing electric vehicles in 2025. America's president thanked him, saying "we will not let you down."

Yet let him down he did. In August Mr Biden approved the Inflation Reduction Act (IRA), a landmark climate and health-care law. Among other things, it included new standards that electric vehicles (EVs) must meet to earn their buyer a tax credit worth $7,500. The change is meant to encourage Americans to buy electric, and to give carmakers more reason to bring their factories and supply chains into America's orbit. No South Korean cars will qualify.

To get the rebate, EVs must henceforth be assembled in Canada, Mexico or the United States. And from January they must meet two additional criteria, each worth half of the $7,500. Battery components totalling 50% of the value of the bits and pieces that are used to make these cars' lithium-ion cells must also be manufactured or assembled in those places. And 40% of the critical minerals used in the battery must be sourced either from those countries or from one with which the United States has a free-trade agreement. Both requirements will get stricter over time. Moreover, EVs using any components from a "foreign entity of concern" such as China or Russia will be ineligible from 2024. Those using critical minerals from such countries will lose out the following year.

Hyundai and its affiliate Kia account for 9% of the American EV market, the biggest share of any automaker not called Tesla, which commands a whopping 71%. Ford, an American carmaker, is next with 6%. Mr Chung is reportedly speeding up plans to build his automobiles on American soil. But until the cars start rolling out of factories, local rivals eligible for big subsidies will have an advantage.

The battery requirements are the bigger problem. China produces three-quarters of the world's lithium-ion batteries and is involved in the mining, processing or refining of half the cobalt, graphite and lithium crucial to battery production. It is likely to continue making the lion's share of the world's lithium-ion batteries until at least ▸▸

2030, reckons the International Energy Agency, a forecaster.

Countries friendly with America, such as Australia, Chile and South Korea itself, do have respectable capacity to produce some of the minerals used in batteries. They could stand to profit. Not only have some South Korean battery-makers announced an accelerated shift to North America, where the IRA would provide them with subsidies, they can also woo business that would otherwise have gone to Chinese manufacturers. But all of that will take time. Targets should be ambitious, but the ones set by the IRA are "way beyond the reality the industry is facing", complains Yeo Han-koo, a former trade minister of South Korea.

Despite months of wrangling over the bill in America, South Korea was caught off guard by its passage. Pundits and politicians chided their government for being ill-prepared, as well as America for potentially violating both WTO rules and the two countries' free-trade agreement. South Korean officials have launched a flurry of lobbying. Yoon Suk-yeol, the president, raised the issue with Mr Biden three times in two days while in America and Britain.

Even if Mr Biden's administration is willing to help, the IRA is hardly about to be amended. Neither the president nor congressional Democrats have any desire to fiddle with their signature achievement right before the midterm elections in November. Mr Yeo reckons it is possible to find "creative solutions". That would suit South Korea better than asking the WTO to weigh in. Mr Yoon has staked much of his credibility on his relationship with America. The last thing he needs is a trade dispute with his country's closest ally. ■

Banyan Global guru

India's government is exporting its Hindu nationalism

THE VIOLENCE that erupted two weeks ago between Muslims and Hindus in the English city of Leicester, home to a large population of Britons with South Asian ancestry, appears at last to be dying down as police flood the streets. It began with brawls and quickly escalated into attacks on mosques and temples.

Much about the lead-up to the "senseless violence", as local leaders call it, remains obscure. Certainly, both sides bear responsibility. Young hotheads have drunk deeply from the wells of global Islamism or Hindu chauvinism. The mayor pointed to some "very distorted social-media stuff". Yet the violence was shocking all the same. Leicester had long been a place where people of different faiths rubbed along.

Events in faraway Leicester bear on Banyan's Asian preoccupations, largely because of the reaction of the government of India. Its high commission in London condemned the "violence perpetrated against the Indian community in Leicester and vandalisation of premises and symbols of [the] Hindu religion", but, pointedly, did not condemn Hindus' violence against Muslims.

Admittedly, Pakistan decried a "systematic campaign" of violence and intimidation against Muslims. But then Pakistan, a state founded on putting Islam (and by extension communalism) at its core, would look after its own, wouldn't it? The Indian state, by contrast, long sought to represent a secular ideal that rose above communal divisions.

That ideal also informed the internationalist, inclusionary rhetoric of India's foreign policy. The notable omissions in the Indian High Commission's statement are indicative of a break in policy since the rise to power in 2014 of Narendra Modi, the prime minister. He is cheerleader-in-chief for Hindutva, a strident form of Hindu nativism promoted by his Bharatiya Janata Party (BJP).

The Indian government's response was notable in another respect. Most of Leicester's South Asian Muslims have their ancestral roots not in Pakistan but, like its Hindus, within the borders of India itself. Mukul Kesavan, an Indian writer, writes that to identify only with its Hindus "is to withdraw...the ancestral claim to India from the Muslims of Leicester."

This is all of a piece with the BJP's majoritarian approach at home, where Hindus constitute four-fifths of the country's 1.4bn people and Muslims about one-seventh. Islamophobia is rampant among BJP stalwarts (though Mr Modi usually carries a dog whistle). When Hindus and Muslims have clashed in Delhi or in BJP-ruled states, authorities have bulldozed Muslim homes in retribution. Mr Modi's Citizenship Amendment Act of 2019 grants Indian citizenship to refugees from neighbouring countries—so long as they are not Muslim.

As Mr Kesavan argues, standing up for Hindus abroad bolsters Mr Modi's standing among Hindus at home. Mr Modi has long understood this aspect of personal power. Before the pandemic he staged huge rallies for the Indian diaspora in America and Britain. On visits abroad he pointedly combines diplomacy with prayer. Mr Modi paints India as a kind of Hindu Zion.

In the American capital this week the foreign minister, S. Jaishankar, lambasted those supposedly spreading false views of India, such as the *Washington Post*. He defended the government's suspension of the rule of law and the internet in majority-Muslim Kashmir as motivated only by pure intentions. The minister is representative of Hindutva at the heart of the foreign-policy establishment. A paper in *International Affairs*, an academic journal, by Kira Huju of Oxford University describes how Indian diplomats hewing to the secular, internationalist line have been squeezed out, silenced or marginalised in favour of hardline hacks. Not only that, diplomats abroad must now promote a Hindu-inflected alternative medicine known as Ayurveda, as well as take instruction in the promotion and practice of yoga.

All this surely erodes the abilities of an already underfunded foreign service. Whether that has the capacity fundamentally to alter the course of India's foreign policy is less clear. Hard-nosed priorities remain guarding against growing Chinese assertiveness and deepening ties with America and Europe. Western countries, especially when run by wannabe strongmen who love joining Mr Modi on stage, are remarkably tolerant of India. But intervening in others' domestic affairs, as India has in Leicester this past month, seems bound to generate friction in future.

The economy

Who will be the next economic tsar?

HONG KONG

As Liu He, one of Xi Jinping's most important advisers, leaves the scene, we consider possible successors

THE 20TH COMMUNIST PARTY CONGRESS 20

IN APRIL 2019 the Americans thought they were close to ending their trade war with China. They had a draft agreement that would oblige China to strengthen its intellectual property rights and buy more American crops, among other things. And they had confidence in their negotiating partner, Liu He, China's "special envoy" (pictured). Fluent in English, educated at Harvard and committed to reform, he was "frankly, one of the most respected men anywhere in the world", according to Donald Trump, then America's president.

But the Americans overestimated Mr Liu's influence, according to the book "Superpower Showdown" by Bob Davis and Lingling Wei. "Simply because Liu hadn't said no to US proposals didn't mean Beijing had said yes." When the Politburo Standing Committee, the Communist Party's top decision-making body, rejected the draft deal, the Americans were surprised.

The episode illustrates the strengths and limits of Mr Liu, China's economic "tsar", who is likely to retire from his position on the Politburo at the party congress in October. One of China's four deputy prime ministers, he also plays a leading role in two bodies set up by Xi Jinping, China's ruler, to strengthen his grip on economic policymaking: the Central Commission for Comprehensively Deepening Reforms and the Central Financial and Economic Affairs Commission (CFEAC).

Mr Liu is respected by economists, enjoyed a "trusted relationship" with his American counterparts, and has reportedly known Mr Xi since childhood. (They both grew up in Beijing as the privileged sons of party officials.) It is hard to imagine any economic policymaker in China having a better combination of credentials. His departure is therefore a pity.

Who could be his successor? If he himself could choose, he might pick Han Wenxiu, who assists him in the CFEAC. Mr Han has a doctorate in finance and spent a year at Oxford University. He has tried to allay fears about Mr Xi's pursuit of "common prosperity" (it does not entail "killing the rich to help the poor") and technological self-reliance (which is not "a return to traditional self-sufficiency").

In 2014 he wrote a thought-provoking article distinguishing between the flow of production in China and the accumulated stock of wealth. If a bridge is built, demolished, then rebuilt, it contributes three times to the flow of GDP, he noted, but only once to the country's wealth. "This phenomenon is not uncommon in our country." He mentioned the Rainbow Bridge in Qijiang, which collapsed after three years. China has 5,000 years of history, he wrote, but few buildings over 50 years old.

Mr Han once wrote a book with Guo Shuqing, a more plausible contender for the role of economic chief. After working in the countryside during the Cultural Revolution, Mr Guo completed his doctorate at the Chinese Academy of Social Sciences and also spent a year at Oxford University. He has written over 300 research papers and essays. Many were reviewed by China's original economic tsar, Zhu Rongji, who became deputy prime minister in charge of economic affairs in 1991. ▸▸

In 2004 Mr Guo complained that "direct governmental intervention" was harming China's economy. Investment decisions were "divorced from market realities", costs posed no constraints, "risk is not borne by anyone and cannot be attributed to anyone." Many of those concerns have stayed with him in his later roles as a financial regulator. Last year he warned that property was a "grey rhino", a big, obvious, but neglected risk. He was right.

Unlike other candidates, Mr Guo is a doer and a thinker. He was governor of Shandong province and chairman of China Construction Bank, a state-owned giant, where he tried to instil a more "customer-centred approach".

The most likely successor to Mr Liu, however, is He Lifeng, known for his Xi-centred approach. The head of China's planning agency, Mr He was educated at Xiamen University in Fujian province, where Mr Xi spent over 17 years of his career. He took the future president out for drinks in Xiamen and showed him the town, according to the *Wall Street Journal*. He also attended Mr Xi's second wedding. As a local official in the province, Mr He was known for demolishing buildings, contributing to GDP if not to wealth.

Mr He helps oversee Mr Xi's Belt and Road Initiative, an effort to build infrastructure and trade routes across the globe. Before that, in 2002, he co-edited a book about China's entry into the World Trade Organisation. It warned that anti-socialist forces would use the WTO and the internet to spread Western values and spiritual "opium" to China. WTO membership would also open the door to multinational firms resistant to the party's influence. Mr He's fears separate him from more cosmopolitan economists. But Mr Xi is also prone to thinking that Westerners press reforms on China not to strengthen its economy but to weaken the party's control.

Whoever becomes the next economic "tsar" will struggle to live up to the title. He will only be as powerful as Mr Xi wants him to be. Even the formidable Mr Zhu disliked the term. Decisions are made collectively, he told a reporter in 1994. If his views on the economy had weight, it was because he had devoted most of his energy to economic work and had not "made any major mistakes". Today there is only one tsar. And nothing, certainly not economics, falls outside his purview. ■

Population control

Procreative differences

BEIJING

China is trying to get people to have more babies. Its efforts may be in vain

GIVE OFFICIALS in Hebei province points for originality. To encourage locals to have more babies, they recently enlisted a troupe of women to shout at them. While banging pots and a drum they yelled out slogans such as, "Giving birth is an important part of life!" and "The three-child policy is good!" The latter refers to an official scheme which encourages women to have up to three children.

The family-planning office behind the performance is of the sort that used to enforce the "one-child policy", which was adopted in the 1980s and relaxed in 2015. Back then families were fined for having too many children. Some women were subjected to forced abortions or sterilisation. Such horrors sprang from two beliefs: that China was becoming too crowded, and that individuals had no right to control their own fertility.

Today China's leaders are worried that the country is producing too few people. After this year the population will probably start shrinking. Just 10.6m people were born in China last year, slightly more than the number of deaths. With the number of old people swelling, the workforce has been shrinking for years. That acts as a drag on economic growth and creates a huge burden of care, which China's social-security system is ill equipped to handle.

The three-child policy was announced last year (it had been a two-child policy since 2015). But most young people seem uninterested in having big families. In 2020 the average number of births per woman fell to 1.3, well below the 2.1 needed to keep the population growing.

Would you mind having another?

Most pro-natalist policies in China try to ease the financial strain on parents. Some cities offer cash. One in Gansu province promised to give parents 10,000 yuan ($1,397) a year for three years if they had a third child (and half that for a second). Other cities have pledged to build more cheap nurseries. (As it is, most families rely on grandparents or costly nannies to look after their tots.) State-owned firms in one province were asked to cut rent by 15% for families with three children.

The population of Jilin province is shrinking quickly. So it has given single women access to in-vitro fertilisation, which is available only to married women in much of China. Beijing and Shanghai have extended maternity leave by 30 days, to just over five months. The central government says firms must not discriminate against mothers. Officials are also urging fathers to help with child care and telling companies to extend paternity leave.

The tactics are sometimes different in the countryside. A proposal dubbed "Operation Bed Warming" in a county in Hunan province aimed to dissuade women from leaving for better opportunities in cities. Women should stay and marry local men, said the plan. Marriage is not a matter of personal freedom, a supporter told a local paper. "For the advancement of society, future generations are needed," he said.

So far there is little sign that any of this is working. One problem is that the policies are not generous enough. It costs, on average, nearly half a million yuan to bring up a child in China, according to a recent report. In big cities it costs more. Perhaps a subsidy of 10,000 yuan per month would be adequate, says Amanda, a Chinese woman who recently got married. For now, she's not planning to have children.

It may be that nothing China does can arrest the fall in births, says Wang Feng of the University of California, Irvine. As populations grow more urban and educated, women have fewer babies, in China as in other countries. South Korea and Japan, which have similarly low fertility rates, have been trying to prod citizens to reproduce more for decades, with little success.

China's efforts are also hampered by the legacy of the one-child policy, which was ultimately self-defeating and left indelible scars. Procreation is now a highly sensitive subject. Many bristle when the government tries to get involved. Last year a competition to come up with new slogans for the three-child policy appears to have been abandoned after a flurry of angry suggestions. "Have more kids to look after you when you're old," went one. "The government won't do it." ■

Chaguan | China tires of covid controls

The example of Prohibition in America should worry the party

As CHINA ENTERS its 33rd month of draconian pandemic controls, a growing number of citizens are discovering what life is like outside the law. Some of these lessons are grim. Local police departments and officials have responded to public weariness with "zero-covid" policies by emphasising the punishments that await rule-breakers. Almost every day a propaganda notice goes viral, for instance announcing someone's detention for selling fake test certificates to long-distance lorry drivers, or for bypassing a checkpoint to go to work. A man from Shandong province is in custody after dodging quarantine to attend his own wedding.

Some lessons about outlaw life border on the comic. Just ask the hipsters drawn to Beijing's burgeoning underground club scene. They are learning that "ruins parties"—secret dance-nights held in empty office blocks or disused commercial sites—may be more romantic in the telling than in reality. Many of the capital's nightclubs have been banned for months from holding events, especially after a mini-outbreak centred on a bar district in June. In response, dance-starved Beijingers, including university students and young professionals, organise ruins parties far from the gaze of pandemic workers and of "big whites", the guards who enforce covid rules while swaddled in white protective overalls.

Inspected by your columnist several days after it hosted a pop-up club, a venue in northern Beijing is more gritty than glamorous. It is reached by climbing over railings into a weed-choked, abandoned entertainment complex. Arrows and graffiti tags are spray-painted on walls within, marking a route past dining tables still decorated with plastic flowers and thick layers of dust, then down marble stairs into a dark, cavernous basement. The floor is littered with mouldering tiles fallen from the ceiling and beer cans, next to fresh graffiti reading "Life is a Festival". The authorities never discovered that party, though another event later in September ended with trouble after a police car was thumped.

Yet, revealingly, ruins parties are not seen primarily as acts of thrill-seeking rebellion. A college graduate who attends such parties says that she and her friends would rather go to regular nightclubs, but are prevented by pandemic rules that they consider "stupid". The young woman describes how she accepted controls early in the pandemic, frightened by reports of deaths and of overwhelmed hospitals. But her trust faded, especially after a harsh, bungled lockdown that saw 24m people strictly quarantined for two months this year in Shanghai, China's most prosperous city. Calling the Omicron variant "not that serious", she is more frightened by rules that require Beijingers to scan QR codes with a movement-tracking smartphone app each time they enter a shop or public building or catch a taxi. That app generates green health codes needed to enter any public place. Such tracking systems, which exist all over China in various forms, create a constant risk of being ordered into quarantine for visiting the same place as a suspected case, even hours later. Her parents accept such controls, the graduate says, suggesting that older Chinese were rendered "obedient" by long-ago hardships. But like a striking number of her peers, she works hard to keep her own movements hidden.

Until recently, scofflaws tricked guards and taxi drivers by showing old screenshots of green health codes, avoiding the need to scan QR codes afresh. To stop this, the latest Beijing health codes boast an animated border and a synthesised voice. Rule-breakers now record short videos of a scan generating a health code, and show them. Others boast of maintaining two health codes, one registered with their Chinese identity card and one with a passport. This lessens travellers' risks of getting stuck, should a health code be compromised by visiting a risky town or city, a disaster which could trigger a ban on entering Beijing and even orders to quarantine. That dodge is also against the rules. If reports of prosecutions are any guide, covid law-breaking is on the rise. Beijing police recently arrested drivers who helped people enter the city from areas with cases of infection. Authorities in the southern province of Guangdong charged software firms with selling apps that generate fake health codes. Videos of scuffles with big whites are increasingly common on social media.

When rule-breaking loses its stigma

Affluent Beijingers need not climb fences to attend secret parties. Though Chaguan's own tastes run to jazz more than hip-hop, in the name of research he headed out late at night to a bar in a city-centre skyscraper. He dropped the promoter's name to join what was ostensibly a private party, in the style of a speakeasy during America's alcohol-free Prohibition era. Two young men in clubbing gear, both employed by technology firms, resisted the suggestion that they were breaking rules (though they were), arguing that they had scanned a QR code to enter. "We have to protect the old people," one said, in defence of pandemic controls. But they admitted that China is "tired", especially now that other countries are living with covid. "It's too much. We are the last place that is like this," he said, expressing the frequently heard hope that policies may ease after a Communist Party congress in October.

In truth, if leaders decide to live with covid, it would take many months to change course, not least to fully vaccinate tens of millions of old people. That decision may be a while off. President Xi Jinping continues to call zero-covid proof of the superiority of Communist Party rule, next to decadent Western democracies. Covid's economic impact makes many headlines. But the party should worry about echoes of Prohibition, too. In 1931, shortly before America ended its experiment with temperance, a national commission noted that many respectable citizens saw no wrong in drinking, concluding: "No law can be effectively enforced except with the assistance and co-operation of the law-abiding element." China is not at a point of revolt. But the flouting of covid rules is no longer as shameful as before. Something has to give. ■

The Democratic Republic of Congo

Dispatch from a forgotten war

IRUMU, MUTWANGA AND TCHEGERA

The government says martial law has restored a degree of calm. Yet 5.5m people are still too afraid to return to their homes

EASTERN CONGO has been on fire, on and off, for three decades. Last year Congo's president, Félix Tshisekedi, declared a "state of siege" in two especially violent provinces, North Kivu and Ituri. That meant imposing martial law and dispatching generals to replace politicians. The soldiers claim to have restored a measure of peace. "Before we got here, there was almost total insecurity," says General Johnny Luboya N'Kashama, the governor of Ituri. "People were walking freely in the streets with the heads of their victims." Now, he suggests, things are much better.

To persuade your correspondent that this is true, the Congolese army offers him a guided tour. A convoy of soldiers sporting guns and sunglasses drives him from Bunia, Ituri's capital, to Irumu, a small town 60km away (see map). At one point the convoy is stalled by a lorry partially submerged in the muddy road. Soldiers dig an alternative route. "The Congolese military—they're strong," says their colonel, referring to his soldiers' spade work. To reward himself, at the next village, he grabs a cold bottle of Heineken beer.

At Irumu, Colonel Heineken boasts that he and his men are keeping the town safe from a plundering militia. No one contradicts him to his face. But conversations with locals out of the soldiers' sight hint at a more nuanced story. The town itself is indeed less perilous than it was, but the surrounding area, they confide, is exceptionally violent. It is "too risky" to walk around, says Makizala Germain, a carpenter. A neighbour says that women, in particular, feel vulnerable out of town: "They're subject to mass rape." Under a tent for people who have fled from other parts of Ituri, Rachel Biwaga, who is heavily pregnant, explains that she cannot return to her nearby village, which was attacked two months ago. "It's not a good situation and we're becoming poorer people because of it."

That is putting it mildly. Kivu Security Tracker, a conflict monitor, recorded more attacks by armed groups in 2021 than at any time since it began monitoring the Kivus in 2017 (it started counting in Ituri in 2021). And in the 12 months since the government declared the state of siege, there were twice as many victims of attacks as in the preceding year. This year more than 2,000 people are known to have been slaughtered with bullets or machetes in these provinces. Many more die of disease or hunger because of the strife. Over the same period 1.3m Congolese have been forced to flee their homes, swelling the number of internal refugees to 5.5m. That total is more than in any country except Syria.

Congolese do not think martial law has made them safer. A poll in April and May by Ebuteli, a local research group, found that 30% of people nationwide felt the emergency laws had improved security (versus 47% a year ago). Feelings in the two provinces under siege were especially negative.

Congo matters. Its war may be far more confusing than the good-versus-evil struggle in Ukraine. But tens of millions of peo-

→ Also in this section

ple are made wretched by it. And the Great Lakes region, a densely populated, politically precarious and resource-rich area of more than 100m people at the heart of Africa, cannot prosper until Congo is stable.

To call eastern Congo complex is like calling the Congo river a stream. It hosts dozens of overlapping conflicts, involving perhaps 120 militias. To oversimplify: the killing is driven mainly by the failure of the state. For decades bigwigs in Kinshasa, the capital, have paid more attention to amassing great wealth than to building a functioning government and an army that does not pillage and rape. Armed groups, some backed by neighbouring countries, exploit the vacuum in eastern Congo to rob its residents and loot its natural wealth.

The bloodshed has deep historical roots. In the 1990s the genocide in Rwanda spread ripples of violence that the Congolese state, under its ailing dictator, Mobutu Sese Seko, was unable to resist. Rwandan-backed rebels toppled him in 1997. Between 1998 and 2003 eight other African countries and multiple militias fought over Congo's carcass. Millions died, most of them from easily preventable diseases and starvation. That war ended, but true peace has since proved elusive in the three worst-affected provinces: South Kivu, North Kivu and Ituri, which border Congo's most meddlesome neighbours, Rwanda and Uganda.

Like slaughter for chocolate

It is hard for journalists to report from the east because some of the groups that ravage the area are unwelcoming, to say the least. Mutwanga, a village in the foothills of the Rwenzori mountains, near the border with Uganda, is a stronghold of the Allied Democratic Forces (ADF), a jihadist group that has killed more people in Congo in the past five years than any other militia. In 2021 America designated it an affiliate of Islamic State. But the ADF, like less notorious groups, is also enmeshed in the local and cross-border economy.

"We're living with the danger that any time we can be killed," says Kakule Livingstone Janvier, who lives close to Mutwanga. The day before your correspondent visited, the ADF had killed five people in a nearby village, and abducted women and children. Two months before, Mr Janvier lost family members in another raid. Jean de Dieu-Kasereka, a pastor, was attacked twice in 2020 by the ADF; in one incident his wife's throat was slit. Part of the jihadists' motivation was to steal cacao, which is used to make chocolate. "The ADF, when they attack, take everything," he says.

Congo is one of the fastest-growing cacao producers in the world. The expanding crop attracts bandits. The cacao is smuggled out, falsely labelled as a product of Uganda and then exported, often ending up as chocolate in the West.

Armed groups, main areas of violence
Sep 2021-Sep 2022
CODECO ADF M23 All other groups
Source: Kivu Security Tracker

The violence "represents the efforts of the armed militias to displace the rule of law, to displace government authority and to take over the economy," says Emmanuel de Merode, the director of Virunga National Park. Some 5m people live within a day's walk of the park, which spans 7,800 square km (two and a half times the size of Yosemite). He reckons the park's agricultural products are worth $170m per year—enough to keep armed groups in business.

Neither the Congolese army nor the UN's peacekeeping force, known as MONUSCO, has quelled the ADF. Last year Ugandan troops became the latest to try: Congo allowed their deployment after the ADF was blamed for bombings in Kampala, Uganda's capital. Some analysts say that Yoweri Museveni, Uganda's leader, is keener to secure economic links with the region than to fight the ADF.

"The only solution is to change the economic situation," says Mr de Merode. "The armed groups won't negotiate with the government unless it's in their financial [interest] to do so." Virunga is trying to improve the lot of locals and create livelihoods for men who might otherwise take up arms. At a cacao-processing centre, for example, they can ferment beans; on-site chocolatiers turn them into delicious bars.

In Ituri, gold is the resource that people fight over. Roughly 90% of Congo's bullion is smuggled out of the country and much of this is mined in the province. "It's about gold," says Norirabo, a militia leader sporting two necklaces—one with a cross and the other with a gun pendant. His militia controls five artisanal mines and often fights to hold on to them, he says.

To his credit, General Luboya, the brass hat brought from Kinshasa to run Ituri, agrees. "When you look closer at the problem it is about access to natural resources," he says. The army has recently suspended some missions because it is too hard to separate militiamen from the people they live among and extort money from. "Our role is not to scare our citizens, but rather to protect them."

The governor is holding talks with several armed groups, which may have contributed to a recent ebbing of violence in parts of Ituri. This means sitting down with those accused of horrendous atrocities, such as the Co-operative for the Development of Congo, known as CODECO (pictured on previous page). It sounds like a charity, but is in fact a murderous militia with cult-like rituals that originated among farmers of Lendu ethnicity.

Since 2020 attacks by CODECO have increased. Many include rape, beheadings and dismemberments. A report by the UN in 2020 documented hundreds of killings, including a case in which a man trying to stop the rape of his wife watched as his eight-year-old son was decapitated. This year a group of NGOs called CODECO's attacks part of an "ongoing genocide" against people of Hema ethnicity. Only the ADF has killed more people since 2020.

Dieudonné Safari Diba, a Lendu leader involved in the peace talks accompanied by a colleague in trainers with the words "war" on them, says that CODECO was formed for "self-defence" against the Hema and the army. "We are not *génocidaires* because genocide is a state crime," he insists. "The population was regularly the victim of harassment—that's how the insurrection and disobedience against the government started." The group would need money before it lays down its guns, he says: "CODECO is a poor armed group because they are not gold-mining."

Yet "demobilisation normally follows a peace deal," says Jason Stearns of the Congo Research Group (CRG) based at New York University. General Luboya hopes to entice militia leaders to make peace by suggesting the prospect of political careers. But the Congolese government has given few details about its plan. Without one, donors like the World Bank will not pay for soldiers to leave the bush. Politicians in Kinshasa seem loth to repeat previous efforts to absorb rebel fighters into the army. But few alternative incentives are on offer, notes Mr Stearns.

The crisis affects the wider region. In addition to the Ugandan troops fighting the ADF, the Congolese government lets Burundi's army attack rebels camped across its border. Rwanda's president, Paul Kagame, is angered by the involvement of both, but has for many years sent his own troops into Congo. "Our current doctrine is to go and fight the fire at its origin," he said. He is probably worried that Uganda, in particular, will consolidate economic links with Congo at Rwanda's expense.

Besides ADF and CODECO, a third big, deadly group has recently resurfaced. M23 had lain dormant since 2013, when regional powers including South Africa and international ones including America put pressure on Rwanda to stop backing it. Yet since November M23 has killed civilians, attacked army bases and captured towns. In June it seemed poised to march on Goma, the main city in the east.

Congo's government says Rwanda is once again backing M23. In August a leaked UN report said it had "solid evidence" that Rwandan troops were supplying and fighting alongside it. The militia is unusual among Congo's armed groups for acting more like a regular army: it uses heavy weaponry and seems less caught up in trafficking. Rwanda denies any link, while arguing that Congo's army harbours a Hutu militia that was involved in the Rwandan genocide in 1994. The CRG calls this equivalence "factually fallacious".

Tchegera, an idyllic island on Lake Kivu where gentle waves lap black sand, offers a glimpse of how Congo could become richer if it were peaceful. It is the only part of Virunga that is currently safe enough for tourists to visit. This year the park hoped to generate $12.5m in revenues. "Then M23 arrived," sighs Patient Namegabe, the camp manager. Lodges have been ransacked. Last November a ranger was killed, probably by M23, in an area close to Congo's endangered mountain gorillas. In total, more than 200 rangers have been killed in the line of duty over the years.

The fighting between M23 and the Congolese army has meant that there is a "battlefront that keeps moving forwards and backwards over our park," adds Mr de Merode. "The whole of society is on edge." In August M23 fired artillery shells at a hydroelectric station being built under the aegis of Virunga. It is the largest power project in eastern Congo. Such infrastructure will be vital if the economy is ever to develop; Mr de Merode estimates that every power station built by Virunga creates hundreds of new small businesses.

The return of M23 has other knock-on effects. Troops from Ituri have been sent southward to fight it, adding to the vacuum in the north. It has also increased tension between Congo and its punchiest neighbour. "Rwanda's involvement and responsibility is no longer debatable," said Mr Tshisekedi in a speech to the UN on September 20th, calling M23 a terrorist group.

Congo's president hopes that other states in the region will help. In April, shortly after Congo joined the East African Community (EAC), a regional trading bloc, Mr Tshisekedi agreed to the formation of a multinational force to fight Congo's rebels. Its size, role and effectiveness remain uncertain. Though a Kenyan commander is notionally in charge, the force appears to be putting an EAC label on existing deployments, such as Uganda's and Burundi's. Rwanda has not been invited to take part. William Ruto, Kenya's new president, may be less enthusiastic about getting involved in Congolese issues than his predecessor.

Foreigners have always struggled to make Congo safer. MONUSCO, the UN peacekeeping force, is increasingly unpopular. In recent months Congolese have protested violently against it. In part this reflects the mission's own failings. But it is also an expression of a broader anger about insecurity and the venality and feebleness of the Congolese state.

The FARDC, as Congo's own army is known, has killed more people than any armed group save the ADF and CODECO. Not only is it an incompetent fighting outfit, it is also lawless. Some commanders work with militias to skim off money from smuggling. Congo's government has long resisted reforming the army, whose principal skill, critics grumble, is theft.

Its officers may also rather enjoy being in charge in the areas under martial law. Rachel Taruayo Adroma, who was a civilian official in Irumu before military rule, says she has not been paid since its introduction. She worries that "a small group within the system" is getting used to power and the opportunities for graft that it affords. "It's only those who profit from [martial law] that want it to continue." Ominously the Congolese coat of arms used at official events in Ituri now proclaims *L'état de siège*—"state of siege"—as though the country's army is there to stay. ■

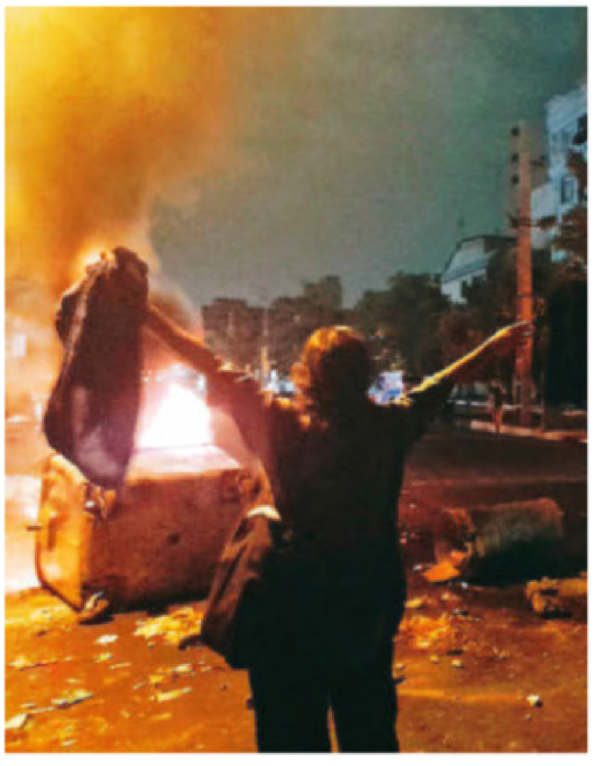
Rebellion in Iran

Women lead the way

DUBAI

Many Iranians want to shed the ruling ayatollahs, but it will not be easy

THE FEMALE protesters who are burning their headscarves all across Iran liken themselves to gazelles crossing a river infested with crocodiles. Riot police may pick off many of them, they admit, but the herd will reach salvation. They will bait the regime and its security forces by dancing, baring their hair and torching the ubiquitous posters of the reigning ayatollahs and generals. Many of the demonstrators have been shot, beaten and carted away. But after nearly a fortnight of protests the defiance persists. Disturbances have spread across every province in the country. They have been the biggest for years. A post circulating on social media declares: "From now on, Iran will be known for its women, not for its carpets, its saffron or its cats."



Epic veil

Yet the crocodiles may still win. As the death toll approaches a hundred, the gazelles lack leadership, a communications network and a coherent plan. So far the constituencies that could swing the outcome—merchants, reformist politicians and clerics, and the army—have kept silent. Calls for a general strike have been largely ignored. Shops are still open. Few Iranians can afford not to work. Many fear the chaos that overran neighbouring Iraq.

If the revolt endures, however, then the mood could change. Until recently the ayatollahs had a kind of contract with the people. As long as Iranians kept out of politics, the ruling clergy would keep out of people's private lives and generally avoid badgering them about their attire.

But Ebrahim Raisi, a conservative cleric who became president last year, has sought to reinvigorate the old cultural revolution. Accused by Amnesty International of overseeing the execution of thousands of dissidents back in the 1980s, he has stepped up patrols by the so-called morality police, posted watchful clerics and vigilantes in banks and factories, and hauled away women for "re-education" because of their dress. He has passed a hijab-and-chastity decree that bans women without veils from posting pictures on social media. The murder in mid-September of Mahsa Amini, a 22-year-old Kurd, was an upshot of his campaign. She was arrested in Tehran, the capital, for her "improper veil", then beaten to death. It was this outrage that sparked the current revolt.

Mr Raisi's election last year angered an already disgruntled people. It was patently manipulated to exclude would-be reformers. Turnout was derisory. The relative flexibility of the ruling clergy, born of jostling between reformers and hardliners, was ended. Hardliners, led by the new president, took control of every branch of government including the parliament, the presidency, the media and the intelligence services. Amid growing rumours of ill health, the ageing Supreme Leader, Ayatollah Ali Khamenei, seems bent on purging doubters from the ranks. That includes the more worldly and experienced experts, especially in economic matters.

Discontent has been fed by the weak economy. Agriculture is struggling. Youth unemployment and malnutrition have soared. The middle class has largely spent what wealth it inherited. The authorities rely for imports on the Mafia-like networks in the Islamic Revolutionary Guard Corps.

The regime accuses the protesters of being Western stooges. At the same time it hopes that Joe Biden's administration, seeking to revive the nuclear deal signed in 2015 but junked by Donald Trump in 2018, will turn a blind eye to any crackdown. Instead, America has waived sanctions that make it harder for the protesters to use the internet. This would "enable the Iranians to better communicate among themselves and also with the rest of the world," says Anthony Blinken, the secretary of state.

Still, the regime is well equipped for repression. Its ranks are filled with hardened veterans of war in Syria and Iraq, many of them expert in cracking down at home. Special tribunals have been reintroduced. Warehouses as well as prisons are filling up with detainees, including dissident journalists. "They have a playbook of a graduated crackdown that always turns out in the same way," says Sanam Vakil, an Iranian analyst in London.

The authorities are cunning, too. Days after Elon Musk offered Iranians uncensored broadband access through his Starlink satellite system, advertisements appeared in Iran promoting Internet Starlink, fake software that tempted subscribers to upload personal details. Without a coherent counter-plan, the protesters may have to retreat. The regime has regained control of several towns in the north. Daylight confrontations in the main squares of big cities, including Tehran, have dwindled into gaggles in alleyways after dark.

All the same, many expect disturbances to resume. A number of well-known figures have come off the fence, including Faezeh Hashemi, an outspoken daughter of Ayatollah Akbar Hashemi Rafsanjani, an architect of the revolution of 1979. A string of actresses, film directors and athletes have voiced support. The national football team covered their shirts in black in sympathy before a match. A brace of grand ayatollahs, the top rank of clergy, have called for the women to be heeded. Some members of the Committee for the Promotion of Virtue and Prevention of Vice have urged the morality police to lay off.

The authorities can pick off individuals, such as Ms Hashemi. So far they have confined soldiers to barracks and locked up their weapons. But they cannot arrest all the people all the time. If the protests can endure, the regime may yet wobble. ■

Correction: In our article on September 22nd, "Burning their hijabs", we got our numbers on Iran's GDP per person badly muddled. Sorry.

The Arabic language

Swamped by English

DUBAI

Governments can do little to reverse the decline of their native tongue

IT MIGHT HAVE been a party just for Westerners. Young men snogged in the corridor. Girls downed tumblers of wine. The real shock, though, was the hubbub of voices. Though this was a gathering of young Emiratis, almost everyone was chatting in English. Nowadays it is becoming the dominant tongue of the Gulf.

On paper Arabic is one of the world's most successful languages. Over 400m people speak it. But Arabs speak a plethora of dialects. Poor education in Arabic is eroding its purity, as English spreads. Many primary-school children chatter in a hybrid of English and Arabic. "Within a century it may be a dead language," laments a British former diplomat who is expert in Arabic.

The language's decline reflects recent history. Civil wars have forced millions out of education. Baghdad and Damascus, once citadels of Arab nationalism and culture, have been ravaged by violence. "Language reflects how powerful you are," says Ebtesam al-Ketbi, an Emirati scholar. "The Chinese, Japanese and Koreans have all kept their languages. We haven't." "People running our countries often don't speak good Arabic any more," laments a Bahraini.

English is the gravest threat. In 2017 the Arab Youth Survey, taken by a pollster in Dubai, found that Gulf Arabs already use it more than Arabic. Saudi Arabia has become the most recent Gulf state to teach schoolchildren English from the bottom class up. A large minority of Gulf citizens' children go to private schools where English is the main language of tuition. Ms Kebti says "no one can stop" the spread of English. A World Bank study reported last year that even by the time they are in their fourth year at school, many Arab children struggle to write a coherent sentence in Arabic.

The fragmentation of Arabic is a feature of Arab disunity. An array of dialects with their different vocabularies, syntax and accents has infiltrated such bastions of standard Arabic as parliaments, television shows and publishing houses. To bolster circulation, publishers are printing more books in dialect. In 2019 Nadia Kamel won a top literary prize in Egypt for a novel in dialect. Television news channels still broadcast in standard Arabic, so many Arabs prefer to get their news from social media, often in dialects written in Latin characters. Disney now dubs its films in Egyptian dialect. Expressions of love are said to sound stilted in the official lingo.

Champions of Arabic are trying to fight back. Arabic will, of course, remain the language of the Koran. "We think Arabic is more living than Latin because of its presence in the media, sermons and speeches," says Hossam Abouzahr, founder of The Living Arabic Project, an online platform that strives to revive the language. "Latin survived in the churches for centuries despite having no native speakers," he notes hopefully.

Beautiful. But can you read it?

Russia's war

Nothing to celebrate

HRYHORYIVKA, ZAPORIZHIA

Putin stages four fake referendums in occupied Ukraine

IT WAS SUPPOSED to be a moment of victory and celebration, a repeat of the annexation of Crimea but on a far larger scale. The "referendums" held in the Russian-speaking south and eastern parts of Ukraine were meant to mark the success of Vladimir Putin's "special military operation". In the newly conquered territories locals were supposed to be shedding tears of gratitude for their liberation from Ukrainian "fascists" and throwing flowers. At home in Russia, Mr Putin's subjects were supposed to be cheering the tsar, thanking him for gathering in Russia's historic lands and making them feel proud—as many genuinely did in 2014 when he brought Crimea back into the fold.

By now Ukraine's army was supposed to have disintegrated, its government to have collapsed and its president to be in exile. Europe, dependent on Russian energy, was supposed to have bowed to the inevitable, as it had done several times during his 22-year long presidency. All this in time for Mr Putin's 70th birthday on October 7th.

Instead, Mr Putin's army is being slaughtered, Ukrainians are cursing him, and Russians are fleeing for fear of being sent to the front. Mr Putin's threat to freeze Europe has been exacerbated by two mysterious explosions that knocked out the Nord Stream gas pipelines, built under the Baltic Sea at a cost of some $18bn, possibly for good. But the West is more determined than ever to help Ukraine. America is sending more of the rocket systems that are devastating Russia's armies.

From September 23rd-27th Russia held sham "referendums" in the occupied Ukrainian provinces of Kherson, Zaporizhia, Donetsk and Luhansk, asking locals whether they wanted their land to be annexed by the invading power. It was a hastily arranged farce: "votes" were collected on park benches, in shops and even in police stations. In Zaporizhia armed guards were on hand to ensure that voters marked the box for annexation.

Then, it appears, the authorities decided to make their task easier by encouraging potential naysayers to flee. On September 26th the occupiers opened their checkpoints and allowed Ukrainians to leave. *The Economist* counted hundreds of vehicles crossing from Russian-controlled territory. Two days later the Russian–installed occupation governments announced "results" that ranged from an 87% "yes" vote in Zaporizhia to 99% in Donetsk.

At one level the referendums are meaningless. But they are a sign of the panic that has gripped the Kremlin since its spectacular losses in early September, when Ukrainian forces liberated more of their own territory in a few days than Russia had taken in the previous five months. As Russian pundits lamented the losses and nationalist hardliners demanded revenge, Mr Putin decided to escalate. He called for the annexation of territory, announced the "partial mobilisation" of reservists, and issued yet more nuclear threats.

The mobilisation had two goals: to reinforce the mangled Russian army, which is struggling to hold a 1,000km-long front, and to bolster patriotic sentiment by moving Russia to a war footing. The annexation was a warning to Ukraine to halt its advance and to its Western allies to stop helping it. So far, none of this has worked. ▸▸

→ Also in this section

The draft has badly undermined Russians' (largely passive) support for Mr Putin's "special military operation" by making plain that it is a big, hard war that will cost many more Russian lives. It has also exposed some of his lies and failures. On September 21st Mr Putin promised that only people with previous military experience would be called up. Yet within hours, draft notices were being handed to anyone the state's goons could grab—IT specialists, teachers, doctors, chronically sick people. The authorities have sent draft quotas to private firms and local authorities in remote villages. Some new conscripts were told to buy their own first-aid kits.

As a result, it is no longer just Ukrainians who are trying to escape from Mr Putin's invasion, but ordinary Russians too. At least 260,000 people have fled Russia since September 21st. Queues at the borders with Kazakhstan and Georgia have stretched for several kilometres. "Traitors," said Vyacheslav Volodin, the speaker of the Duma (the lower house of parliament). "Maybe it is best that they go." At the same time the authorities moved to stem the exodus and trap draft-dodgers by setting up mobile enlistment offices at the borders with Georgia and Finland. North Ossetia, Russia's region bordering Georgia, banned entry from other parts of the country.

Those who cannot leave are sabotaging Mr Putin's plans. Some 20 enlistment offices have been set ablaze. In Dagestan, a restive Muslim republic in the Caucasus, people have been clashing with the police. Nine thousand kilometres to the north-east, in Yakutia, a resource-rich ethnically Turkic region which has been hit hard by the draft, people have demonstrated under slogans such as "No to mobilisation" and "No to genocide". In Moscow itself, the government and its propagandists are desperately trying to contain panic. Sergei Sobyanin, the mayor, said the capital's military enlistment organisation will conduct a review and will recall what he said were wrongly issued draft notices.

Russian state propagandists are fast changing their tune. Gone are their bravado and glee. They are now complaining about the inept military officials who are damaging Mr Putin's reputation. One of the chief war-mongers, Margarita Simonyan of the state broadcaster Russia Today, recently talked about the risk of mutiny. Vladimir Solovyov, another war zealot, has been griping publicly about how ill-prepared the Russian army has been.

Instead of strengthening his hand, Mr Putin has revealed his weakness. He has few good options. But by annexing territories that Russia does not even fully control, he risks undermining Russia's own territorial integrity. Russia could become a country with fluid and internationally unrecognised borders. If he declares the annexation of the entire Donbas region, he will in effect be saying that parts of Russia are occupied by Ukrainian troops—and he will look feeble if he cannot drive them out, which he probably cannot. If he were to annex only the Ukrainian territory he held before the invasion on February 24th, that would be an admission that his huge, bloody war has achieved nothing. Mr Putin had hoped to make Russia greater. Instead he has made it much grimmer. It will not be much of a 70th birthday. ■

*Russia operated in or attacked, but does not control
Sources: Institute for the Study of War; AEI's Critical Threats Project

Energy crisis

The very long winter

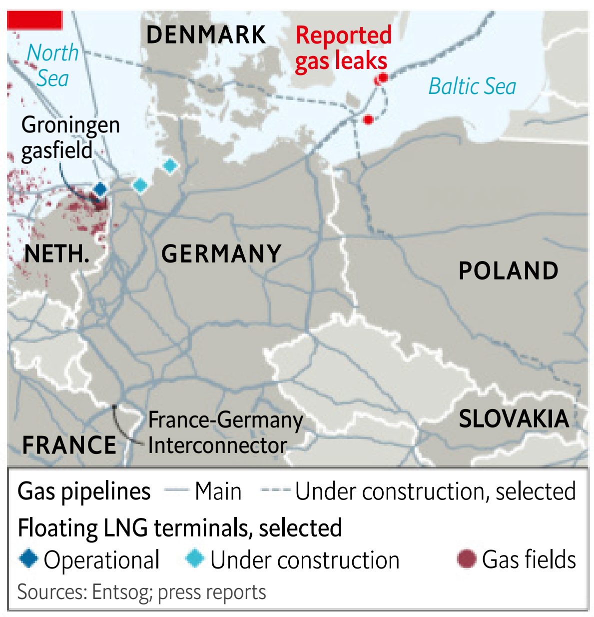
Europe is focused on surviving this winter, but 2023 may be just as bad

THE DUTCH province of Groningen sits on Europe's biggest proven gasfield. Decades of extraction have caused small earthquakes that have left thousands of houses unstable, leading the government to reduce gas flows to a minimum and promise to shut the field by 2024. Gas prices are now so high that if it allowed regular pumping, the government could make every owner of a wobbly home a millionaire. But that is politically impossible. Even in the midst of an energy crisis, which could get worse in 2023, support for boosting energy production is shaky.

Most businesses and households are understandably focusing on staying warm (and solvent) through this winter, not the next one. Policymakers are scrambling to help them with billions of euros. In early September, the German government coalition agreed on a new package of measures worth €65bn ($62.5bn), more than doubling its prior commitments. Italy's incoming government will come under immediate pressure to raise the country's aid packages, already worth 3% of GDP.

Here is the bad news, though. Europe's crisis will not end come spring. Goldman Sachs, a bank, recently projected gas prices in summer next year to be around €235 per MWh, higher than they are today (the pre-pandemic price was around €20). German electricity futures for the fourth quarter of 2023 are more expensive than for the fourth quarter of this year. Even in France, where policymakers hope that the many nuclear reactors currently shut for maintenance and repairs will return in 2023, the real worry is next winter, not this one, according to one energy boss.

There are several reasons why prices are likely to remain high. If the winter is particularly cold, Europe's gas storage facilities could be virtually empty by March. In 2022 Russian gas helped fill them, until Russia cut supplies over the summer in response to sanctions. Unless these resume in 2023, gas to replenish European stores will have to come from elsewhere. But little additional supply is expected to hit global markets before 2024, say analysts. This week's sabotage of undersea pipelines, possibly by Russia, is another reason to worry that supply may be constrained next year, as are overdue closures for maintenance of facilities in Norway. ▸▸



Sources: Entsog; press reports

The Netherlands' Groningen gasfield is the only potential game-changer in Europe, say experts. It pumped out 42bn cubic metres in 2014, and could still produce 20-25bn, around 5% of Europe's gas needs, according to the firms that own the concession to exploit the field. But the politics is fraught. The government has been slow to reinforce houses and compensate owners. Now it is putting their safety first.

Happily, the capacity to handle imports is improving. A floating LNG terminal in Eemshaven on the Dutch coast has just come online, and Germany is on course to add two more this year. A long-awaited pipeline connecting Norway to Poland via Denmark will begin operations in October, pumping up to 10bn cubic metres per year in the future. A new pipeline of about half that capacity from Poland to Slovakia will also start pumping, and the French-German interconnector is being retrofitted to allow eastward flows soon.

But competition between European countries for these supplies will be fierce. Poland has not secured supplies beyond the current heating season to fill its share of the new pipeline in full, according to its national gas company PGNiG. Germany is struggling to sign so-called solidarity agreements with some of its neighbours to secure supplies in case of shortages this winter. In the meantime, Berlin is unwilling to sign longer-term LNG contracts to secure supplies from abroad, and instead seems to trust its spending power to redirect LNG shipments to its shores as needed, at the expense of poorer countries. The EU's platform to facilitate joint gas purchases to help those countries secure better prices has yet to come online.

High gas prices are also a major reason why electricity in Europe will continue to be expensive. Getting French nuclear power back to full capacity is crucial, as France is typically an exporter of electricity, but on current government projections that will take time. Germany is only reluctantly planning to extend the life of two of its three remaining nuclear power plants, and only until mid-April, despite its own analysis showing that it would save some gas. Poland has already restricted electricity exports to Germany, to lower its own electricity prices and to avoid burning too much coal, though officially it says it is to ensure security of power supply. The Swedish government is under pressure to do the same.

The longer the crisis drags on, the more difficult the political conflicts within and between countries will become. Home owners in Groningen, nuclear-power opponents in Germany and politicians across Europe shielding consumers from high prices all have their reasons to do so. But the collective result will be limited energy supply, excess demand and high prices all round in 2023. ■

Italy's new government

The F-word

FLORENCE

Italy chooses a party with a neo-fascist legacy

BESIDE A ROAD winding into the Apuan Alps sits the village of Sant'Anna di Stazzema. In 1944 SS troops and Fascist paramilitaries massacred several hundred people here, including children, to deter collaboration with the resistance. In Italy's general election on September 25th, Stazzema, the municipality that includes Sant'Anna, helped elect a senator from the Brothers of Italy (FdI), a party descended from a post-war neo-fascist group. The FdI's candidate took 49.6% of the votes.

Il Tirreno, the local daily, was outraged. Stazzema and the surrounding region of Tuscany had "shelved [their] memory", it thundered. The historical significance of fascism had been lost in "a sea of indifference and populism". Of the 36 lawmakers elected in Tuscany, once part of Italy's communist "red belt", 19 were from the nationally victorious right-wing alliance. Six belong to the FdI, led by Giorgia Meloni, Italy's probable next prime minister. But do the results of Italy's election truly mean it has re-embraced its fascist past?

The distribution of seats in the country's parliament might suggest so. The right is expected to have 237 of the 400 places in the Chamber of Deputies and 115 of the 200 in the Senate. Significantly, in both houses, the Brothers will outnumber all of their allies combined (see chart).

But the right owes its victory not so much to popularity as to canny adaptation to the electoral system. In Italy 37% of the seats are allocated on a first-past-the-post basis, which generously rewards alliances. And while Italy's conservatives hung together, their adversaries split.

The leader of the centre-left Democratic Party (PD), Enrico Letta, ruled out a link with the left-leaning Five Star Movement (M5S) because of its part in toppling the outgoing government of Mario Draghi. Carlo Calenda, founder of a small centrist party called Action, then scrapped a deal with the PD and joined with another small party, Italia Viva. The PD thus ended up campaigning in a bloc with a smattering of political minnows. Their alliance won only 26% of the national ballot to the right's 44%. But together the centre-left, centre and Five Stars notched up 49%, which might have been enough to win, had they been united.

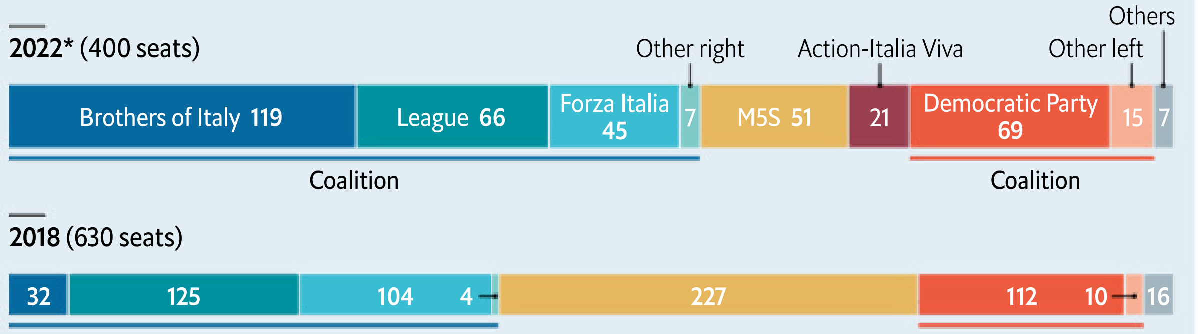
Instead they committed electoral suicide. The effects were starkest in the winner-takes-all constituencies. With fewer than half the votes, the right took more than three-quarters of the first-past-the-post seats. Mr Letta took the rap. The day after the election, he announced a PD congress at which, he said, he would not stand for re-election. Front-runners to succeed him include Stefano Bonaccini, governor of Emilia-Romagna, and Dario Nardella, mayor of Florence. There is also an intriguing outsider: Swiss-born Elly Schlein, Mr Bonaccini's deputy, who left the PD seven years ago and is now with the Greens.

The right's vote was a big advance on its 37% at the previous election in 2018. But the more important trend is one that has persisted for at least 10 years: the mounting appetite of Italian conservatives for ever-more radical offerings. In the past five years support for the Brothers has leapt from 4% to 26%. Only some of those voters came from the similarly populist Northern League. Its share dwindled from 17% to 9%, an even lower figure than polls had foreseen. Some have hinted that the party's leader, Matteo Salvini, should step down—including Roberto Maroni, a League grandee. But Mr Salvini appears deaf to suggestions he might follow Mr Letta's example.

The vote for the populist right—the tally of the League plus the Brothers—has soared in five years from 21% to 35%. Ms Meloni's challenge will be to appease her constituents without dragging Italy into a confrontation with Brussels, or a debt crisis. Markets have so far given Italy's probable new prime minister a friendlier welcome than Britain's new leader, but that is no reason for her to be complacent. ■

Brotherly love

Italian election results, seats won in the Chamber of Deputies



Sources: Ministry of the Interior; YouTrend

*Provisional

The French budget

Steady on

PARIS

France still needs to get a grip on public spending

AMID MARKET turmoil in Britain and political uncertainty in Italy, France looks like an oasis of relative stability. On September 26th Bruno Le Maire, the finance minister, unveiled the government's budget for 2023, which was broadly in line with previous ones. It was his sixth; indeed Mr Le Maire now holds the record for the longest consecutive period in office for a finance minister under the French Fifth Republic. Such consistency, however, will not spare France a difficult autumn, nor close scrutiny of its public finances.

The budget focuses on protecting the French from soaring energy prices. France will spend €45bn ($43bn) next year on state subsidies to keep energy costs down. Already this year the government has frozen gas prices and capped the rise in electricity prices to 4%. In 2023 this cap will rise by an additional 15% for both gas and electricity bills. Direct subsidies for petrol at the pump will end, as aid becomes more targeted at those who need it. There will be extra help for those on low incomes, as well as tax tweaks costing €6.2bn that are designed to help poorer households.

Mr Le Maire has not done everything he had on his list. Mindful of the deficit, he has postponed inheritance-tax cuts. A small cut in business taxes has been spread over two years. The budget, as he pointed out, still does "a little too much" to support the use of fossil fuel. But it also, he argued, marks the end of the philosophy of spending *quoi qu'il en coûte* (whatever it costs), which characterised public spending during the pandemic.

Steady as he goes

Not everyone agrees. French public finances will remain stretched. Next year sees no drop in the expected budget deficit, which will remain at 5% of GDP, or €159bn, the same level as in 2022. Public debt will remain at an alarmingly high 111% of GDP. MEDEF, a business lobby, criticised the budget for a "lack of ambition" on public spending. Mr Le Maire has promised to curb the deficit to 3%, in line with euro-zone rules, but not until 2027. The current deficit level puts France closer to Spain than to Germany.

Whether the government manages to achieve its own objective next year is uncertain. Public spending may turn out to be underestimated, warned the official public-finances watchdog this week. The government's growth forecast for 2023 of 1% could also prove optimistic. So far the French economy has proved robust. Yet inflationary pressures on firms and slower growth elsewhere will dampen it. The Bank of France expects growth in 2023 to reach 0.8% at best.

Ultimately, says Mujtaba Rahman of Eurasia Group, a political-risk consultancy, deficit reduction "cannot be achieved without pension reform". France spends about 14% of GDP on public pensions, compared with an OECD average of 8%. The European Commission, which has suspended its fiscal rules for now, is looking closely for signs that France is serious about getting a grip on public spending. During his re-election campaign, President Emmanuel Macron promised to raise the pension age from 62 years to 64 or 65. He then lost his parliamentary majority, so that pledge looks hard to fulfil. If he tries to force it through, the opposition and unions will take to the streets. If he delays the plan for yet more talks, he risks losing his credibility as a reformer. ■

Church bells

Going for a bong

The global trade in church bells, and Germany's role in it

GRZEGORZ SONNEK, the pastor in Radoszowy, a small town in south-western Poland, was surprised to get a letter from a German parish offering to send him a bronze bell. The church's oldest parishioners still recall the day Nazi troops stole the town's 400-year-old clanger. Now Mr Sonnek says he is planning a special mass, in October, to celebrate its homecoming.

Eighty years after German troops stripped church towers across Europe, parishes are trying to give some back. Perhaps 150,000 were melted down during the second world war, to make guns and bullets. Some 25,000 survived; they found their way to vast "bell cemeteries", from which German churches took their pick. Last year a bell that was decorating the courtyard of a big church in Munster went home to the Polish village of Slawiecice. The diocese of Rottenburg-Stuttgart has a project to return 54 bells.

Yet in recent years it is not just stolen bells but indigenous ones that have started flowing out of Germany. Local churches are closing as flocks dwindle. Glockenbörse, an online marketplace, can help. Matthias Braun, a co-founder, says that since 2015 his company has brokered the sale of more than 66 tonnes of mostly German bells. The keenest buyers are in places where Christianity is growing, such as India and Africa. Churches there like the sound of a bargain. Brand new bells usually cost €30-40 per kilogram (and can weigh anything from 5kg to several tonnes). Second-hand ones go for a quarter of that.

The trade has "exploded" since the pandemic, says Mr Braun. Clergy all around the world had to learn how to preach remotely. Now that they are online, businesses selling all kinds of religious products find them easier to reach. Mr Braun likes the thought of Bavarian bells, perhaps engraved with the likeness of Martin Luther, ending up in distant churches. A country that once hoarded bells now sends them all over the world.

Ask not for whom the bell is sold

Google

Cyberattacks are a growing threat to election security

The Campaign Security Project was built to train candidates and campaigns in online safety ahead of the 2022 midterms

Targeted online attacks on political campaigns have increased in recent years, putting sensitive information at risk. The Campaign Security Project was developed in partnership with organizations like Veterans Campaign to train thousands of candidates and campaigns across the political spectrum on security best practices to help keep them safe.

Explore how Google is keeping more Americans safe online than anyone else at safety.google

Safer with Google

Charlemagne | Auf wiedersehen, pact

Europe's plan for laxer spending rules is a sign of hobbled German influence

There is no dog in hot dog, a koala bear ain't no bear, and let us not speak of urinal cakes. What of the EU's "Stability and Growth Pact" (SGP)? The agreement limiting how much debt national governments can run up has achieved neither of its stated objectives: Europe endured a prolonged currency crisis and decades of economic torpor. Thus few bemoaned the pact's suspension in 2020 as Europe splurged its way through the pandemic and now scrambles to offset soaring energy bills. Germany is now pushing for the old straitjacket to be reintroduced, but only a much looser arrangement looks likely. That hawks in Berlin are likely to be defied shows how much German influence has waned.

No fault line in the EU is as deep as that separating the frugal northerners from their supposedly spendthrift southern neighbours. The SGP was an attempt to bridge the divide. Devised in the run-up to the introduction of the euro in 1999, it capped annual budget deficits at 3% and overall debt at 60% of GDP. Italy and Greece would share a currency with Germany and the Netherlands, but only if they also shared their sober approach to public finances. It was never really thus: the pact was soon broken willy-nilly, even by Germany, in its first few years. Many countries ended up with debts over 100% of GDP as the global financial crisis unfolded. By the 2010s the bail-outs the pact was designed to avoid became unavoidable.

Despite its failure, the SGP still matters. It has nudged governments to ensure spending somewhat matches revenues, at least in good times. The principles behind it guided the response to the euro-zone crisis of 2009 onwards, which southerners still feel imposed a pointless fiscal drag on their recovery. If that was a mistake, it was not repeated two years ago: as the pandemic struck, all sides agreed the old rules had to be shelved. The European Commission, the bloc's executive arm, will in October unveil its ideas for a refreshed version as the SGP comes back into force by 2024.

Brussels has been bracing for a rerun of familiar rows pitting countries with Mediterranean coastlines against those with colder beaches. In fact early discussions between finance ministers seem to point to nearly everyone wanting to bin the old approach. Germany stands essentially alone in pushing for a return to the way things were. There is still much late-night haggling to be done. But as things stand it looks unlikely to get its way.

The key word to the commission's proposed new approach is "flexibility" in the application of the SGP. The 3% deficit and 60% debt rule will remain: those figures are enshrined in EU treaties and tweaking them is basically impossible. The focus is thus on enforcing them in an altogether gentler fashion. Gone will be the year-after-year nagging by Eurocrats of countries with "excessive deficits". Instead, national finance ministries will propose ideas of how to balance their books over many years. Pledging reforms viewed as sensible in Brussels—spending on renewable energy, say, or pushing back the retirement age—will result in a country being allowed, in effect, to ignore those pesky budget limits.

This is music to the ears of southern Europeans; most imagine that "flexibility" will mean a kinder hearing from Eurocrats. France also likes this approach, as one might expect of a country now in its 48th year without a balanced budget. But Germany would in the past have been able to derail a push towards such potential profligacy. How has it ended up so isolated?

For one thing, the position of its own government is unclear. Christian Lindner, Germany's finance minister, has made hawkish sounds about the need for fiscal prudence both at home and in Europe. But his is the third-biggest party in a three-party coalition, which also includes Greens who favour big spending to decarbonise the economy. Olaf Scholz, the chancellor, has other priorities: he pledged €100bn ($97bn) for the armed forces in response to the war in Ukraine. The bonanza will not be included in German national accounts, the kind of sleight-of-hand Berlin would once have frowned upon. When Germans wobble, others feel less obligation to tighten their own corsets.

Germany is also short of allies these days. Many traditional penny-pinchers in northern Europe wonder if strict budget rules are compatible with ambitious carbon-cutting plans. Few want to discuss divisive budget rules when EU unity is at a premium. Many eastern Europeans have low debt, but want to spend lots more on defence—if only to replace kit they have sent to Ukraine. They blame Germany for having mollycoddled Russia for years and becoming hooked on cheap gas; they think it could do more to help Ukraine now. Few are in the mood for lessons from Berlin.

Fiscal rules, ok?

Germany's insistence on budgetary rectitude still carries heft. Most wonks think a reform of budget rules should include a central fiscal capacity, along the lines of the temporary €750bn fund set up during the pandemic. That is not on the cards, thanks to German and Dutch resistance. Even absent nagging from Brussels, many countries with wobbly public finances are enacting reforms. Emmanuel Macron in France is pushing for a higher retirement age. Giorgia Meloni, the incoming Italian prime minister, has made reassuring sounds about public finances.

And if the commission does not impose balanced budgets, others might. Markets are capable of swiftly turning against governments they deem profligate, as Britain discovered this week. On the continent the bond vigilantes are held at bay by the European Central Bank, which is buying up the bonds of Italy and others; it has promised to do more if needed. Its president, Christine Lagarde, has warned finance ministers that loose public finances could drive up inflation, forcing the bank to raise rates quickly. Few will doubt she is serious. If Germany can no longer be Europe's budgetary bad cop, at least someone else is ready to take up the baton. ■

Britain in crisis

Pounded land

The chancellor's budget has spooked markets, hurt growth and shredded the government's authority

A DECADE AGO the Conservative government announced a budget so unpopular that it was dubbed an "omnishambles". Humbled by weeks of bad headlines, it ultimately scrapped plans to introduce a tax on some hot foods. The reaction to Kwasi Kwarteng's fiscal statement on September 23rd made the omnishambles budget look like a triumph for the ages.

After the chancellor announced the biggest tax cuts in half a century, sterling cratered: in the early hours of September 26th the value of the pound fell to a record intraday low of $1.035 (it subsequently recovered a bit). That same day ten-year gilt yields reached 4.3%, over one percentage point higher than a week before.

The gyrations were so extreme that Andrew Bailey, the Bank of England's governor, published a statement confirming that policymakers were "monitoring developments in financial markets very closely". The IMF weighed in with some unusually blunt criticism: "We do not recommend large and untargeted fiscal packages at this juncture", it said.

The negative reaction came even though most of the budget's contents had been widely trailed. Liz Truss promised both to scrap a planned increase in corporation tax and to cut payroll taxes while campaigning to become prime minister; she had announced measures to help households and businesses with high energy bills on September 8th. The unexpected elements of the package, which included tax cuts for high earners and higher thresholds for stamp duty, a tax on property transactions, accounted for less than a quarter of its long-run cost.

Investors' anxiety reflected scepticism that the government's reforms would turbocharge growth, as it claimed, and generate enough revenue by themselves to put the public finances on a sustainable path. Suggestions that the government had yet more tax cuts in the works did nothing to help its credibility. Mr Kwarteng has tried to restore calm by promising to outline new fiscal rules on November 23rd; the Office for Budget Responsibility (OBR), a watchdog, will publish its independent forecasts for the public finances on the same day. That has not helped much yet. If Britain's assets look riskier, then foreigners will decline to hold them unless they are cheaper. Britain's gaping current-account deficit is hardly a sign of rude economic health either.

It is unclear how the pound's slide could spiral into a balance-of-payments crisis. As Britons tend to borrow in sterling but have assets denominated in foreign currencies, sterling depreciation tends to improve the country's net international investment position. But sharp rises in gilt yields—which amount to dramatic falls in their price—have already created havoc in at least one corner of the financial markets.

In the long term, higher yields on government bonds are good news for pension funds because their future liabilities are discounted at higher rates. But as yields rose many funds that had used derivatives to protect themselves against market movements found themselves under pressure to raise cash to meet collateral requirements. They raised that money by selling long-dated gilts, setting in train a vicious dynamic whereby higher yields ▸▸

created pressure to sell, which pushed up yields further, and so on. On September 28th the Bank of England said it would purchase long-dated government bonds over the next couple of weeks "to restore orderly market conditions", and delay until the end of October a plan to start selling gilts.

Even if financial order is restored, Mr Kwarteng's budget will hurt the economy. A weaker pound means that imports are more expensive. Samuel Tombs of Pantheon Macroeconomics, a consultancy, calculates that the decline in the value of sterling since July points to a 1.7% increase in the price level in the long term and a 0.5-percentage-point increase in consumer-price inflation in 2024. Although in theory a weaker pound could provide a fillip to British exporters, in practice this effect has been disappointing in the past.

Higher interest rates will pinch borrowers, not least the government itself. Applying the OBR's rule of thumb, the increase in short-term rates that the market now expects by next spring could raise official debt-servicing costs by 1.6% of GDP as soon as 2023-24. And if that extra spending is also financed through higher borrowing, the Bank of England may react further. According to the National Institute of Economic and Social Research, a think-tank, extra borrowing worth 1% of GDP would prompt the Bank of England to raise rates by around 0.25 percentage points, further increasing the government's interest costs. These debt dynamics are not explosive, but they are expensive.

Homeowners will suffer, too. In response to the turmoil some lenders have suspended certain of their mortgage products. Mr Tombs estimates that if interest rates rise by as much as investors expect, households refinancing an average two-year fixed-rate mortgage in the first half of next year could see their monthly repayments jump from £863 ($940) to an eye-watering £1,490. Even homeowners without outstanding mortgage debts will feel poorer as house prices drop: Andrew Wishart of Capital Economics, a consultancy, is expecting to see falls of 10-15%.

Firms will also be affected. The Bank of England estimated in August that, after taking into account the effects of higher energy prices, funding costs would have to rise to around 7.75% for pressure on corporate balance-sheets to be as widespread as it was at the previous peak in 2001, when 62% of companies were vulnerable to repayment difficulties. According to the S&P UK investment-grade corporate-bond index, yields on September 26th were 6.4%.

All this puts the Bank of England in a nasty bind. Investors are now expecting it to raise interest rates by at least 1.5 percentage points at its next meeting in November, and then to increase them to 6% by spring 2023 (from 2.25% now). If rate-setters do not raise interest rates as aggressively as expected, then the pound could dip further, worsening the problem of imported inflation. But if they do act so forcefully, a deep recession is likely. According to Mr Tombs the bank's latest forecasts suggest that a one-percentage-point increase in its interest rates raises the unemployment rate by 0.6 percentage points and cuts GDP growth by 0.8 percentage points.

On September 27th Huw Pill, the bank's chief economist, said that recent market developments had made it harder for monetary policymakers to pursue their inflation target. He added that it was hard not to draw the conclusion that "all this will require a significant monetary-policy response". Still, it is difficult to believe that rate-setters will go quite as far as investors expect, given the dramatic impact that would have on the real economy. Mr Wishart points out that over the past 50 years the Bank of England has never continued raising interest rates after real house prices have started to fall.

This ugly outlook would improve if the government cancelled some of its tax cuts. That seems highly unlikely. On a call with Tory MPs on September 27th Mr Kwarteng said that he thought the volatility was a product of the City feeling surprised by the statement, and that this had now settled down. When asked about the effects of higher interest rates on constituents' mortgages, he replied that this was for the Bank of England to deal with. "He doesn't seem very focused on or politically very sensitised to the impact of interest rates going up on mortgages," says one MP.

Others in his party are more worried. The Tories' annual conference starts in Birmingham on October 2nd. It was meant to be a moment of triumph for Ms Truss, who became prime minister on September 6th. Instead, the talk in the bars will be only of how brutal the coming verdict of the electorate will be, and what can be salvaged of a premiership not yet a month old.

Lose with Liz

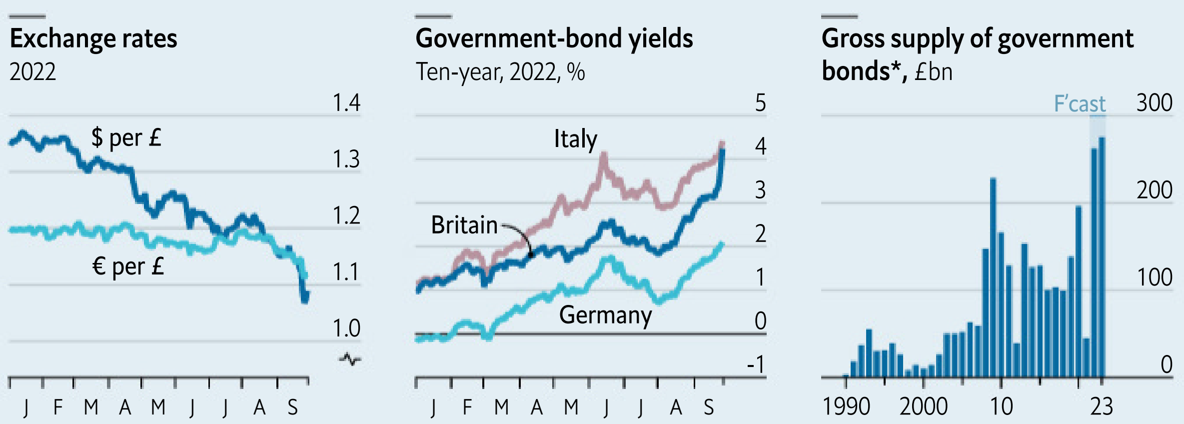
That is because the public's reaction to the mini-budget has been as ugly as the one from the markets: some 57% of voters thought it "unfair", according to YouGov, a pollster, the worst response to any financial statement since the Conservatives took power in 2010. Just 15% said it would improve growth. The same pollster gave Labour a 17-point lead in a poll published on September 27th (see Bagehot), the highest since YouGov was founded in 2000.

There is little appetite among Tory MPs for yet another leadership election, but even Ms Truss's own supporters do not rule it out before the next election. "We'll see where we are next year," says one. Some MPs think Mr Kwarteng should go. In the meantime the rift left by the summer's leadership contest, which pitted Ms Truss's faith in self-funding tax cuts against Rishi Sunak's espousal of "sound money", has widened dramatically. Sunakites feel both horrified and bitterly vindicated. "There will be a lot more people who now feel she has won the election on a false prospectus. It was completely implausible, and she's gone far beyond it," says one.

Ms Truss is not a U-turner by temperament: in a round of radio interviews on September 29th she insisted the tax cuts were right. Her backers on the Eurosceptic right also continue to urge her on. Ministers have instead been ordered to start rustling up "efficiency savings" to make the fiscal outlook rosier. But without much detail, and given the tricky politics of making swingeing cuts to public services, investors are likely to remain sceptical of the government's resolve to get the public finances under control.

With the Bank of England planning to start its programme of gilt sales at the end of October, calculations by Anna Titareva and Rohan Khanna of UBS, a bank, suggest that over the next 18 months investors will be asked to soak up almost as much gilt supply as they have over the past 54. That is going to cost the government a lot more than Mr Kwarteng would have expected when he spoke a few days ago. ■

The growth plan in action
Britain



Sources: Refinitiv Datastream; Deutsche Bank

*Including Bank of England sales/purchases

Public opinion

No growth please. We're British

Liz Truss has made growth her mission. Britons have other priorities

BRITAIN'S GROWTH CRISIS

FINANCIAL MARKETS have given their verdict on Liz Truss's dash for growth, and it is not pretty. But even if Trussonomics had got off to a much smoother start, it would still have carried a significant political risk. For Britons are lukewarm about economic growth, and often unwilling to make the trade-offs required to deliver it.

Polling conducted for *The Economist* by Ipsos before Kwasi Kwarteng's mini-budget on September 23rd tested Britons' attitudes towards growth by asking them which of a pair of contradictory statements more closely matched their view (see chart). Some 49% of voters agree with the simple proposition that economic growth "does more good than harm", against 17% who reckon the opposite is true.

Asked to list the results of higher growth, respondents tended to cite benefits—higher wages, more jobs and higher spending on public services—more than disadvantages like greater pollution. Britons are also aware how badly their country is doing compared with peers. A plurality knew that the average Briton is wealthier than their equivalent in China and Spain, but poorer than Americans, Germans, Singaporeans and the Dutch.

So far, so fairly good. But growth means trade-offs, and Britons are chary of accepting them. Ms Truss has made boosting trend growth to 2.5% her mission. But by 38% to 28%, respondents agreed that "politicians focus too much on economic growth at the expense of other issues".

Ms Truss's plan includes streamlining environmental rules to speed up infrastructure projects and construction in investment zones. Yet by 43% to 29%, respondents think more focus should be placed on environmental protection, "even if that harms economic growth". By a margin of 57% to 24%, our respondents favour giving priority to the views of local residents and protecting the countryside, even if that results in less new housing.

Ms Truss reckons there is a trade-off between growth and redistribution. Nearly half the gains of the income- and payroll-tax cuts announced in Mr Kwarteng's budget will accrue to the top 5% of households, according to the Resolution Foundation, a think-tank. That is not a particularly popular strategy: by a margin of 39% to 35% voters agree with the proposition that "redistributing money between people is more important than growing the economy overall." Voters also seem unconcerned by Britain's chronic record of underinvestment: by 53% to 16%, voters agree with the proposition that "the government should spend more on health care and pensions, even if that means spending less on infrastructure and science."

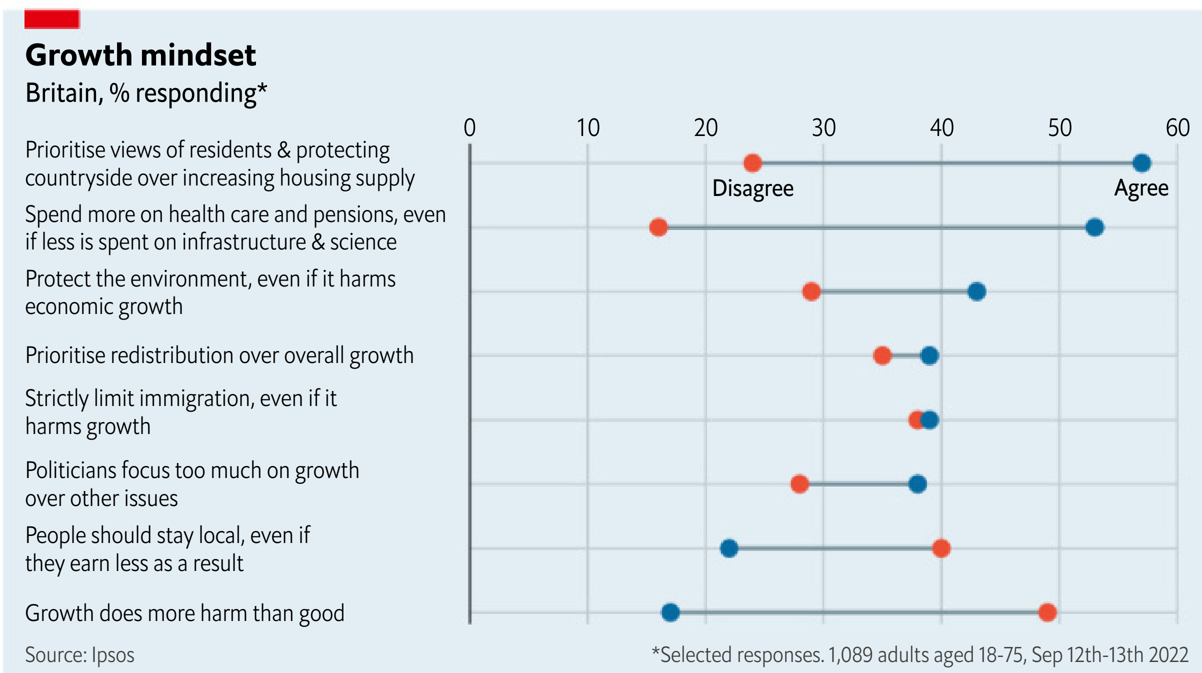
Perhaps the greatest triumph of anti-growth tendencies was the vote for Brexit of 2016. Nigel Farage, a Eurosceptic campaigner, insisted then that markedly lower growth would be a price worth paying to cut immigration, and lots of people seemed to agree. Ms Truss reportedly plans to loosen visa rules to tackle skills shortages. In our survey the idea that "there should be strict limits on immigration into Britain even if that harms growth" was backed by a margin of 39% to 38%.

Our polling reinforces other studies. In 2019 Onward, a think-tank, detected among Britons "strong hostility to the key drivers of prosperity in the modern liberal market economy: global trade, innovation and urban agglomeration". A paper published in 2020 by Demos, another think-tank, tested the views of two large groups of voters: one younger and Remain-leaning, the other older, pro-Brexit and pro-Conservative. Both groups agreed that their towns should have more nice shops and less litter. But a majority (52%) of the older group said they would oppose a university or college opening in their town if "the town attracts more people from elsewhere". A plurality (40%) would oppose the creation of more high-paying jobs "if they are taken by people who have no prior connection to the town".

One factor behind such attitudes may be the distribution of capital within the electorate. Professor Jane Green of Nuffield College, Oxford shows that the electorate is still broadly split between the economically secure, who lean Tory, and the insecure, who vote Labour. (Nearly half of Tory voters at the last election owned their home outright.) In a paper written last year with Raluca Pahontu, she found that wealthier people were more likely to have backed Brexit, with their assets acting as a form of "insurance" that allowed them to take a punt on leaving the EU. If wealth insulates some voters from the wider economy, they may also be less likely to punish governments for a lack of growth.

The Westminster system also plays its part in fomenting or dampening enthusiasm for growth. Overcoming an aversion to growth requires MPs to be willing to tell their constituents that they must endure localised disruption today in return for national gains tomorrow. But voters increasingly want their MP to be locally minded: between 2010 and 2019, the proportion of MPs representing a constituency in the region of their birth rose from 45% to 52%. That includes 60% of MPs newly elected in 2019, according to a paper by Philip Cowley, Robert Gandy and Scott Foster. A poll in 2019 found that, by 63% to 13%, voters thought MPs should "act according to the wishes of their constituents, even when this goes against their own judgment".

Attitudes such as this explain why Ms Truss was already facing an uphill political battle, even before the markets' ugly rejection of her budget. Britain needs faster growth, but the difficult job of persuading people to accept the trade-offs it entails has got harder still. ■



Bagehot | The rise of Default Man

How Sir Keir Starmer and the Labour Party became the default option

The sharpest criticism of Sir Keir Starmer, the Labour leader, comes from a Turner-prize winning artist and self-described "bloke in a dress". In the "Descent of Man", Grayson Perry, a transvestite sculptor, examined the tribe of straight, white, middle-class men who tend to end up in charge of things. They appear at the top of business, the media and in politics, but unthinkingly rather than by choice. Mr Perry dubbed this character "Default Man". Mr Perry may not have had the Labour leader in mind when he wrote the book in 2016. But Sir Keir certainly fits the bill.

Sir Keir's rhetoric does not soar. (He opened his main speech at this year's party conference with a joke about Arsenal football club, the default sport of Default Man.) He does not fizz with ideas, or possess subtle or complex politics. (He spoke in front of a picture of a giant union flag.) He does not enjoy a unique ability to channel the id of the British voter. Yet there he is, leader of the Labour Party, close to the summit of British politics and now the odds-on favourite to become the next prime minister. Under Default Man, Labour have become the default option.

Default economics reigns in the party. Margaret Thatcher was once asked for her greatest achievement. She reportedly replied: "Tony Blair and New Labour". Under Sir Tony, Labour ingested Thatcherism, accepting the market's role in society. If George Osborne, the Conservative chancellor in the government of David Cameron, were asked the same question today he might reply: "Rachel Reeves". Ms Reeves, Labour's shadow chancellor, unveiled tepid pledges this week, such as a vague commitment to a higher living wage and a promise to reform business rates. But the main message was one of fiscal conservatism. "Labour is the party of economic responsibility and the party of social justice," Ms Reeves told a packed conference hall. A standing ovation ensued. Given the past week, Mr Osborne would have probably joined in.

Sir Keir's party is not brimming with ideas. It starts with the leader. Others in the party speak of Sir Keir as if he were an empty vessel into which ideas ("slaughter the left") or policies ("launch a nationalised energy company") are poured from different wings of Labour. "The distinct thing about Default Man is that in many ways he is the background," writes Mr Perry. Sir Keir sits atop the party but he appears not to shape it. At this week's party conference he fell back on the most vacuous slogan of the Blair era, when Sir Tony labelled his party "the political wing of the British people". Default Man does not think deeply. He has reached the top of politics without having to bother. Why start now?

Default Man has changed the party in appearance if not content. "If you are Default Man, you look like power," writes Mr Perry. "The very aesthetic of seriousness has been monopolised by Default Man." Under Jeremy Corbyn, Labour's former far-left leader, party conferences were eclectic. It was a safari of cranks, Trotskyists, Blairites, lobbyists and journalists, who all regarded each other with fear and loathing. After a purge of the hard-left by Sir Keir and friends, the party is a more homogenous beast. In the hall, someone changed their mobile-hotspot address to "We Hate Corbyn". T-shirts with slogans are out; machine-washable, navy Marks & Spencer suits are in. Default Men are back on top.

Perhaps a Default Man leading a Default Party will appeal to a Default Voter. When an election is closely contested, it is worth drilling down into voter types. Will liberal Conservative voters in the south-east flock to the Liberal Democrats? Can Labour win back older, socially conservative voters in northern towns? An election in which Labour scores in the mid-40s and the Conservatives in the high-20s, as current polling suggests, is one in which such differences—old, young, Remain or Leave—disappear beneath a Labour landslide. Even in Scotland, where constitutional questions add complexity, things become simple. If Labour is on course for a resounding victory, the party will scoop up votes across the central belt, constitutional questions be damned.

Default Men have thrived elsewhere. In Australia a similarly cautious approach handed Anthony Albanese, the Labor prime minister, victory in elections earlier this year. Joe Biden, who looms large in the America-addled brains of British politicos, won with a platform of inoffensive centrism against Donald Trump. (In office Mr Biden discovered a radical streak, launching an enormous fiscal stimulus and a big plan to tackle climate change; sometimes Default Men have hidden depths.)

Some in the party fear becoming the default option. Labour are campaigning in turgid prose but will, they promise, govern in poetry. A publicly owned energy company and an £8bn ($8.5bn) wealth fund for green-energy investments are just the start of a radicalism that will emerge only once in office. In the meantime, with an election still two years away, the plan is to offer voters dull competence. "Things Can Only Get Better" was the theme tune of Labour's landslide 1997 election. In the current circumstances "Things Can Stop Getting Worse" is a compelling pitch.

Nobody ever got fired for buying IBM

In Mr Perry's telling, Default Man is on the way down. At the time that was an accurate prognosis for right-wing politics in Britain. Not one Default Man made it into the final four of the Conservative Party's recent leadership election. Liz Truss, the third female prime minister, and Kwasi Kwarteng, the fourth ethnic-minority chancellor, are ready to rule (or screw up) as well as any Default Man did in the past.

In Labour, however, Default Man is ascendant. Losing four elections in a row has left the party with a form of political post-traumatic stress disorder. Labour wallahs opted for something uncontroversial, conservative and easy in the form of Sir Keir, the platonic ideal of Default Man. So may voters, after a week in which the Conservatives trashed their reputation for economic competence. Being the default option is not so bad after all. ■

Nuclear blackmail

Climbing the ladder

Six decades after the Cuban missile crisis, the world is again worried about nuclear war

SIXTY YEARS ago the world was staring at a nuclear cataclysm. The Cuban missile crisis began in October 1962 when America detected Soviet nuclear missiles in Cuba. It blockaded the island, and debated invading it. The Soviets yielded, removing their nukes; America secretly removed nuclear-tipped missiles of its own from Turkey. Annihilation was averted.

Memories of those terrifying times are being revived by the war in Ukraine. Vladimir Putin, Russia's president, has repeatedly warned that he could resort to nuclear weapons. On September 21st he said he would use "all weapons systems available" to defend the "territorial integrity" of Russia—by implication including all the Ukrainian land he is annexing through sham referendums (see Europe). "It's not a bluff," said Mr Putin. In response Jake Sullivan, America's national security adviser, sternly warned Russia of "catastrophic consequences" if it used nuclear weapons.

The world thus faces what may be the worst period of nuclear peril since Cuba, says Daryl Kimball of the Arms Control Association, an American lobby group. Russian commentators have drawn explicit parallels between the crises. Both were caused by insecurity provoked by a rival's expansion "right to the doorstep of one's own country: Cuba then, Ukraine now", writes Dmitri Trenin, a Russian analyst, on the state-owned RT website.

This time, though, things are different in several important ways. The Cuban crisis lasted 13 days. The war in Ukraine is more than 200 days old, and could last for hundreds more. In Cuba the nukes themselves were the crux of the matter. In Ukraine they are a shield to protect a Russian land-grab. And the nature of the threat has changed with Russia's fortunes on the battlefield. At first, Western officials worried about nuclear escalation resulting from Russian success. If it took Ukraine, might it push further into the Baltic states, or strike at NATO depots that were supplying weapons to Ukrainian forces? That could have led to a conventional war, which might have escalated into a nuclear one.

Now the worry is about Russian failures. Ukrainian troops have retaken thousands of square miles of territory; a mobilisation at home has pushed hundreds of thousands of Russians to protest or flee. In the 1960s neither John F. Kennedy nor Nikita Khrushchev, the American and Soviet leaders, wanted a nuclear war. Now, some worry that a flailing Mr Putin might be tempted to gamble that nuclear weapons could help reverse his misfortune.

The Cuban missile crisis was largely about "strategic" nuclear weapons—the biggest sort, designed to wipe out enemy cities far from the battlefield. The question in Ukraine revolves mainly around the non-strategic, or "tactical" kind. These are of shorter range and lower explosive power. (Many are nevertheless more powerful than the atomic bombs used against Japan in the second world war).

America and the Soviet Union once maintained huge arsenals of tactical warheads for use against each others' armies on the plains of Europe. In the decades after the cold war, NATO gave up all but around 200 of its stockpile, concluding that precision-guided conventional weapons could do the job more cheaply and with fewer complications. Russia's armed forces held on to 2,000 or so. Nuclear weapons can make up for weaker conventional forces. "The power balance matters less than the willingness to use nukes," says Francis Gavin, a historian at Johns Hopkins University. "That creates an incentive to be irresponsible."

Experts see three main ways in which Russia might use a nuclear weapon: a "demonstration shot" that does not kill anyone; a strike on Ukraine; and an attack on NATO. Russia might start on the "escalation ladder" by conducting nuclear tests, either underground or, more dramatically, in the atmosphere. This could be over the Black Sea or high above Ukraine itself, avoiding deaths but causing an electromagnetic pulse that would fry electrical equipment. But if Ukraine kept on fighting despite the demonstration, Russia would incur global opprobrium for no military gain.

Russian generals might prefer to nuke military objectives directly, not least because the Russian army is short of manpower and materiel. Targets could include Ukrainian airfields, logistics hubs and concentrations of artillery, says Ben Barry of the International Institute for Strategic Studies, a British think-tank. Yet Ukraine's forces are mostly dispersed, and armies can be surprisingly resilient. One study examining a hypothetical war between India and Pakistan estimated that a five-kiloton bomb (about a third the size of the one dropped on Hiroshima) would knock out just 13 tanks if they were widely spread. Mr Barry reckons four tactical weapons would be needed to neutralise a Ukrainian brigade (roughly 3,000-5,000 soldiers) even if it was concentrated for an offensive.

More destructively still, Russia might choose to attack a Ukrainian city to force a surrender. But this raises the possibility of a direct NATO intervention and the destruction of Russia's armies. A nuclear attack on NATO would be a potentially suicidal proposition, given that three of its members—America, Britain and France—have nuclear weapons of their own.

Tactics and strategy

Every option, in other words, comes with big downsides. "It is very hard to make nuclear threats work," notes Eric Edelman, a former under-secretary for policy at the Pentagon. At times during the cold war—in the Korean war, for instance—America toyed with using nuclear weapons but decided against it as morally repugnant, militarily useless or dangerous.

But responding to nuclear threats is hard, too. Deterrence rests on a great deal of ambiguity. American officials will not say publicly what they mean by "catastrophic consequences", though it hints at the risk of a direct clash between Russia and America. But they claim to have been explicit in private warnings to the Kremlin, and have told journalists that the response is likely to be conventional, not nuclear. In doing so, complains Mr Edelman, "they are undermining the deterrent threat."

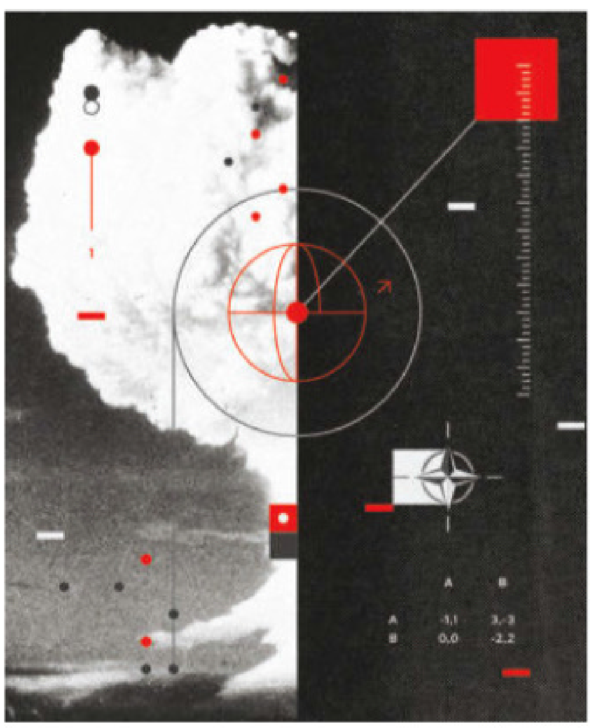
America's warnings are aimed at Russia, America's allies and the American public. It must be seen to take the threat seriously but not be intimidated; it must respond in a way that is vague yet credible. Whatever happens with Russia will affect its contest with China, not least over Taiwan. Thus far, President Joe Biden has tried to balance two principles: help Ukraine defend itself, but avoid a third world war. If the Russians detonate nuclear weapons, he has said that the response will depend "on the extent of what they do".

One option would be to pile more economic pressure on Russia, perhaps through secondary sanctions on those buying its oil and gas, with the hope of turning Mr Putin into even more of an international pariah. America could push India and China to isolate Russia. Both have obliquely signalled disapproval of its conduct in the war. But India relies on Russia for weapons, and China sees it as a useful counter-balance to America.

Another option would be for the West to help Ukraine fight in a nuclear battlefield, by providing advice, protective gear and decontamination equipment. It could also supply more advanced arms—such as Western-made tanks, fighter jets and longer-ranged missiles—that have thus far been deemed too escalatory. At the other end of the scale, America, Britain or France could respond with a limited nuclear strike of their own. But that risks a wider nuclear war—and Russia has more tactical nukes than its Western rivals.

The middle way—a conventional military response—is the likeliest. This might include deploying NATO troops to Ukraine, or carrying out direct strikes on Russian targets. America could, for instance, destroy the ports, air bases, or mobile missile launchers used in any Russian nuclear attack. Ben Hodges, a retired general who once commanded American ground forces in Europe, suggests sinking Russia's Black Sea fleet, or destroying its bases in Crimea.

Mr Putin, though, could raise the ante. He might launch a counter-strike against comparable targets—American warships in the Mediterranean, say, or military facilities on NATO soil. In other words, even a conventional response could easily bring about a direct NATO-Russia conflict, with its attendant risk of nuclear war.



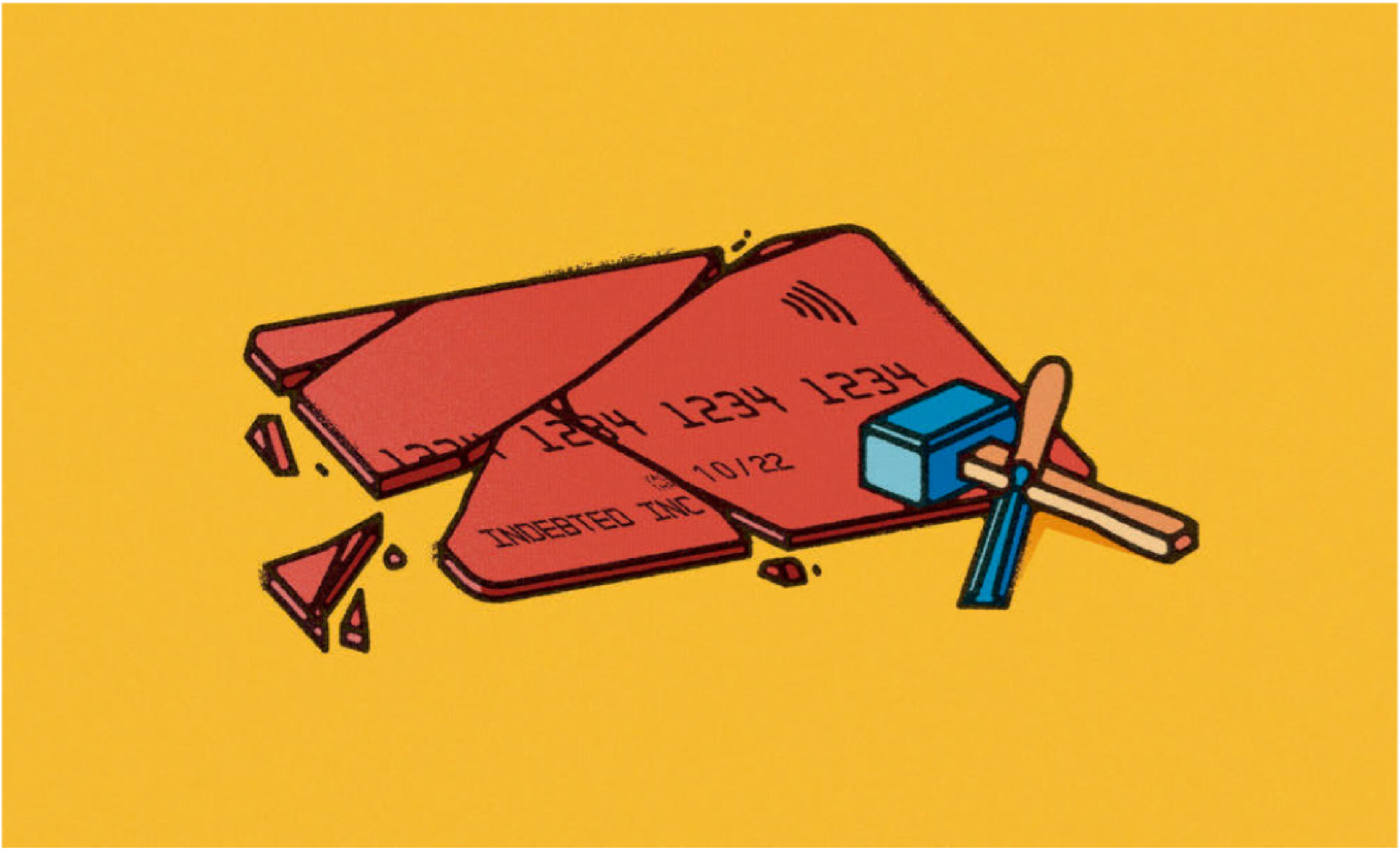
All of which raises the question: would America really run such risks for the sake of Ukraine, which is not a formal military ally? Barack Obama, who as president refused to arm Ukraine, argued that Russia, in the end, cared more about Ukraine more than America did, saying "we have to be very clear about what our core interests are and what we are willing to go to war for."

Those who favour standing by Ukraine offer two responses. The first is that the risks are less acute than they seem. Russia is in no position to fight a conventional war against America and its 29 NATO allies; a nuclear war would risk the total destruction of both sides. The second riposte is that the risks are worth it. Allowing Russia to use nuclear blackmail to seize territory would encourage autocrats everywhere to do the same. "That would be a terrible world to live in. The cost of stopping it later is higher than stopping it at the outset," argues Mr Edelman.

For now, to everyone's great relief, deterrence is holding. Mr Putin has not used nuclear weapons, nor is NATO fighting in Ukraine. America says it has seen no evidence of Russia readying its nuclear armaments for use. America and Russia are continuing to exchange information about their respective strategic arsenals.

For Max Hastings, author of "Abyss", a new history of the Cuban crisis, the main lesson of 1962 also applies to 2022: "Be afraid." What averted a cataclysm was Kennedy's and Khruschev's fear of nuclear war. America's success was the product of Kennedy's sober mixture of resolve and a willingness to compromise in private. That suggests the West should continue to help Ukraine defend itself while "recognising that somewhere along the line it will probably end up with a dirty deal" to end the war, argues Mr Hastings.

The trouble is that, at the moment, Mr Putin is raising the stakes, not seeking a deal. His annexation of Ukrainian territory and mobilisation of extra troops risks elevating a "special military operation", which can be ended whenever he chooses, into a war for Russian soil, which he must win or lose. Unlike the collective Soviet leadership of 1962, which imposed some moderation, Mr Putin's underlings seem powerless to restrain him. He has long equated his own rule with Russia's existence. In 2018, he spoke in near-mystical terms about using nuclear weapons to defend Russia: "We, the victims of aggression, as martyrs, will go to heaven, while they will just die, because they will not even have time to repent." Thus the world watches another nuclear crisis unfold: will Mr Putin cut his losses, fight on, or take the biggest risk of all? ■



The corporate-credit crunch

Debt, denial and deleveraging

A reckoning has begun for corporate debt monsters. How messy will it get?

When investment bankers agreed in January to underwrite the leveraged buy-out of Citrix, a software company, by a group of private-equity firms, returns on safe assets like government bonds were piffling. Yield-hungry investors were desperate to get their hands on any meaningful return, which the $16.5bn Citrix deal promised. Lenders including Credit Suisse and Goldman Sachs were happy to dole out $15bn to finance the transaction. Inflation would pass, central bankers insisted. Russia hadn't invaded Ukraine, energy markets were placid and the world's economies were growing.

Nine months later the banks tried to offload the debt in a market gripped not by greed but by dread—of stubborn inflation, war and recession. Struggling to find takers, they palmed off $8.6bn of the debt at a discount, incurring a $600m loss. They are still nursing the remaining $6.4bn on their balance-sheets.

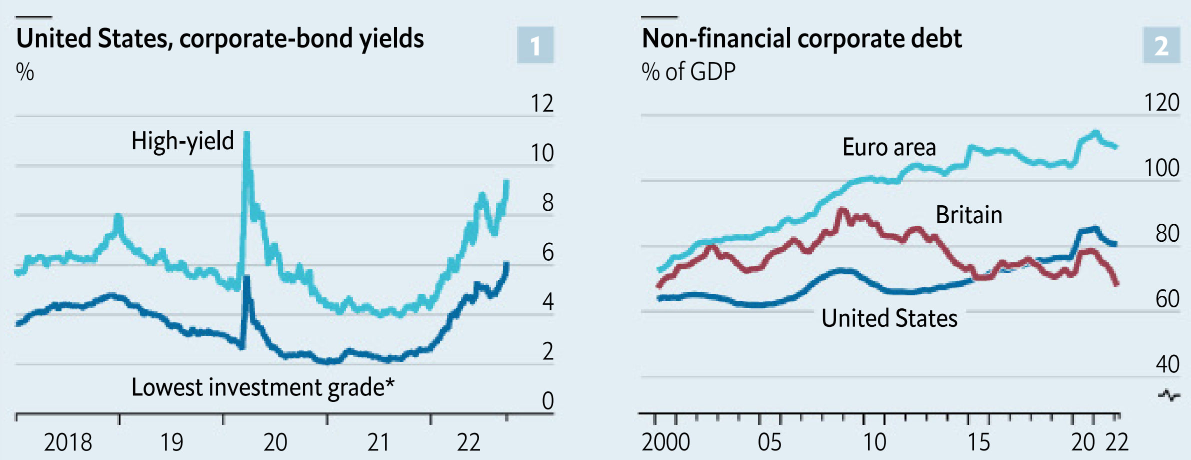
The Citrix fiasco is an egregious example of a broader shift in corporate-debt markets. Having rediscovered their inner inflation-busting Paul Volcker, Western central banks are pushing interest rates to levels not seen in 15 years and shrinking their balance-sheets. Those that bought corporate bonds during the pandemic in order to stave off a wave of bankruptcies have been selling them, or have already done so. All this is draining the market of liquidity as investors abandon riskier assets like corporate debt in favour of safe Treasury bonds, now that these suddenly promise a decent return, observes Torsten Slok of Apollo, a private-asset manager. The result is plummeting prices of corporate bonds, especially for less creditworthy firms: yields on junk paper have soared to 9.4% in America and 7.8% in the euro area, up from 4.4% and 2.8%, respectively, in January (see chart 1 on next page). Activity is fading in the exotic corners of the corporate-credit market, including for collateralised loan obligations.

All this raises awkward questions about what happens next with the mountain of debt that companies have amassed in the past couple of decades (see chart 2). Since 2000 non-financial corporate debt has gone up from 64% of GDP to 81% in America and from 73% to 110% in the euro area. (In Britain the share is a modest 68%, roughly what it was in 2000, a rare spot of relief for an otherwise beleaguered economy.) All told, American, British and euro-area public companies currently owe their creditors almost $19trn, with a further $17trn owed by unlisted firms. Just how wobbly is this pile?

The credit crunch will not affect all borrowers equally. Indeed, viewed in aggregate the West's corporate debt load looks manageable. We calculate that American public companies' earnings before interest and tax are a healthy 6.7 times the interest due on their debts, up from 3.6 times in 2000. In the euro area, this interest-coverage ratio has risen from 4.4 to 7 this century. Moreover, some riskier borrowers load-

→ Also in this section

Yielding to reality



Sources: Federal Reserve Bank of St Louis; Bank for International Settlements *BBB-rated

ed up on debt at low rates during the pandemic. Just 16% of the euro area's junk bonds by value mature before the end of 2024. In America the figure is 8%.

Yet the surge in borrowing costs will cause strain, in three areas. The first comprises businesses that have come to rely on less orthodox sources of credit, which are often those with the diciest prospects. The outstanding value of leveraged loans in America, typically provided by a syndicate of banks and non-bank lenders, now matches that of junk bonds, and it has been growing briskly in Europe, too. The same is true of the value of private credit, offered by private-asset managers such as Apollo and Blackstone. Such loans tend to tolerate higher leverage in return for high and, more troubling right now, floating interest rates. Borrowers are thus far more exposed to rate rises. Because this sort of debt often comes with fewer strings attached, lenders have limited ability to accelerate repayment once signs of distress emerge.

The second area of vulnerability involves so-called zombie firms: uncompetitive enterprises, kept alive by cheap debt and, during the pandemic, government bail-outs. Fortunately, according to our calculations the corporate undead are relatively rare and typically small. We define a zombie company as one that has been listed for at least ten years, with consistently below-average revenue growth and an interest-coverage ratio of one or less, stripping out fast-growing but loss-making tech firms, pre-revenue businesses in sectors like biotechnology, where products take years to get to market, and revenue-less holding companies.

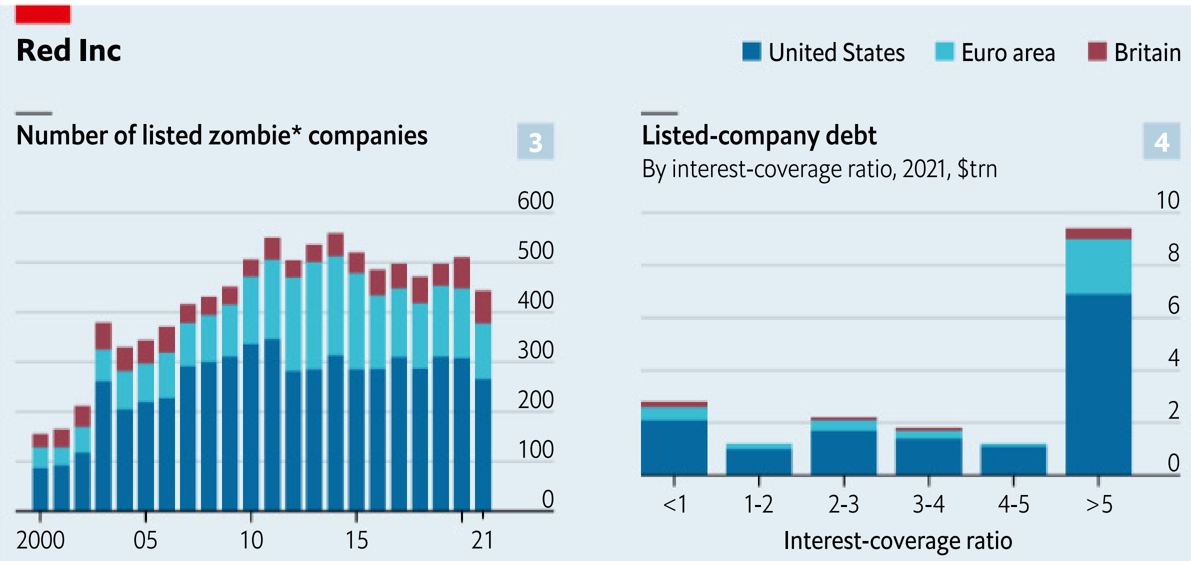
On that definition, using data from Refinitiv we identify 443 zombies listed in America, Britain and the euro area (see chart 3). That is up from 155 in 2000, but still just 5.6% of all listed firms, responsible for 1.9% of total debt and 1.4% of total sales. Their demise could be the economy's gain, as mismanaged firms with low productivity that binged on bail-outs finally close, although that would be cold comfort to their employees and owners.

The third and biggest area of concern is firms that are merely unfit rather than undead. One way of capturing their prevalence is to look at firms with an interest-coverage ratio of less than two. That gets you to a fifth of the total debt of listed American and European companies—some $4trn-worth (see chart 4). Alternatively consider firms whose debts are rated just above junk status. Some 58% of the investment-grade non-financial corporate bond market is now rated BBB, according to Fitch, a ratings agency. The average yield on such bonds has more than doubled in America in the past 12 months, to 6.1%. Unlike high-yield bonds, many of them come due soon and will need to be refinanced at much higher rates.

Ever since the global financial crisis of 2007-09 plenty of mature companies with slow sales growth have taken advantage of cheap credit to pile on debt to the verge of junk status in order to fund shareholder payouts. As profits come under pressure and interest costs rise, they face a squeeze that could lead them to cut jobs and investment. And if earnings plummet, which some analysts are beginning to predict as recession fears mount, this financing strategy could push these businesses over the edge into junk territory. Asset managers whose portfolio mandates require them to favour safe assets may be forced into fire sales, triggering a crash in prices and a further surge in borrowing costs.

Most of the firms operating just above junk status are still a long way off a downgrade, reckons Lotfi Karoui of Goldman Sachs. Many of the flakiest investment-grade borrowers were downgraded early in the pandemic, so the remaining ones are on average more robust. A nightmare scenario is not, in other words, inevitable. But it is no longer inconceivable, either. ■

Red Inc



Sources: Refinitiv; *The Economist* *With earnings consistently below the interest due on debts and revenue growth below average

Italian business

Giorgia on their mind

BERLIN

Corporate bosses wonder what to make of the incoming prime minister

LIKE BUSINESS leaders in other countries, Italian captains of industry have a history of striving for cordial relations with whomever is in power. That includes dealing with questionable characters like Silvio Berlusconi, a media tycoon who has been tried more than a dozen times for fraud, false accounting and bribery, and outright villains like Benito Mussolini, the second-world-war-era fascist dictator.

The latest controversial right-winger Italian business must get to know is Giorgia Meloni, a 45-year-old firebrand who ten years ago co-founded the Brothers of Italy party, which traces its origins to Italian neo-fascists. After her triumph at the general election on September 25th, she will head a three-way coalition composed of the Brothers, Mr Berlusconi's Forza Italia and a third like-minded outfit, the League, led by Matteo Salvini.

In the run-up to polling day Italia SpA scrambled to work out how worried it should be about a Eurosceptic nationalist with scant experience in business, a taste

The right has might

for statist rhetoric and irresponsible pledges to both lower taxes and raise public pensions. Ms Meloni has also frightened corporate and market types by calling for the renationalisation of Telecom Italia, a giant telecoms operator, and by opposing the proposed takeover of ITA, Italy's biggest airline, by Certares, an American private-equity firm.

In early September Ms Meloni was invited to the Villa d'Este in Cernobbio on the shores of Lake Como to the Ambrosetti Forum, an annual gathering of the great and the good in Italian business. The attendees welcomed her cordially and she vowed not to make "promises that we cannot keep" or rock Italy's wobbly public finances (after Greece, Italy has the highest ratio of debt to GDP in the European Union).

Although markets did not panic the morning after Ms Meloni's victory, they betrayed signs of anxiety a day later. The spread between Italian and German ten-year government bonds, an indication of economic risk, widened. Whether they widen further will depend on who gets the finance and economy portfolios, says Zeynep Ozturk-Unlu of Deutsche Bank. Businesses and investors will be reassured if Ms Meloni picks an internationally respected figure such as Domenico Siniscalco, a Morgan Stanley investment banker, or Luigi Buttiglione, a liberal economist—or even if she just hangs on to Daniele Franco, the outgoing finance minister.

The carrot-and-stick strategy of the EU to promote reform should help keep the new government on the straight and narrow. "Meloni wants to avoid following Hungary or Poland," says Andrea De Petris of Centro Politiche Europee, a think-tank in Rome. Both of those countries risked losing billions of euros in EU funds over their tussles with Brussels for flouting the norms of liberal democracies. On September 27th the European Commission approved the second €21bn ($20bn) tranche of Italy's pandemic-recovery funds. Mario Draghi, the departing technocratic prime minister, secured the cheque by achieving 45 conditions demanded by the EU in areas such as reform of public administration. Ms Meloni is expected to continue his course and try to implement another 54 conditions required to receive the third tranche by the end of the year. That would be great news for Italian companies, especially those eyeing government contracts that the EU cash will help bankroll.

Draghing in the new crew

In the run-up to the election Ms Meloni talked regularly to Mr Draghi, who is said to be eyeing a big EU job. He is leaving Ms Meloni and the team she is trying to assemble a draft budget that is due in Brussels on October 15th. That should reassure those business leaders worried about the departure of Mr Draghi, a former head of the European Central Bank who in economic terms at least has a plausible claim to being Italy's safest pair of hands.

Ms Meloni has a few things going for her. Italian bosses want to like her. Similarly to their counterparts in other countries, business folk tend to favour the right over the left. And like the rest of the Italian electorate, bosses are partial to the latest rising political star. Some of those stars, such as Beppe Grillo of the Five Star movement, flame out fast. Many owners of smaller companies in the north which used to vote for Mr Salvini and the League have switched to the Brothers, says Veronica De Romanis, professor of economics at LUISS, a university in Rome. Ms Meloni's first step in avoiding the same fate is not to mismanage the Italian economy. ■

Unilever

Hope after Jope

The consumer-goods giant's woes will not go away with its boss

EVERY INCOMING chief executive wants to see their employer's share price pop on the news of their appointment. No outgoing boss wants to witness the same thing happen when they announce their departure—especially if a market-wowing successor has yet to be named. That was the fate that befell Alan Jope after he declared on September 26th that he would retire next year. The market value of the consumer-goods giant popped by as much as 3.5%, ending the day 1.8% higher.

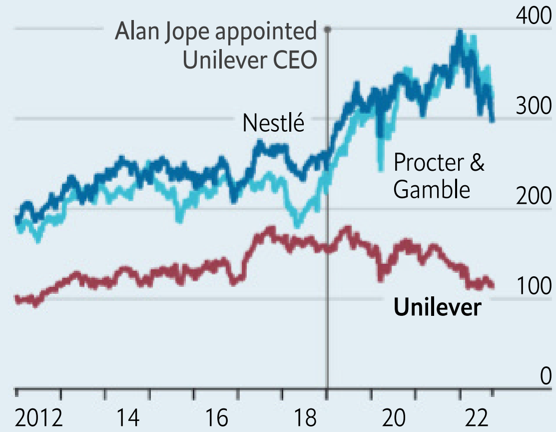
Both Unilever and Mr Jope present the move as his decision. The fact that he has been in the job since only 2019, is a stripling 59 years old and apparently in good nick strongly suggests he had help making it. So does Unilever's lacklustre stockmarket performance, especially compared with its main rivals, Nestlé and Procter & Gamble (see chart). Whether his exit will be enough to revive the 130-year-old soap-to-soup conglomerate is another matter.

When Mr Jope first took the reins less than four years ago investors had high hopes for him. He had experience in China, an important growth market, and had run Unilever's personal-care division, seen by many as key to the company's future. He also seemed like a welcome pragmatic antidote to his moralistic predecessor, Paul Polman, an early champion of corporate social responsibility and of environmental, social and governance (ESG) considerations in business. Though in many ways laudable, Mr Polman sometimes seemed to view shareholders as an annoying afterthought.

Mr Jope can point to some successes. On his watch Unilever finally ditched its

Not cutting the Colman's

Market capitalisation, $bn



Source: Refinitiv Datastream

convoluted dual structure, with headquarters in Rotterdam and London, and consolidated its corporate home in Britain. He finalised the protracted sale of the firm's tea business. His strategy of prioritising health and hygiene businesses over sluggish food operations was seen by the market as the correct course. And he steered the firm through the early pandemic panic, mostly from his study in Edinburgh.

A sensible strategy and able crisis management weren't enough to make up for Mr Jope's missteps. He clung on to Mr Polman's target of 20% for operating margins even if it meant sacrificing revenue growth. Investors' confidence was then eroded as expectations for sales and profits sagged. Woolly talk of sustainability made a comeback, leading one big shareholder, Terry Smith, a fund manager, to grumble that a firm "which feels it has to define the purpose of Hellmann's mayonnaise has ...clearly lost the plot". The final straw was Mr Jope's bid in January to acquire the consumer-health unit of GlaxoSmithKline, a drugmaker, for £50bn ($68bn at the time). Investors saw the deal as a reckless gamble and it ultimately fell through—but not before becoming a "lightning rod for [their] frustration", as Martin Deboo of Jefferies, an investment bank, puts it.

Mr Jope's successor will not have an easy task. He or she may well be taking over after recession strikes but before inflation subsides. The future chief executive will also face renewed calls from investors to break the company up into food and home-and-personal-care businesses, and will have to contend with Nelson Peltz, a bolshie hedge-fund manager who joined Unilever's board two months ago. And the conflicting pressures to hold firm on ESG on the one hand, as many consumers and politicians demand, and to increase sales and margins on the other, to placate investors, are only getting more acute (see Schumpeter). Voluntary or not, retirement doesn't look like such a bad idea. ■

Semiconductors

Painful memory

SINGAPORE

Some Asian chipmakers are hurting much more than others

To most consumers, computer chips are all the same: magical artefacts that permit smartphones to perform miraculous feats. Expert technologists instead see a diverse range of highly specialised products of human ingenuity, each with their own unique characteristics and function. Until recently investors in semiconductor companies behaved more like the uninitiated consumers, piling into virtually all chipmakers with the expectation of conjuring up preternatural returns. As the pandemic-era chip boom turns to bust, they are increasingly coming to resemble the discerning nerds.

In particular, investors are distinguishing between firms whose fortunes are tied to "logic" chips, which process information, and the manufacturers of "memory" chips, which store it. Although demand for all types of semiconductors has cooled this year, the memory market is feeling considerably frostier than the one for logic. That in turn has opened up a geographical divide between the world's silicon superpowers, South Korea and Taiwan—and between their respective semiconductor champions, Samsung and TSMC.

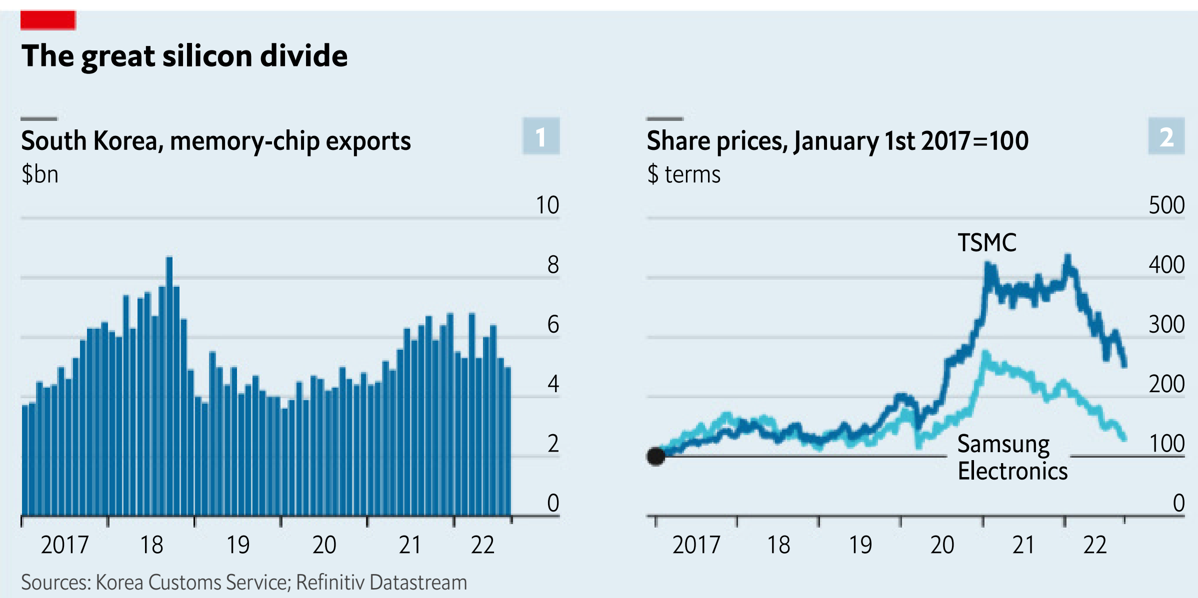
South Korea, home of the world's largest producers of memory chips, exported just $5bn-worth of such devices in August, a decrease of 23% compared with a year ago (see chart 1). Across the East China Sea, in contrast, the Taiwanese foundries churning out logic chips are humming away. TSMC's August sales soared by 59% year on year, to a monthly record of $7bn or so. As a result, reckons IC Insights, a research firm, the company looks likely to go from a relatively distant third in the ranking of global semiconductor sales to number one, dislodging Samsung from the top spot and overtaking Intel, America's chip champion, at one fell swoop.

The share prices of most chipmakers worldwide are down since their peaks in the pandemic, which boosted demand for all sorts of digital devices by stranding shoppers, workers and funseekers on their sofas. Now Samsung's market capitalisation looks as though that covid-19 surge never happened. That of its closest rival in memory chips, SK Hynix, also of South Korea, is likewise back below its pre-pandemic level. TSMC's market value, by contrast, remains comfortably higher, this year's slide notwithstanding (see chart 2).

One reason for TSMC's outperformance is that the semiconductor shortages of the past two years have been concentrated in logic processors rather than in memory silicon. That backlog, combined with TSMC's commanding position in the market for cutting-edge logic chips, allows it to control capacity and set prices for its products, explains Vincent Tsui of Gavekal Research, a firm of analysts.

The South Korean firms' wares are too commoditised and their market too fragmented to enable them to do the same. They have been pouring money into expanding their logic businesses; last year Samsung said it would be mass-producing state-of-the-art logic microprocessors with transistors measuring two nanometres (billionths of a metre) from 2025. But as the cycle turned in the first half of this year it scaled back its capital-spending plans. (Despite chiefly making logic chips, Intel has struggled, too, as a result of strategic and technological missteps.)

The boom and bust in memory chips is a relatively predictable phenomenon: demand rises, pushing up prices; chipmakers respond by investing in capacity; new production lines arrive a year or two later, just as demand cools; prices crash and chipmakers rein in investments. So far logic chips have avoided as deep a slump as memory thanks in part to the acuteness of the shortages over the past couple of years. Still, observes David Wong of Nomura, an investment bank, over time the logic downturn "may go on longer and be deeper than expected; we may well see a sort of second leg". ■



The great silicon divide

Sources: Korea Customs Service; Refinitiv Datastream

The business of Indian weddings

Matrimony Inc

MUMBAI

An industry that is a marriage of everything

VISHAL PUNJABI sounds groggy over the phone. "You know when you can't remember where you are when you wake up," he says. "I'm in Cannes, before that Barcelona and before that Dubai, London, Udaipur, Delhi, Chennai and Bangalore. Now off to Charlotte, North Carolina and then the Napa Valley." This globetrotting lifestyle would be familiar to high-powered CEOs, venture capitalists or investment bankers. Mr Punjabi is none of these. Instead, he produces intricate wedding videos for Indian nuptials: 65 in the past year, two-thirds of them for Indian couples who wed outside India. His expanding workforce includes set designers, sound and light engineers, composers, video editors, even script writers.

Indians take knot-tying seriously. Consequently, Indian matrimony is serious business. The amount of money which changes hands in relation to it can be staggering. Mr Punjabi charges between $5,000 and $50,000 a day, and some productions stretch to a few weeks. India's regions have different traditions, each demanding specific services. The festivities often last for days, requiring constant attention from one business or other. Annual spending on these—from matchmakers and caterers to film and construction crews—may exceed $130bn, reckons Praveen Khandelwal, secretary-general of the Confederation of All India Traders, which represents small and medium-sized enterprises. If he is right, that would make marriage the country's fourth-largest industry, behind energy, banking and insurance but ahead of cars, steel and technology.

And India's Matrimony Inc is getting bigger. In the short term, weddings are booming as couples who postponed the festivities because of covid-19 rush to the altar. Mr Khandelwal expects 2.5m weddings in November and December in India, on top of 4m events in the spring wedding season from April to July, and not counting those footloose brides and grooms. In the longer run, the ceremonies are getting bigger and more lavish as Indians grow richer. Businesses across this vast nuptials-industrial complex are adapting accordingly—and themselves growing.

In India the business of weddings typically begins before the two people theoretically at its centre have ever laid eyes on one another. Matchmakers operate everywhere in India, from rural huts to urban high-rises. Classified adverts (often placed by parents hoping to get their children hitched) still appear in Sunday newspapers, often written in shorthand inscrutable to the uninitiated. Indian cyberspace teems with "matrimonial" sites; the biggest publicly listed one, Matrimony.com, has a market value of around $160m, and last year reported annual revenues of $57m, 850,000 subscribers and 100,000 successful matches. For the globetrotters and the diaspora, a new breed of cross-border specialists charge an upfront fee of as much as $15,000, plus other commissions.

An inviting enterprise

Once the match is made, the preparations for the ceremony begin. Specialisms have emerged to cater to every aspect of the event. One road in Mumbai is lined with more than 70 businesses devoted to invitations, from calligraphers to printers. A Kolkata-based invitation guru travels around Asia in search of items that would make his custom products stand out. Invitees to the wedding in 2018 of the daughter of Mukesh Ambani, one of India's richest tycoons, received a box that included an album and four smaller boxes filled with jewels and treats; one unpacking video on YouTube has been viewed 9m times. Some invitation businesses seize export markets. Shantilal & Sons, a Mumbai firm founded in 1943, has just dispatched a shipment to an Indian couple in Australia; another is destined for Oklahoma.

Not far from invitation lane is Zaveri Bazaar, the old jewellery district, with perhaps 7,000 shops offering everything from "American diamonds" (the polite name for fakes) to precious gems. Weddings account for more than 70% of sales, estimates Siddharth Sawant of Tribhovandas Bhimji Zaveri, a chain founded in 1864. Other jewellers say much the same. Weddings are a big reason why India is the world's largest gold importer, buying $46bn-worth of the yellow metal in the past year.

Parents and other kin begin buying wedding baubles in the first two weeks after a girl's birth, says Devaunshi Mehta, owner of the DiA shop at the posh Taj Mahal Palace Hotel in Mumbai. By the time the newborn sits at the altar, she is bejewelled head to toe (sometimes literally) with what still serves as portable dowry. To be a bit less outshone, some grooms have begun to sport bling, too.

Besides jewels, the soon-to-be-newlyweds and their retinues need clothes. Given Indian weddings' multi-day run time, the bride and her bridesmaids may need at least half a dozen formal outfits, plus customised T-shirts to throw on between matrimonial setpieces and even pyjamas. Intricate handcrafted saris from top designers such as Tarun Tahiliani and Sabyasachi can fetch tens of thousands of dollars. A town in the state of Gujarat is said to have 4,000 people employed in stringing beads and crystals, both directly by the fashion houses and by subcontractors. Rendering the bride fit for Instagram has led to a boom in professional sari drapers.

The wedding venue, too, is beautified—by architects, set designers, florists and, evanescently, fireworks artists. Hoteliers do a brisk trade hosting the festivities and ▸▸

A merger and lots of acquisitions

housing all the guests. Tata's Indian Hotels, the country's largest chain, estimates weddings account for 20% of its business. Even a modest village affair involves extraordinary amounts of food and countless cooks. All marriages involve a lot of music and dancing: some Bollywood choreographers run side gigs teaching clutzy family members to dance with a modicum of grace. Big weddings often enlist professional backup dancers. The biggest bring in A-listers, and not just from India (Beyoncé graced the Ambani festivities).

Managing all this is not for the faint-hearted—or for amateurs. When family members are assigned organisational roles, which used to be the norm, the result can be chaos. Ever more lavish and complex celebrations have therefore led to the rise of the wedding planner. Vandana Mohan, a Delhi-based planner behind some of the country's largest and poshest nuptials, begins by walking clients through a list of 712 distinct components, from the humdrum (how many colour schemes to use) to the extravagant (how many hotels to rent in their entirety).

Many Indian metropolises now have dozens of such advisory firms. Around 25 offer services nationally and a few, internationally. A big part of their job is to obtain official permits for assorted aspects of the event (such as live music, road closures, beach bookings, pyrotechnics, booze, power generators and vehicles, including elephants). At least this is becoming easier, reports Vikram Mehta, a high-end planner, both in India and abroad. Local authorities have become more welcoming to nuptials, he says, as they have twigged just how big a fillip even a single event can give the local economy. ■

Bartleby The grip of vice

Nobody's perfect. Managers should not forget that

The arc of current management thinking bends towards virtue. Co-operation is what makes teams purr. Low-ego empathy is the hallmark of a thoroughly modern boss. Purpose matters to employees as much as pay; society looms as large as shareholders. But appealing to people's better nature, and ignoring their vices, is an incomplete approach. Nor is being good necessarily great for your own career.

Take a look at the seven capital virtues and the seven deadly sins laid out in Christian tradition. The virtues are chastity, temperance, charity, diligence, kindness, patience and humility; the vices are lust, gluttony, greed, sloth, envy, wrath and pride.

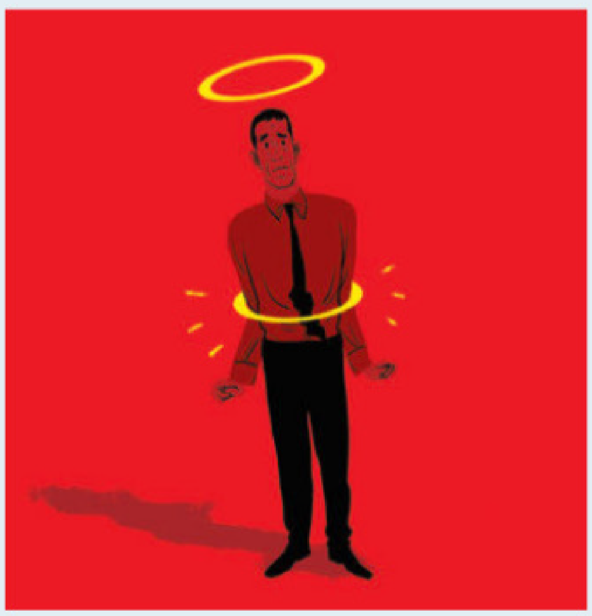
In aggregate the first set of qualities is the one for managers to emulate. Neither chaste charity nor lustful gluttony have much to recommend them as a management ethos; but only one is a lawsuit waiting to happen. Diligence clearly beats sloth. Greed is out of fashion. Aiyesha Dey of Harvard Business School and her co-authors have found that excessive materialism on the part of a chief executive can be a warning sign of fraudulent activity and out-of-control risk-taking. Pride is also increasingly seen as problematic: in a paper from 2018 academics identified narcissistic bosses by the size of their signatures and found a correlation with poor financial outcomes at the firms they ran.

Yet saintliness is rare and sinfulness can be underrated. Take envy, for example. By design organisations rely on competition as well as co-operation. A kind person might well be content to applaud other people for their success. An envious one will see someone to catch up with.

Psychologists distinguish between malign and benign versions of envy. In one, people try to close gaps in status by bringing others down. In the other, they are motivated to improve their own performance. A recent paper by Danielle Tussing of the University at Buffalo and colleagues discovered a third type of behaviour: people who skipped work or even quit their jobs in order to avoid feelings of envy. Understanding such emotions is a step towards harnessing them.

Pride can also lead to greater effort (as well as to gigantic signatures). In an elegant paper looking into the performance of German fighter pilots in the second world war, Philipp Ager of the University of Mannheim and other researchers found that personal rivalry fuelled risk-taking behaviour. When pilots received public recognition for their exploits in a daily bulletin to the German armed forces, peers with whom they had flown in the past redoubled their own efforts. Something propelled them to fly more missions, even though that meant a greater chance of being killed, and it wasn't humility.

Patience may be a virtue, but it is not always the best quality in a leader. Research on the impact of managers' moods on performance is pretty thin: one deeply unpersuasive paper from 2017 used facial-recognition software to analyse CEOs' TV appearances and concluded that expressions of anger and fear were associated with improved profitability in the following quarter. Yet forbearance can plainly go too far. Anyone who has worked in an office knows that the boss's wrath can sometimes be the only thing that gets things moving.



Greed is not something to admit to in polite society but acquisitiveness still motivates an awful lot of people. In their research into CEO behaviour Ms Dey and her co-authors defined excessive materialism as owning a private home worth twice as much as the median house in the area; owning a car worth more than $75,000; or owning a boat that was longer than 25 feet. Of her sample of CEOs, fully 58% ticked one or more of these boxes; only 42% counted as frugal.

Gluttony may not fuel ambition but it could well be a side-effect of the hierarchies that characterise companies. Research experiments in which strangers are assigned a high-status role and a low-status role and put in a room together have found that those placed in positions of authority help themselves to more biscuits than the others. Even people who mean well may end up behaving badly if they acquire power.

If management is about getting the best out of people, it helps to understand base behaviours as well as noble ones. Employees are humans and humans are complex. They seek to improve the world and would quite like their own swimming pool. They want to mentor the disadvantaged and see their rivals fail miserably. They grab the biscuits.

Schumpeter | BlackRock and a hard place

Larry Fink will survive the ESG culture wars

Though he likes to write letters to thousands of CEOs at once, Larry Fink must flinch these days when one lands on his own doorstep. In recent months the boss of BlackRock, once feted for "democratising" access to investment, has received stinging missives from Republicans and Democrats alike. "Dear Mr Fink," started one from 19 GOP state attorneys-general on August 4th, accusing BlackRock of selling its customers short by pursuing an "activist" agenda on climate change. "Dear Mr Fink," began another on September 21st from the progressive head of New York City's Office of the Comptroller, telling BlackRock it was shortchanging investors—and the planet—by "backtracking" on its climate commitments. The charges are mirror images of each other, making them all the harder to deal with. BlackRock cannot appease one set of government clients without upsetting the other.

Who would have thought, as Mr Fink built a business over 35 years based on computing power, low fees and economies of scale, that something as innocuous-sounding as index investing could become such a source of controversy? BlackRock, based in midtown Manhattan, eschews Wall Street's flashiness. Mr Fink, the son of a shoe-shop owner, has a middle-class Democrat's scepticism of the quick buck. His letters, known for aphorisms like "climate risk is investment risk", promote kinder, gentler free-market enterprise, but are in no way anti-capitalist. Tall, bespectacled and sensibly dressed, he makes an unlikely punchbag.

Two things have happened to turn BlackRock into a *bête noire*. The first is size. Last year, the *Financial Times* called Mr Fink "The ten-trillion dollar man", based on the value of BlackRock's assets under management. Since then its investment portfolio has slipped to about $8.5trn as markets have plummeted. But it is still the world's biggest asset manager, invests on behalf of its clients in almost all of America's most important firms, and sells exchange-traded funds around the world.

The second development is America's culture wars over wokeism. BlackRock is a big seller of investment products that consider environmental, social and governance (ESG) factors alongside financial ones. It acts as a quasi-regulator in pushing companies to disclose their climate risks. That appeals to many clients. But in a politically divided country, it alienates others.

None of this is to be taken lightly. BlackRock and other index-fund providers have for a while faced allegations that their ownership of shares in competing firms in the same industry posed competition problems. They successfully parried the onslaught, arguing that their stakes were too small and their influence too dispersed to make a difference, and that they are anyway passive asset owners with no desire to meddle in company management. The size defence has looked shaky for some time: last year BlackRock and two other giants, Vanguard and State Street, together owned 22% of the average company in the S&P 500 index of big American firms, up from 13.5% in 2008. Now all the ESG talk makes it sound as though BlackRock is not so passive after all. In their letter, the attorneys-general duly alleged that the attempt by BlackRock and others to "impose" net-zero targets on firms raised antitrust concerns. BlackRock insists it does not co-ordinate votes on such matters or dictate a decarbonisation agenda. But the ghost of Teddy Roosevelt is back.

Do such controversies jeopardise BlackRock's business model? Not necessarily. Mr Fink has an instinct for finding safety in the middle ground. He may be portrayed as a climate crusader, but in reality, BlackRock has rarely gone further than its institutional clients are comfortable with in promoting a climate agenda. (It shies away from more impactful policies, such as dissuading firms from lobbying against environmental regulations.) He may look like he wields a big stick; BlackRock earned a lot of publicity last year for backing an activist campaign to greenify the board at ExxonMobil, an oil giant. This year, though, he has waved a twig. BlackRock supported 24% of shareholder resolutions on environmental and social matters, down from 43% last year. Mr Fink's new mantra, no doubt with an eye on the Republican backlash, is that he has no wish to be the climate police.

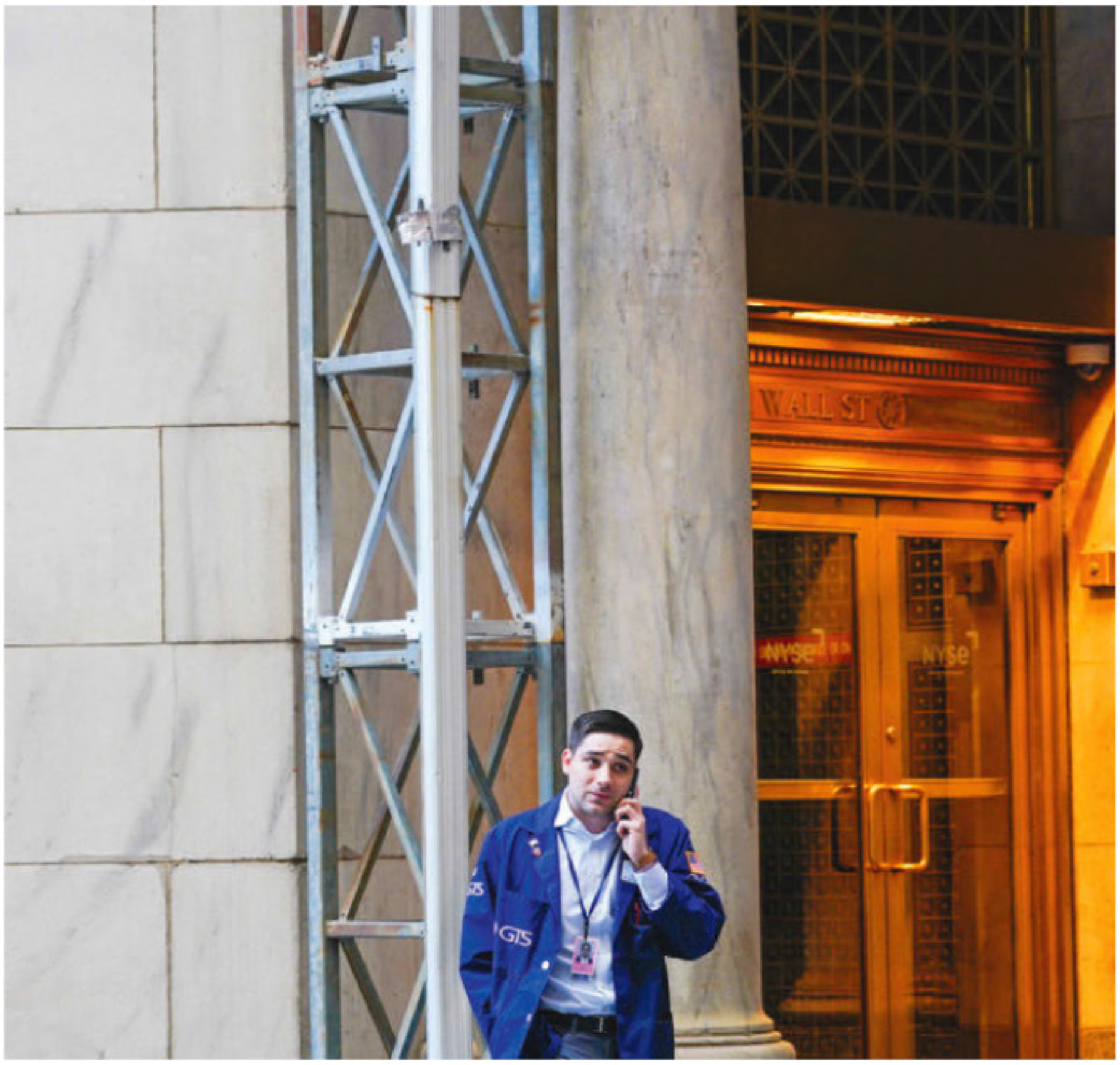
Moreover, BlackRock may soon be able to sidestep the controversy. Around the world, standard-setters are drawing up rules to harmonise the way companies disclose climate information. That includes the Securities and Exchange Commission (SEC), America's markets regulator. Though Republicans, as well as conservative judges, may try to restrain the SEC's efforts to mandate emissions disclosures, the direction is clear. If actual regulators do their jobs, no need for BlackRock to act as an unofficial one.

Another path out of culture wars is innovation. Mr Fink's shrewdest attempt to get politicians off his back is to double down on shareholder democracy. In January BlackRock expanded access to those owning almost half of its $4.9bn of index funds to vote their own shares. If they do, it cannot be accused of using their votes to advance Mr Fink's personal interests. That will help spike the guns of Republican senators who, via the proposed Investor Democracy is Expected (INDEX, geddit?) Act, aim to force the giants to let investors decide how to vote.

BlackList

BlackRock still has culture wars to fight. It no doubt finds it maddening that it is the only big American asset manager to be threatened with divestment by Texas pension funds over an alleged "boycott" of fossil-fuel companies. It is, it points out, one of the world's largest fossil-fuel investors. It will have to persuade other Republican states not to use that as a precedent.

Still, even with the political turmoil, the firm continues to attract net inflows, partly thanks to its ESG business. Only if mainstream investors start seeing through the hollow promise of trade-off-free ESG would Mr Fink really need to worry. ■



Financial markets

The chill spreads

America's fight against inflation is wreaking havoc in the rest of the world

The Federal Reserve began raising interest rates to battle inflation in America a full six months ago. But its determination to crush surging prices, whatever the cost to the economy, is only now starting to sink in. The central bank's latest policy meeting, which ended on September 21st, has been followed by dramatic moves in financial markets across the world. The economic consequences will be a little slower in coming, but no weaker for it.

After the meeting, Jerome Powell, the Fed's chairman, said the central bank was "strongly resolved" to bring down inflation, currently at 8.3%, to its target of 2%. That resolve sent government-bond yields surging and stockmarkets tumbling. Yields on ten-year Treasuries rose by nearly half a percentage point. On September 28th they spiked above 4% for the first time since just after the global financial crisis, before falling a little. Higher rates in America have turbocharged the dollar. The DXY, an index of the greenback against half a dozen major currencies, has risen by nearly 18% this year, and is now at its highest in more than two decades.

The flip side of dollar strength has been drama elsewhere. In Britain sterling took a breathtaking dive, aided by the government's decision to unveil the country's largest tax cuts since the 1970s (see Britain section). Short-term interest rates rose just as spectacularly. Meanwhile, the euro reached its lowest point against the greenback in two decades on September 26th. Expectations of rate rises by the European Central Bank, as it fights the resulting increase in imported inflation, sent bond yields in the euro area rising, too. In heavily indebted Italy yields on ten-year sovereign bonds are not far off a worrying 5%.

Jolting currency movements have led to a spate of interventions. In Japan, where the central bank is fighting an increasingly lonely battle to keep interest rates low, the government intervened to prop up the yen for the first time since the Asian financial crisis in 1998 (see story after next); India's central bank has also intervened to support the rupee (see Free exchange). China's central bank is requiring banks to post reserves when selling foreign-exchange derivatives contracts, making it harder to bet against the yuan.

The great unknown is the impact of these ructions on a financial system that has changed significantly since the crisis of 2007-09. Financiers and policymakers alike agree that banks are far safer. But weird dysfunctions in less-scrutinised corners of the system cannot be ruled out. One illustration of this came soon after Britain's gilt markets were battered by the "mini-budget". Pension funds that had used derivatives to protect themselves against interest-rate risk found themselves pressed to raise cash to meet collateral requirements. They raised that money by fire-selling long-dated gilts, setting off a vicious cycle of sales and higher yields. On September 28th the Bank of England stepped in, saying it would purchase long-dated gilts to restore order.

Another worry stems from the roughly $24trn in private-market assets, which have ballooned over the past decade. So far this year these have been marked down by only 11%, reckon analysts at JPMorgan Chase, a bank, far less than the 20% or so decline in listed stocks and bonds. Should markdowns catch up with the public markets, the owners of these assets will take bigger losses. It is unclear precisely who is on the hook.

The impact on the world economy, by contrast, is clearer—and it is not good news. Thanks to a natural-gas crisis in Europe and a housing slowdown in China, its prospects were already looking dicey. In forecasts published on September 26th the OECD, a club of mostly rich countries, said that global GDP would rise by just 3% this year, down from the 4.5% it had expected in December. Commodity prices, a barometer of the state of the global economy, have fallen in recent months. The price of a barrel of Brent crude is now in the region of $83-88, levels not seen since Russia invaded Ukraine. The prices of copper and other industrial metals are also down.

The latest market volatility will add to the pain. Rising government-bond yields are translating into higher borrowing costs for households and companies. In America the interest rate on a 30-year fixed-rate mortgage has risen to 6.9%, the highest since the financial crisis. In Britain lenders briefly paused some new mortgage lending, owing to volatile interest rates. Yields on riskier high-yield, or "junk", corporate bonds have more than doubled in America and the euro area, to 9.4% and 7.8% respectively (see Business section).

Europe seems set to suffer the most. The energy crisis has already cast a long pall, with economists pencilling in two to three quarters of negative GDP growth in the euro zone. Annual inflation is already above 9%, and a weaker euro will further push up the cost of imported goods. The European Central Bank, eager to shore up its inflation-fighting credibility, has signalled that it intends to raise rates twice this year in order to keep inflation expectations in check. Doing so will only deepen the recession on the continent.

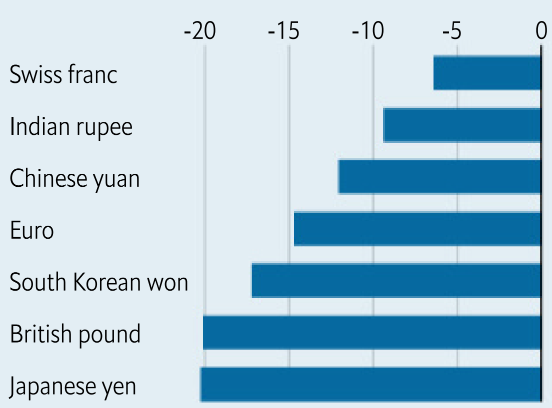
As for America? The world's largest economy has experienced an enviable boom in recent years, buoyed by fiscal largesse during the covid-19 pandemic. Rising rates are making a dent in the property market, the most interest-sensitive part of the economy. According to the latest Case-Shiller index, published on September 27th, house prices fell by 0.3% in July compared with the previous month, the biggest such decline in a decade.

For now, though, there is little sign of a wider slowdown in America. Underlying inflation, at an annual rate of 6.3%, is still considerably higher than the Fed would like. In contrast to the housing market, inflation tends takes a while to react to higher interest rates. And until it comes down, there will be no relief from rate rises. Mr Powell has said he will be looking for "compelling evidence that inflation is moving down". The rest of the world will be watching just as anxiously. ■

Shared suffering

Currencies against the $

Jan 3rd-Sep 28th 2022, % decrease



Source: Refinitiv Datastream

Inflation fighting (1)

The great tightening

WASHINGTON, DC

The impact of simultaneous rate rises may be bigger than anticipated

THE GREAT TIGHTENING began in the spring of 2021, when a handful of central banks in Latin America and central Europe began putting up interest rates to calm their wobbling currencies and rein in inflation. By the end of the year, a few rich countries, like Norway and South Korea, had joined in the action. Over the course of this year, nearly every major economy has jammed on the brakes. In the past five decades, policy has never tilted so overwhelmingly towards rate rises (see chart).

As the pace of tightening has increased, growing numbers of economists have warned that this rapid and synchronous, but largely unco-ordinated, policymaking has the makings of trouble. Maurice Obstfeld, a former chief economist at the IMF, recently argued that central banks' failure to consider the global effects of their policies puts the world economy at risk of a "historic" slowdown. While any given rate rise may be justifiable, together they could have a greater effect than anticipated.

Rising inflation is a consequence of too much money chasing after a constrained supply of goods and services. Rate-raising central banks set out to slow growth by dampening spending, but in a globalised economy spending flows across borders. When one central bank tries to quash demand it affects consumption of foreign goods as well—in effect helping other central banks to manage their inflation problems. If such spillovers are not taken into account, the global economy will slow by more than central banks had individually aimed to achieve.

Financial flows work in parallel with this process. A rate rise in one country may attract money from investors elsewhere, causing the currency to strengthen. This means a reduction in import costs, which may help to cool domestic inflation. But other economies then face higher import bills, which exacerbates their inflation problems. Unco-ordinated policy tightening can become its own sort of currency war, in which each country works to shift the burden of inflation elsewhere, with the net result being too much tightening.

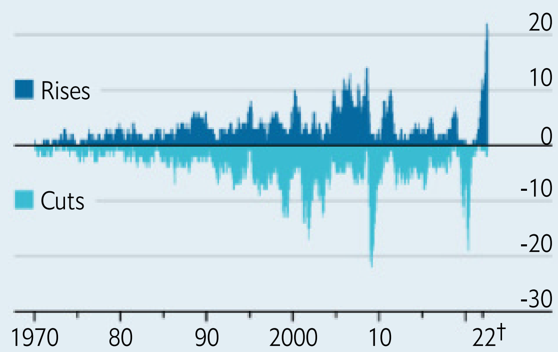
The world's biggest co-ordination problem, however, may be less one of every-central-bank-for-itself and more one in which a single dominant central bank—America's Federal Reserve—calls a tune which others must follow, like it or not. The dollar's outsized sway in the global financial system grants it a powerful role in driving global financial cycles. A recent paper from Mr Obstfeld and Haonan Zhou of Princeton University notes that monetary tightening in America is strongly associated with an appreciating dollar and a deterioration in a number of global economic and financial measures.

The Fed's commitment to returning American inflation to 2% leaves it little room to accommodate other economies. It may welcome rate rises elsewhere as a helpful contribution to America's inflation fight, even if countries begin falling like dominoes into recession. Indeed, the more spare capacity is created in other economies, and the greater the downward pressure that places on prices globally, the less unemployment may need to rise in America in order to achieve the Fed's aims.

The world has become much more financially integrated since 1971, when John Conally, then Treasury secretary, said to representatives of the world's other large economies that "the dollar is our currency, but it's your problem". As interest rates across the world spiral upward in an unco-ordinated manner, the probability that any economy emerges from this experience unscathed sinks ever lower. ■

All together now

Monthly number of central-bank policy-rate changes*



*37 countries and the euro area, three-month moving average
†To August 31st

Sources: Bank for International Settlements; World Bank

Inflation fighting (2)

Last man standing

SINGAPORE

As everywhere else tightens, Japan sticks to its guns

THERE HAVE been few months in monetary history as consequential as this September. Countries everywhere have tightened the screws on borrowers to smother inflation. But there has been a notable holdout. The Bank of Japan (BOJ), the pioneer of modern zero-interest rate and bond-buying operations, is standing firm.

The country has struggled with low inflation, and even deflation, for decades. Its monetary policy has been designed to make financing conditions for companies and households as easy as possible, in an effort to get them to spend. In 2016 the BOJ adopted a policy of yield-curve control, which caps 10-year government bond yields at around 0%. This becomes more difficult when the rest of the world is raising interest rates, since the growing spread leads to a weaker currency, as investors seek stronger returns elsewhere.

On September 22nd Kuroda Haruhiko, the BOJ's governor, reiterated that the bank would hold rates down. This statement, familiar to BOJ-watchers, was followed by something much rarer. The value of the yen fell to its lowest in more than 20 years, leading the Japanese government to intervene in currency markets for the first time since the Asian financial crisis in 1998.

The BOJ's refusal to budge and the government's intervention in currency markets reflect stark differences between Japan and the rest of the rich world. In contrast to America and Europe, Japan's economy has still not returned to pre-pandemic output. Japanese consumer prices rose by 2.8% year on year in August, marginally above the BOJ's 2% target. But that figure may overstate the amount of underlying price pressure. Excluding fresh food and energy costs, prices were up just 1.6% year-on-year, against an average of 7.2% across the OECD club of mostly rich countries.

The BOJ has another reason to sit on its hands. Unlike most central banks, which focus on very short-term interest rates, Japan's yield-curve control necessitates direct intervention in the market, through buying and selling long-dated bonds. It also relies on the widespread belief that the central bank will intervene to maintain the levels it is targeting, which stops traders from buying or selling Japanese government bonds outside the tight band the BOJ sets. Other central banks can simply retrace their steps and cut interest rates if required; once abandoned, yield-curve control would be difficult to resume.

The fall in the currency makes imports more expensive in yen: the country's import bill rose by 50% in August year on year. Kishida Fumio, the prime minister, has announced support including a 50,000 yen ($350) handout for poor families. Kataoka Goushi, an economist until recently on the BOJ policy board, reckons more co-ordination between monetary and fiscal policy will be needed to soften the impact of the weak yen and to reflate Japan's economy. That could take the form of household tax cuts now, or business-investment incentives in the long run.

Outside Japan, there may be unexpected consequences to the weak yen. The country is the world's largest foreign creditor. Its net international investment position—overseas assets held by Japanese owners, minus Japanese assets held by overseas owners—runs to $3.5trn, far north of China's $1.9trn. This huge pile is the result of decades of high savings.

A weaker currency makes foreign assets worth more when measured in yen. But the gyrating currency also means volatility, making many owners nervous. And the gap in interest rates between Japan and elsewhere makes hedging overseas investments exorbitantly expensive. Perhaps as a result investors have sold 13trn yen in foreign securities so far this year, according to the finance ministry, the most since at least 2005. Thus the falling yen is not only an issue for Japan. ■

The saviour state

Bail-outs for everyone!

SAN FRANCISCO

How governments came to underwrite the entire economy

THE WINTER of 1973-74 was grim, and in similar ways to today. In response to geopolitical strife energy prices went through the roof. Across Europe the price of natural gas more than doubled, and in places there were even bigger increases in heating oil. The price of crude oil more than tripled. This fed an inflationary surge across the rich world, cutting real incomes. There was no end in sight.

At the height of the crisis, Willy Brandt, West Germany's chancellor, summed up the official response in many countries. "We'll have to get dressed a little more warmly this winter," he said, "and maybe the next two or three winters. But we aren't going to starve." His government, like others, focused on efforts to cut fuel consumption—by imposing speed limits, telling people not to drive on Sundays and asking factories to turn down furnaces. Sweden and the Netherlands introduced petrol rationing; Italy imposed a curfew in bars and restaurants. Few governments doled out money. In 1973 the real value of Britain's benefits bill barely budged.

Today's governments have introduced some measures to cut consumption. But mainly they have turned on the fiscal taps. Britain has allocated funding worth 6.5% of GDP in the next year to shield households and firms from higher energy bills, more than it spent on its furlough scheme and support for the self-employed in 2020-21. Germany and France are offering handouts and subsidies worth about 3% of GDP. ▸▸

European governments are nationalising chunks of their energy sectors. America has spent, too, if on a smaller scale. State governors are doling out "gas cards" and suspending fuel taxes to help people refill. Imagine the reaction today if a country's leader only followed Brandt's approach, and told people to put on an extra layer.

The shift in energy policy hints at a more profound change in how governments govern. Politicians have long sought to provide safety nets or stimulus in bad times. But over the past 15 years, they have become far more willing to shore up vast swathes of the economy. When industries, companies or people get into trouble, fiscal help is never far away. Gains are privatised, but a growing share of losses or even potential losses are socialised. To appreciate this role for the state, discard much of the conventional wisdom, which says that in the "neoliberal" era governments have let free markets run riot. Instead, this is an era of "bail-outs for everyone".

Three events have shaped the new era. First is the global financial crisis of 2007-09. In this period, America spent 3.5% of GDP on crisis-related bail-outs, including capital infusions for banks and mortgage lenders, according to Deborah Lucas of the Massachusetts Institute of Technology. The justification for the interventions was that doing nothing would have proved far costlier. If the banking system had collapsed, so would the rest of the economy.

When covid-19 arrived, bail-outs moved from the financial economy to the real one. "Everybody said we bailed out the banks and we didn't look after the people who really suffered," said Boris Johnson, then Britain's prime minister. This time would be different. During lockdowns governments handed out trillions of dollars of support, guaranteed vast amounts of corporate lending, and banned evictions and bankruptcies. Unlike in previous crises, rates of poverty, hunger and destitution did not rise and in some places fell. Across the rich world, disposable incomes rose.

The third event is the surge in energy prices that has followed Russia's war in Ukraine. The challenge facing Europe, where the consumer price of energy has already risen by 45% since last year, has convinced many politicians that once again there is no option but massive state intervention. Europe's energy bills will rise by about €2trn relative to 2021, according to analysis by Goldman Sachs, a bank. Thanks to hastily patched together measures, governments will subsidise much of this.

The cumulative effect of three once-in-a-generation crises, in quick succession, has been a change in the terms of political debate. Politicians have set new expectations of what the state can and should do. This is visible in the smaller bail-outs, guarantees and rescues that have mushroomed since the start of the 2010s. The Italian government, for instance, has set up schemes to deal with banks' non-performing loans, in an attempt to get the private financial sector to lend again. The British government has offered banks vast guarantees to get them to offer bigger mortgages. The value of bank deposits insured by America's government has risen by 40% in the past five years.

Uncle Sam's parachute 1

United States, contingent government liabilities

% of GDP

Sources: BEA; FDIC; Federal Reserve; James Hamilton; Social Security Administration; US Treasury; Centres for Medicare & Medicaid Services; *The Economist*

Recently things have gone into overdrive. In August President Joe Biden announced that he would spend hundreds of billions of dollars to bail out Americans holding student-loan debt. Around the same time, he expanded loan guarantees for clean energy. Australia and New Zealand have offered citizens cost-of-living payments to deal with high inflation. Poland has introduced a moratorium on mortgage debt. It is only a matter of time before the next intervention comes along. What if Intel, a tech firm crucial to Mr Biden's domestic semiconductor drive, begins to struggle? What if, in a year's time, Europe's energy prices remain sky-high?

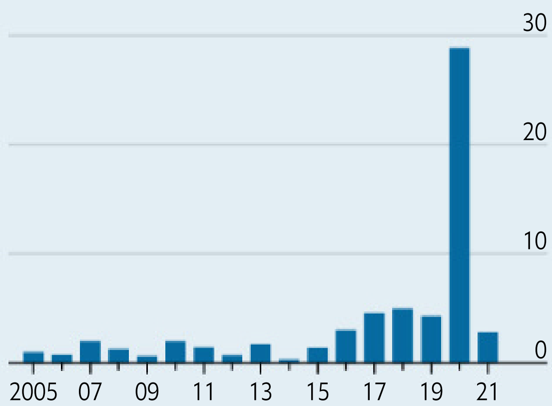
The true size of the bail-out state is hard to calculate, in part by design. Governments generally do not include so-called "contingent liabilities", such as guaranteed loans and implicit backstops, in fiscal figures. This allows them to support the economy while keeping reported debt down. Conventional measures of America's public debt do not, for instance, include the promises and obligations that the state has made to groups ranging from the financial industry to airports to pensioners.

The truth starts to become clearer if you dig into government balance-sheets. It turns out, for instance, that British ministers have promised to help a bewildering number of projects. The British state is responsible for clearing up the Channel Tunnel if it falls into disuse. It has made commitments to support pension liabilities of some individual pension schemes if deficits need to be funded. It may cover reinsurers of commercial and industrial property in the event of a big terrorist attack.

Adapting work by James Hamilton at the University of California, San Diego, we have attempted to calculate the total implicit liabilities of the American federal government—in effect, how much it has promised to pay if things go wrong, plus commitments for which it has not fully accounted. In addition to reported public debt, we add off-balance-sheet obligations, including guarantees on people's bank deposits, health-care payouts and mortgage guarantees (for the first time ever, the federal government recently became the guarantor or source of funding for more than half of American mortgages). We find that the state is on the hook for liabilities worth more than six times the country's GDP, and that these liabilities have in recent years grown much faster than the country's output (see chart 1).

Sir Humphrey's plasters 2

Britain, mid-year changes in government departmental budgets, % of budget



Sources: HM Treasury; *The Economist*

Other data also point to a growing bail-out state. Rich-world government spending on subsidies and transfers, such as welfare benefits, has grown inexorably, as politicians help companies that are struggling and compensate households who they deem to have had a raw deal. In Britain this spending has not been so high since the data began in 1948. America is known as a place with a meagre welfare state—a perception that no longer fits reality. In 1979 the bottom fifth of American earners received means-tested transfers worth 32% of their pre-tax income, according to the Congressional Budget Office. By 2018 the figure was 68%.

Governments are quicker to respond to emergencies, too. Evidence from Deutsche Bank shows that the size of financial-sector bail-outs has grown. We examined public-spending data from Britain, looking at whether actual spending by government departments came in higher or lower than originally budgeted. This gives a sense of how frequently, and how decisively, the government responds to emergencies. Mid-year bail-outs used to be rare—they no longer are (see chart 2). A recent paper by Dan Gabriel Anghel of the Bucharest University of Economic Studies, and colleagues, shows that governments' contingent liabilities are crystallising into actual payouts more often than used to the case. In the 1990s European governments launched about two rescue operations a year. In 2019 they launched ten.

No one likes to see a business go bust or someone fall into destitution. The fact that this happens less frequently is, on its own terms, welcome. Another benefit of the bail-out state is that people and businesses no longer need to spend quite as much on insurance, since they know the state will step in. In America total spending on insurance premiums peaked in the early 2000s at around 8% of GDP, but has now fallen to under 6%. This represents an enormous saving.

There are downsides, however, aside from the potentially monumental fiscal costs. As Friedrich Hayek, an economist, pointed out, while a given intervention—a bank bail-out, say—may be justifiable in its own right, lots of interventions together may strangle an economy. Capitalism produces innovations and higher incomes through the process of creative destruction. Things that do not work stop, and things that work better start. An economy-wide safety-net slows this down.

For now, governments are unlikely to change course. So long as they are not directed at banks, bail-outs tend to be popular. And with the possible exception of Britain, investors seem not, as yet, to have fully digested the fiscal risks implicit in this new strategy. When the next recession hits, as it may well soon, expect another round of furlough schemes, additional benefits and stimulus cheques. When the next industry fails, expect a big rescue package. We are all bankers now. ■

Buttonwood Sharpening the axe

Bankers are bracing themselves for lay-offs. Who is most at risk?

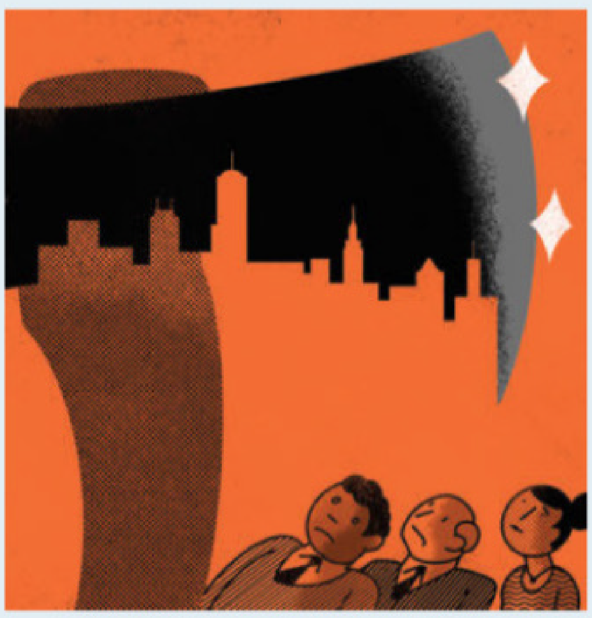
"LET'S DEFINE busy" read a memo circulated to rookie investment bankers at Donaldson, Lufkin & Jenrette in the mid-1990s. "You are busy if you are working each weekday at least 16 hours and at least 16 hours on the weekend. These are working hours—not travelling, gabbing or eating time. If these are not your hours at the office, you have the capacity to take on more work."

Today's bankers are more than willing to put in the hours—the problem is they lack the work to fill them. The fee bonanza caused by cheap money and giddy corporate bosses is long gone. Dealmaking revenues at the largest banks are down by almost half this year, and pipelines are nowhere near full. As revenues normalise, so do attitudes to hiring and firing. Last week Goldman Sachs, an American bank, began its annual cull of between 1% and 5% of staff, for the first time since 2019. An industry-wide hiring binge during the covid-19 pandemic means lay-offs will probably extend well beyond spring-cleaning. Wall Street's human-resources departments will finally get to do the job they signed up for: sticking it to the salaried rich.

First for the chop are the underperformers. Think expensive senior dealmakers with rusty Rolodexes and the occasional knackered junior Excel-jockey. After that, choosing whom to show the door becomes an exercise in predicting where the market is going. "A real danger is over-firing and missing a bounce-back in activity as some banks did after the dotcom crash," notes Jon Peace, a banking analyst at Credit Suisse.

Equity capital markets bankers will find themselves near the top of the hit-list. They are having a rotten year: the number of initial public offerings in America is down nearly 90% year on year. Few firms risk listing their shares while markets roil and chief-executive confidence is touching 40-year lows. Special purpose acquisition companies (SPACs), blank-cheque vehicles which raise money by listing on a stockmarket, are a distant memory. Bankers who made a killing in the frothiest industries and structures are most at risk. Those who have retained even a tangential connection to the real economy will be looking to Frankfurt this week, hoping to convince the higher-ups that the blockbuster listing of Porsche, a carmaker, is a first breath rather than a last gasp for equity issuance. It only takes one deal to save a career.

Bankers who toil in service of private-equity funds may overestimate their chances of survival—buy-out volumes have proved resilient and funds have mountains of capital waiting to be deployed. But when the masters of the universe come knocking, it tends to be in search of leverage, not advice. The uncomfortable truth is that big banks now mainly get paid for flogging junk debt, not the heaps of PowerPoint-philosophy they



wantonly produce. Bankers involved in the buy-out of Citrix, an American technology firm, are finding this out while offloading debt to the market at an eye-watering loss. Appetite to fund similar deals is waning. Any banker incapable of persuading their boss that private-equity funds will continue to seek their counsel without the draw of billions in financing is in trouble.

If the outlook remains gloomy, remember the epigram of the mergers and acquisitions banker: to each problem, a deal. Spin-offs, rather than lay-offs, might be the answer. At scandal-ridden, Paradeplatz-prince Credit Suisse, the investment bank is the worst-performing part of the business. Faced with itchy investors—the firm's share price is down nearly 60% this year—bosses are planning something radical ahead of their results in October. Spinning off the entire investment bank is unlikely, but asset sales of profitable parts of the business are being considered. Credit Suisse, which has long punched above its weight in lending to risky companies, will learn the true price of its advice if it fully commits to offering a "capital-light, advisory-led" investment bank.

In the event that suggestions from the human-resources and investment-banking departments do not turn things around, maybe the folks in marketing have a plan? Turning back the clock might not be a bad idea. Credit Suisse may revive the First Boston brand, the name of the revered American investment bank it acquired in 1990. Names cannot lower interest rates, but there is a part of every banker at boring Barclays and UBS who would love to resurrect the Lehman or Warburg monikers. If they must be shown the door, at least let them leave with a little old-school swagger.

Free exchange | Currency-saving time

Exchange-rate intervention can work. But it will not save the pound or yen

Milton Friedman, a Nobel-prizewinning economist, was an early fan of floating currencies. The case for flexible exchange rates, he once pointed out, is the same as the argument for daylight-saving time. In theory, people could start their summer days an hour earlier without any change in the clocks. In practice, it is easier to change the time than to change everyone's habits. By a similar logic, whenever there is a shortfall in demand for a country's goods and assets, it is easier to let one price, the exchange rate, drop than it is to cut all of a country's other prices instead.

Friedman made his analogy in the sedate 1950s when exchange rates seldom changed. In today's more volatile markets, the clocks can be brutal. The yen has fallen by 20% against the dollar this year, the South Korean won by 17% and India's rupee by 9%. After Kwasi Kwarteng, Britain's chancellor, unveiled fresh tax cuts on September 23rd, the restless pound fell close to parity with the dollar. It was as wrenching as an alarm in the middle of a dream.

In the face of such discomfort, policymakers are often tempted to intervene in the currency markets. Japan's finance ministry has tried to prop up the yen for the first time since 1998, selling foreign currencies in exchange for its own. The Reserve Bank of India has also acted, selling more than $40bn since the beginning of July by some estimates. South Korea's finance minister has said the authorities will review "contingency plans" to stop the won falling so fast. Some economists have begun to look up how much Britain has stashed away in its foreign-exchange reserves. (Not a lot.)

Friedman thought currency defences were either unnecessary or impossible. If the shortfall in demand was large and lasting, intervention would only delay the inevitable, since the country would run out of foreign-exchange reserves. If the shortfall was small and fleeting, intervention was unnecessary. Instead of buying a temporarily cheapened currency, the government could rely on speculators to do the job, since they would profit whenever the currency regained its footing. Intervention was necessary only if the government was better at spotting a temporary misalignment than financial speculators whose livelihoods depended on it.

Early studies of intervention reinforced this scepticism. In 1982 the G7 commissioned a report which concluded that currency intervention had little durable effect. There was unusual consensus among economists that currency intervention was not an "effective or lasting" instrument, as Kathryn Dominguez of the University of Michigan and Jeffrey Frankel of Harvard later pointed out.

But more recent work has overturned this consensus, thanks both to theoretical and empirical advances. The longer-term impact of intervention can be hard to discern because central banks do not step into the currency markets at random. They sell foreign reserves when the currency is weakening and buy when it is under pressure to strengthen. And so a naive look at the data might suggest that intervention backfires: reserve sales are associated with a weaker currency, just as firefighters are associated with fires.

One response is to look at currency interventions that are bigger or smaller than would be expected. If a blaze attracts more firefighters than it would normally warrant, the extra firefighters will probably be associated with a shorter, better contained conflagration. That is one of several approaches taken by Andrew Filardo of Stanford University, as well as Gaston Gelos and Thomas McGregor of the IMF, in a paper published in June. They concluded that if a currency is undervalued by 10%, sales of foreign-exchange reserves worth about 0.1% of GDP can strengthen it by more than 4%. If the authorities intervene systematically over several quarters, they get additional bang for their buck. The impact is also greater in shallow financial markets.

These effects are not limited to the minutes or days after an intervention. They show up even in quarterly data. But the impact is not permanent either. Intervention can narrow the kind of misalignments that occur over a one- to four-year span—it does not seem to influence longer-term swings in the currency.

Why does intervention work? One reason is that speculators are not as reliable as Friedman assumed. The outfits that bet on currencies have a limited capacity to bear risk. These limits tighten in times of stress, when financial institutions pull in their horns, reducing the size of bets. In such circumstances, national authorities may be better placed to correct misalignments, even if they are no better at spotting them.

Intervention may also work by serving as a signal of policymakers' resolve. The government should, after all, know better than speculators what the government intends to do. It may be determined to pursue policies consistent with a stronger currency. But it may struggle to convince sceptical investors. Through currency intervention, it can put its (foreign) money where its mouth is. Of the 18 central banks from emerging economies surveyed by the Bank of International Settlements in 2018, nearly three-quarters identified signalling as "often or sometimes important".

The clock is ticking

These results offer little encouragement to Japan or Britain, the two big economies suffering the steepest drop in their exchange rates this year. The Bank of Japan is still committed to capping its government's bond yields, however high yields rise in other parts of the world. That stance, whatever its virtues, is hardly consistent with a strong yen. And given the size of Britain's current-account deficit and the pace of its inflation, the diminished pound is not obviously weaker than it should be. Currency intervention can serve as a signal of tighter policies. It cannot substitute for them.

To support their currency, Britain's authorities must either raise interest rates rather faster than planned or reassert budgetary discipline. Mr Kwarteng has said he will clarify his medium-term fiscal plans on November 23rd. If he is to save the pound, he may need to bring forward his fiscal clock. ■

Malnutrition

Gut reactions

A special diet made from cheap ingredients treats childhood malnutrition by encouraging the growth of the right intestinal bacteria

THE BEST treatment for childhood malnutrition might seem obvious: more, and more nutritious, food. And the standard approach is indeed just that. Over the years, formulae for ready-to-use supplementary food (RUSF)—bars and packets of paste intended for moderate cases and made from rice, lentils, sugar, soya oil and milk powder—and similar therapeutic food (RUTF), a nut-based treatment for more severe instances, have been developed. These work. But Tahmeed Ahmed, executive director of the awkwardly named icddr,b, a research institute in Dhaka, Bangladesh, and his team think they have come up with something better.

In collaboration with Jeffrey Gordon and his colleagues at Washington University in St Louis, Missouri, Dr Ahmed's team have produced a new mixture for the treatment of malnutrition. Besides providing nutrients, this formulation also enhances gut health. That brings benefits to the malnourished which the conventional approach does not. Now, the World Health Organisation (WHO) is testing the result, dubbed MDCF-2, in Bangladesh, India, Mali, Pakistan and Tanzania.

The bugs in the system

Until recently, little attention was paid to the role in digestion played by the trillions of microbes, known collectively as the microbiota or microbiome, which live in the human gut. That changed in 2013 when Dr Gordon compared the gut floras of pairs of twin children in Malawi. He did so assuming that, since they are born together and raised in the same households, twins' nutritional histories will be identical.

He nevertheless came across a number of cases in which one twin of a pair had a form of malnutrition called kwashiorkor while the other remained healthy. And when this happened, he also found that their microbiomes differed in systematic ways. On top of this he discovered that when the bugs in question were transplanted into laboratory mice which had been raised in a germ-free environment, those animals receiving transplants from a twin with kwashiorkor went on to develop the murine equivalent of that illness.

It thus looked likely that, while the underlying cause of kwashiorkor is unquestionably an insufficiency of nutrients, undernourished individuals who might otherwise remain free of its symptoms (a bloated belly, loss of muscle mass, stunted growth and brittle hair) may be tipped over the edge by an unbalanced microbiome.

In 2014, in a follow up to this work, Dr Ahmed, Dr Gordon and their respective teams compared the gut microbiomes of healthy children living in the slums of Dhaka with those of children being treated for forms of severe acute malnutrition ▸▸

→ Also in this section

such as kwashiorkor. They demonstrated that eating more calories and protein made no difference to the children's microbiomes. They also showed how infant microbiomes mature, and that malnourished children lack bacteria needed to digest food properly and to produce certain vitamins. By the age of three, a healthy child has a fully developed microbiome. A three-year-old with severe acute malnutrition, by contrast, has a microbiome similar to that of a healthy one-and-a-half-year-old.

Microbiomes are easily unbalanced. Following Caesarean births, for example, babies are not exposed to bacteria from their mothers in the way that they are during vaginal births. Such transfers help determine the early microbial population of a child's gut—and a third of Bangladeshi children are born by Caesarean section, compared with around a quarter in rich Western countries.

Oral antibiotics, too, can damage gut microbiomes, by killing useful bacteria along with those that cause disease. In Bangladesh, where drugs are often used to compensate for poor sanitation, antibiotics can be bought in pharmacies and markets without a prescription. Doctors hand them out liberally, too.

No bar to success

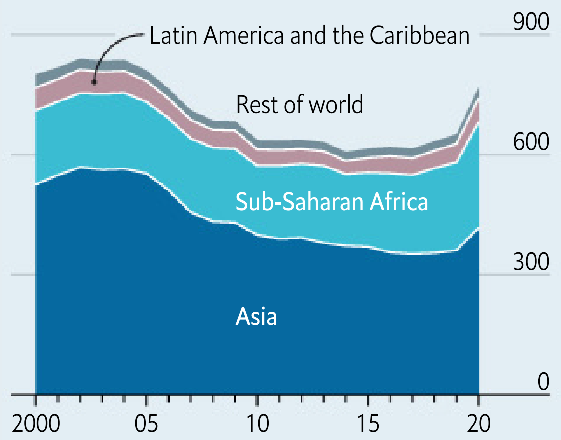
Rebalancing microbiomes once they have been unbalanced is hard. However, research by Dr Ahmed and Dr Gordon, published in 2019, found that it is possible to do so by careful management of children's diets. By examining the diets of kids in the slums of Mirpur, a suburb of Dhaka, and correlating what individual children ate with the mix of bacteria in their microbiomes, the two researchers and their teams devised 14 distinct experimental diets which they thought might promote the growth of desirable gut bacteria. They then fed them to mice and piglets that had first been inoculated with bacteria from the children in question.

These tests led them to three "microbiota-directed complementary food" diets, which they called MDCF-1, -2 and -3, that seemed to encourage the animals' microbiomes to mature. They then tested this successful trio for a month on groups of malnourished children, while feeding a fourth group RUSF as a control. MDCF-2, made from bananas, chickpeas, peanuts and soya, came out top. At the end of the test the microbiomes of children in the other three groups looked like those of untreated children with malnutrition, whereas those of children fed MDCF-2 had microbiomes close to that of a healthy child.

This, Dr Ahmed speculates, might explain why children fed conventional supplementary food such as RUSF often relapse into malnutrition when they return to their original diets. A follow-up study he

Give us this day our daily bread

World, number of people undernourished, m



Source: FAO

published last year supports this hypothesis. Malnourished toddlers from Mirpur's slums fed MDCF-2 twice a day for three months grew plumper and faster than a comparable group fed RUSF, even though MDCF-2 has 20% less calories. Their "weight-for-length" score—a standard measure of infant growth—also increased more rapidly.

Moreover, children eating MDCF-2 continued making gains relative to the others after the intervention ended. Their microbiomes became more developed, with 21 types of bacteria associated with growth and the production of vitamins becoming more abundant. And their levels of 70 blood-plasma proteins known to be markers of nutritional status improved as well.

The next step is to try this elsewhere. And that is what the WHO is now attempting to do. To make the new five-country trial realistic, those running programmes within it are required to build from the ground up. Each country's team has to find locally the exact equipment used in Bangladesh, and to source ingredients locally, too—a challenge that led Karim Manji of Muhimbili University of Health and Allied Sciences in Dar es Salaam, a veteran of the field of child nutrition who is in charge of the Tanzania trial, to think when he first read the list, "Oh my God, are we even geared up to manufacture this?"

But Dr Manji has quickly recovered his savoir faire. It is "entirely unique", he says, referring to the trial, and could transform the world's response to malnutrition. Currently, UNICEF, the UN agency responsible for tackling childhood undernourishment, relies on RUTF, a factory-made product of which it buys around 80% of the world's output. If, as this research hopes to prove, a home-brewed alternative that nourishes the gut microbiome does a better job of helping children thrive, UNICEF and others involved in the malnutrition business may want to change tack.

Switching from focusing on nutritional value to gut health is complex, however. Importing and distributing ready-packaged bars is simpler (if more expensive) than making stuff locally from scratch. And MDCF-2 may not prove a one-size-fits-all solution. It may be necessary to tailor the mix to account for regional variations in what constitutes a healthy microbiome.

Diets and tastes also vary, as Dr Manji has already discovered. Ishita Mostafa, another researcher at icddr,b, says MDCF-2, which comes as a sticky brown paste, "tastes sweet like halwa" (halwa being a popular dessert in Bangladesh). She adds that "babies love it", and, therefore, mothers do too. But the same might not be true in, say, Mali. Aware of this risk, Dr Ahmed and his colleagues have started testing substitutes, such as sweet potatoes for bananas, to see if the impact on the microbiome remains the same. But finding ingredients that have similar effects involves complicated laboratory testing. Aid programmes would need to do this over and over again.

Further research may make things smoother, says Dr Ahmed. He and his colleagues are still investigating what, exactly, it is that makes MDCF-2 work so well. That will help the search for substitute ingredients. They also hope to apply MDCF-2 to maternal malnutrition. This affects children because undernourished women (especially those undernourished during pregnancy) give birth to undernourished babies. For many malnourished children in the future, then, Dr Ahmed's work could make all the difference. ■

Parental behaviour

Dad brain

Becoming a father shrinks your cerebrum

IT IS HARDLY surprising that pregnancy and childbirth, nine months of enormous changes to a woman's body, also change her brain. And they do, by causing certain parts of it to shrink. Fathers, it might be thought, would be unaffected. But no. There is evidence that their brains shrink, too. A paper just published in *Cerebral Cortex* by Magdalena Martínez-García of the Gregorio Marañón Health Research Institute in Madrid, and her colleagues, divulges the details.

Dr Martínez-García's study followed a group of 40 expectant fathers, 20 from Spain and 20 from America, and also, as a control, 17 Spanish men who did not have a baby on the way. To measure changes to their brains the volunteers underwent two magnetic-resonance imaging (MRI) scans roughly a year apart. In the case of the new fathers, one of these scans was before, and the other after, the birth of the child.

The researchers used the scans to compare the volume and thickness of the cerebral cortex, the part of the brain responsible, *inter* many *alia*, for things like sensory perception, language and cognition, with that of the sub-cortex, a disparate collection of structures such as the hippocampus (involved in long-term memory formation) and the amygdala (which regulates fear). They confirmed that there is a small but consistent decrease in the volume of the cortices of new fathers after the birth of their child.

This shrinkage is not, however, evenly distributed. The biggest reductions are in the area at the back of the cortex where information from the retina is processed and interpreted, and in the "default-mode" network, a piece of neural circuitry distributed between three different cortical areas, which is associated with daydreaming, mind-wandering and thinking about the self and others.

This pattern partly mimics changes found in the brains of first-time mothers. For example, a study published in *Nature Neuroscience* in 2017 by some of the same researchers found that areas of the default-mode networks of their brains also shrink. The differences in first-time fathers' brains are less pronounced than those in mothers, and also more variable—and are, presumably, caused in a different way. But different physiological means can still arrive at the same evolutionary end.

The mamas and the papas

That end is presumably being a better parent. The authors of this earlier paper also gave the new mothers a questionnaire asking how they felt about spending time with their offspring, whether they thought they understood their babies' signals, and whether they felt any resentment towards them. They found that postpartum changes in brain volume predicted both how attached a mother felt to her child and the absence or otherwise of hostility to it.

Examination of the Spanish fathers in Dr Martínez-García's latest study, by measuring their brain activity while they looked at pictures of both their own baby and other infants, found a similar effect. It showed that those with the largest reductions in brain volume had the strongest MRI responses to images of their own child compared with images of others.

Determining exactly how these proparental neural changes come about in men is way beyond the current skill of neuroscience. But it is intriguing to observe that, at least in the case of *Homo sapiens*, a rare example of a mammal in which fathers as well as mothers nurture offspring, similar postpartum parental attitudes seem to be getting wired into both sexes. ■

Trainspotting

Keeping track of the tracks

Every rail in a network has a unique magnetic fingerprint

STOPPING RAILWAY trains colliding requires knowing where they are. In olden days this was done by the handing over between driver and signalman of a token showing that a block of track was occupied. Now, automatic devices detect and report a train's passage. But the principle is the same. Lines in a railway network are divided into blocks, and only one train at a time is allowed in a block.

Rationing space this way can, though, lead to inefficiency. More precise information of each train's whereabouts would permit trains to travel closer together without compromising safety, and therefore allow more services to be run. But what might seem the obvious approach to doing this—to employ the satellite-based global positioning system (GPS) or one of its equivalents—is not actually suitable. GPS is unavailable in tunnels. And where several sets of tracks run in parallel (for example, at junctions) satellite-based systems can have difficulty distinguishing which track a train is on, with potentially catastrophic consequences. But Martin Lauer of the Karlsruhe Institute of Technology, in Germany, thinks he has an alternative.

His invention, dubbed the Magnetic Railway Onboard Sensor (MAROS) and unveiled on September 20th at the InnoTrans trade fair in Berlin, uses information encoded in the very rails a train is running on, in the form of something called their magnetic permeability. Employing this, that train's position on the network can be determined exactly.

MAROS works by lowering a pair of detector coils over each rail and passing alternating currents through them. These currents are influenced by the magnetic properties of nearby metal objects. The production of rails for railways takes care to make them uniformly strong and smooth, but their magnetic permeability is not among the specifications. That means a train carrying a MAROS detector picks up random fluctuations from the rails beneath.

Being random, the resulting pattern of permeability is probably unique to a given stretch of the network. For a 200-metre section, Dr Lauer calculates, there is about one chance in a trillion that it is duplicated anywhere on the 2.3bn kilometres of track currently laid around the world.

To get the system working on a particular route, a test train rides it a few times to map out the fluctuations in the rails. After that, trains running the route would continually compare the permeability measurements from the detectors with those on the map, and then report their position to the network traffic controller.

Local changes in magnetic permeability caused by wear and tear or lightning strikes would show up during routine usage and, once confirmed, could be added to the map. Moreover, because MAROS detector-coils come in pairs, the different times that each pass the same pattern in the track can be used to calculate a train's speed and acceleration more accurately than the alternative of measuring the rotation of its wheels, because metal wheels on metal rails frequently slip.

Dr Lauer's commercial partner, a firm called ITK Engineering, has been testing the system on scheduled train services plying a 130km route in Austria and reckons it will be ready for market in 2025. Dr Lauer himself estimates that using MAROS could increase the capacity of a busy rail network by 20-30%. It would also cost less than the existing system of sensors and beacons. ■

Location, location, location

Planetary defence

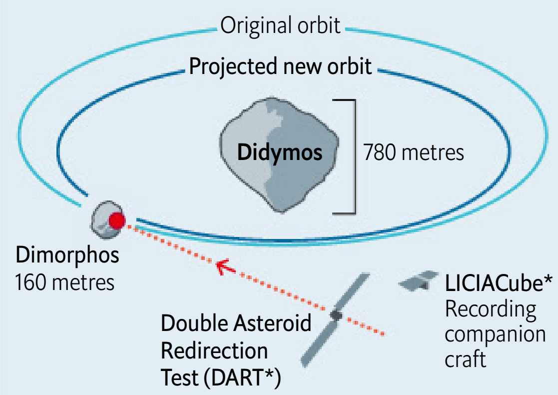
Journey's end

A probe's impact on an asteroid may prevent asteroid impacts on Earth

THE IDEA that Earth is threatened from outer space sounds, on first encounter, like science fiction. Potentially hostile aliens either do not exist or, if they do, are too far away to matter. But space rocks are real—and some, at least, are too close for comfort. It is less than a decade since residents of Chebarkul, a city in Chelyabinsk oblast, Russia, witnessed the explosion in the atmosphere of a meteorite reckoned to have been a mere 20 metres across. Though no one was killed in this incident, about 1,500 people were seriously injured, mostly by flying window glass.

If Earth were hit by something a bit bigger than the Chelyabinsk bolide, the damage could be immense. And there are a lot of candidates out there. The NEO Observations Programme, a project intended to locate and track so-called Near Earth Objects that are 140 metres across or bigger—of which there are reckoned to be about 25,000—is less than halfway to its goal of cataloguing 90% of them. So far, no immediate threat has been discovered. But if one were to be, would there be anything people could do about it?

Armageddon...not!
NASA mission to test a way to stop dangerous asteroids hitting Earth



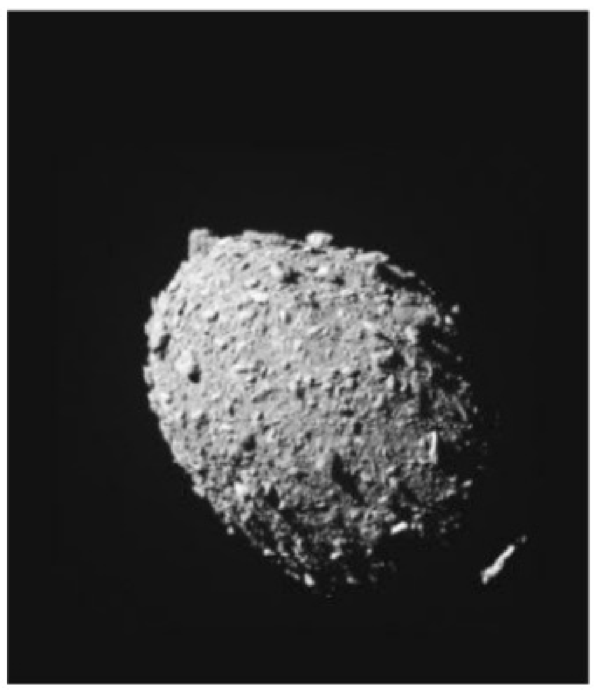
Source: NASA *Not to scale

To test one possible answer to that question—hitting an incoming bolide with a suitably massive object and thus altering its trajectory—NASA, America's space agency, has orchestrated a cosmic collision. It has crashed DART (Double Asteroid Redirection Test), a probe weighing 600kg, into Dimorphos, a small asteroid (see photo) in orbit around a larger one, Didymos.

The impact, which occurred at 2314 Universal Time (otherwise known as GMT) on September 26th and was recorded by DART's companion craft, LICIACube, is intended to speed up Dimorphos's orbit by about ten minutes (see chart). This is an amount equivalent to the sort of course correction which might need to be applied to something that was in danger of colliding with Earth. Whether this speeding up has actually been achieved will now be determined using observations from ground-based telescopes.

Organising such a collision is not easy. Newtonian mechanics allow you to coast without too much trouble from Earth to the Didymos system, but hitting the target requires active guidance. Given the current distance between Earth and Didymos (some 11m kilometres), such guidance needed to be fully automatic. This automation was provided by a software package that interpreted images from the probe's camera and used them to tweak the propulsion system in order to score a bullseye.

That bullseye achieved, astronomers will now pore over the pictures taken by LICIACube of the plume of dust and rock created, to understand better what Dimorphos is made from. This will, in turn, affect how they interpret any change in Dimorphos's orbit. And, in the event that the NEO Observations Programme does find something worrying, that will help plan the mission sent to deal with it. ■



Target in sight

Recycling

Making the break

A new recipe for recycling polyethylene

CREATING PLASTICS by linking small molecules, known as monomers, together to make large ones, known as polymers, was one of the triumphs of 20th-century chemistry—and no polymer was more triumphant than polyethylene. Even today, more than 80 years after its first industrial production, polyethylene and its cousin polypropylene together constitute more than a third of the plastics produced each year.

But their well-known success is also a well-known problem. The resilience that makes them useful makes them hard to get rid of, too. Dumped, they will hang around for ever. And though they can be melted and recycled, the different grades they come in (broadly speaking a consequence of how many monomers the polymers of a particular grade are composed of), and their tendency to be combined in artefacts with other things, mean that the recycled versions of these plastics are rarely as good as new.

Better, then, to take the whole things apart and start again. And that is exactly what Richard Conk of the University of California, Berkeley, and his colleagues propose to do. For, as they describe this week in *Science*, they have devised a way of breaking polyethylene up, not into its original ethylene units, but into propylene, which, from a repolymerisation point of view, is just as good.

Ethylene (C_2H_4) and propylene (C_3H_6) both possess what is called a double bond between two of their carbon atoms. It is this that allows them to polymerise. A polymer forms when (under the influence of heat, pressure and a catalyst) these double bonds partially open. That creates what are known as free valences, which allow the molecule to react with other things. If the other things are similar molecules with similar free valences, the result is a dimer, which can then go on to form a trimer, a tetramer and so on. The ultimate result is a long polymer chain with no double bonds in it.

Mr Conk and his compadres have worked out how to reverse this in a way they hope might be industrialised. The trick is first to pepper a polyethylene molecule with double bonds by removing hydrogen atoms from pairs of adjacent carbon atoms using appropriate catalysts. Other catalysts then cut the polymer next to these new bonds and shuffle them, in a process called isomerisation, one link up the new, shortened chains. A dash of ethylene added to the mix and a further catalyst cut each shortened chain again, just beyond its itinerant double bond, to release, presto! a molecule of propylene. Then repeat until the polymer is disassembled.

Japanese art

Alive and kicking

NAGOYA

An art festival's travails reflect the threat to freedom of expression in Japan

"I AM STILL ALIVE", read a series of telegrams that Kawara On, a Japanese conceptual artist, sent to friends and acquaintances around the world between 1970 and 2000. At the Aichi Triennale, a big art festival in Kawara's home region, scores of the messages lie on tables and hang on walls. Together they form a chorus at once defiant and desperate. The effect is haunting.

And slyly self-referential. "Still Alive" is also the title of this year's triennale. It refers most obviously to life and the world after the pandemic. Yet it hints, too, at the event's own brush with death at the hands of intolerant reactionaries. "'Still Alive' is also a question for the Aichi Triennale itself," says Kataoka Mami, this year's artistic director. The answer has profound implications for artistic freedom in Japan.

The triennale was launched in Aichi, a manufacturing hub between Tokyo and Osaka, in 2010, part of a recent trend for Japanese art festivals outside Tokyo. The previous edition, in 2019, was held during a global populist wave, from Brexit in Britain to Donald Trump in America. The organisers wanted the show to respond to the turbulent moment. "The idea was that contemporary art has to deal with these events," says Tsuda Daisuke, a journalist and critic who was artistic director that time. This was a somewhat radical choice in Japan, where contemporary art tends to eschew fiery political commentary.

That year's exhibition included a section called "After 'Freedom of Expression'?" It gathered pieces that had recently been censored or barred, among them a video showing the burning of Emperor Hirohito's photograph, and a statue by a pair of Korean artists depicting a Korean "comfort woman", the euphemistic label given to Koreans and others forced into brothels for Japanese soldiers during the second world war. Right-wingers in Japan pounced.

Kawamura Takashi, the populist mayor of Nagoya, declared that the statue "trampled on the feelings of the Japanese people" and demanded its removal. Armies of online activists from the *netto-uyoku*, Japan's equivalent of the alt-right, organised campaigns of harassment: more than 10,000 complaints were filed in the course of a month. "The calls just wouldn't stop, from morning to night, very intense threats," Mr Tsuda recalls. Some promised outright violence. Local police were ill-prepared for such a barrage and slow to act. Officials were on edge, as just weeks earlier a disturbed man had burned down an animation studio in Kyoto, killing 36 people. The festival was closed, ostensibly for safety reasons.

For many Japanese liberals, the incident only reinforced the exhibition's message: that the country has a subtle but sinister problem with censorship. "It's like we're in lukewarm water", says Okamoto Yuka, which is "slowly heating up." The situation is not as severe as in, say, China, but "by the time we notice, we might be boil- ▸▸

→ Also in this section

ing." Ms Okamoto organised a series of exhibits that displayed the controversial pieces in smaller venues, often amid hounding by nationalist protesters.

Discussion of the past is particularly fraught. "Freedom of expression in Japan hinges on perceptions of history," Ms Okamoto argues. As prime minister from 2012 to 2020, Abe Shinzo, a historical revisionist, battled to change textbooks and downplay the atrocities of the imperial era. His rhetoric, critics allege, empowered forces further to the right and chilled the atmosphere of political debate (see Asia section). Japan fell precipitously in press-freedom rankings on his watch. The Abe administration did little to denounce the attacks on the Aichi exhibition; instead, its cultural agency temporarily withdrew its funding for the triennale.

The lives of others

This year's edition, which sprawls over four sites in the prefecture, has avoided historical flashpoints and generated relatively little controversy. It is again reliant on government funding. At first glance, the milder content suggests the furore of 2019 has cast a long shadow. Big institutions "wouldn't dare to produce an event like that again", says Ozaki Tatsuya, an art critic. Alongside the work of Japanese artists such as Shiota Chiharu (see picture on previous page), the show includes that of many others from around the world; but, intentionally or otherwise, there are no Koreans. "In Japan there's an air that forces self-censorship," Mr Tsuda says. "There was a box and I opened it—I was confronting things people didn't want to see."

Yet it would be wrong to judge this year's exhibition by the standards of its provocative predecessor. "We can talk about politics in many different ways," says Iida Shihoko, the chief curator of both. They instead represent different visions of art's role in society. Whereas in 2019 the show used art to confront difficult realities, this year's sees it as a means to imagine new possibilities. The artistic director, Ms Kataoka, a native of Aichi who is currently the boss of the Mori Art Museum in Tokyo, found the edition of 2019 "brave" when she saw it. But she prefers a more "indirect" method. "If you're punched in the face, where do you go from there?"

The more ruminative approach is encapsulated in one of the first things visitors see at the main exhibit in Nagoya: a piece by the late Belgian conceptualist Marcel Broodthaers, in which he takes a standard "political map of the world" and replaces the word "world" with "utopia" in the title. Art, he suggests, has the power to transform how viewers see things with the stroke of a pen.

The triennale's most striking projects conjure links between Japan and disparate places and ideas. It is a vision that Japan's nationalists, who make a fetish of their own uniqueness, would abhor—if they grasped the message. Thierry Oussou, a Beninese artist, dyes Japanese cotton as part of an installation reflecting on the material's tortured history in west Africa. Theaster Gates, an American artist, melds Afro-futurism and the Japanese folk-art philosophy of *mingei* at a house in Tokoname, a ceramics hub in southern Aichi. At first the pairing seems improbable, but black soul music turns out to be an ideal soundtrack for pondering Japanese pottery.

A video project by Hoda Afshar, an Iranian artist, depicts migrants trapped on Manus Island after being refused entry to Australia. In Aichi the piece can be seen as a reference to the death of a Sri Lankan migrant worker in a detention centre in Nagoya last year. "We use other peoples' stories to help illuminate our own," Ms Kataoka says. The Aichi Triennale may be speaking softly, but it is still very much alive. ■

Historical fiction

Roaring into the maw

Shrines of Gaiety. By Kate Atkinson. *Doubleday; 416 pages; $29 and £20*

A GENERAL STRIKE looms, but the focus of Kate Atkinson's exuberant new novel, set in London in 1926, is the seedy, artificial world of the capital's nightclubs. Presiding over it is the formidable Nellie Coker, matriarch of a large brood of mostly dissolute adult children (and based, an afterword reveals, on Kate Meyrick, a real nightlife doyenne of the 1920s). Over the course of the book, Nellie's vast, ill-gotten empire is targeted by unscrupulous outsiders and a decent, dogged copper.

Ms Atkinson's award-winning novels include the "Case Histories" crime series and a loose trilogy set in the early 20th century that began with "Life After Life". Her stories often depict the dispensing of rough-and-ready justice and the avenging of lost girls and ill-treated young women. And there are missing girls aplenty in "Shrines of Gaiety", to whose fate the police are largely indifferent—apart from newly appointed Chief Inspector Frobisher.

Those vile bodies

Spirited off the street into mysterious cars, their corpses later pulled from the Thames at a spot known as Dead Man's Hole, the victims are under-age "hostesses" in theatres or clubs, including Nellie's main nightspot, the Amethyst. Some are runaways. Freda Murgatroyd, a teenager, leaves a sticky situation in her home city of York and persuades her better-heeled friend Florence to accompany her down to London. They want to make their fortunes on the stage, but Florence disappears into Soho's maw: "It was not just like being in a foreign country, it was like being in a hundred foreign countries at once."

Hot on their trail is Gwendolen Kelling, an embodiment of pluck and independence. Recruited by Frobisher to spy on the Coker operation, Gwendolen forms a bond with Nellie's eldest son, Niven; he was a soldier on the Western Front, she a nurse. The first world war and its losses haunt the book, from Gwendolen's dead brothers to Frobisher's continental wife, a refugee whose past traumas shroud her origins and blight their marriage.

Yet this is no gloomy yarn. It froths with all-night parties, corrupt policemen, sickly cocktails, swanky cars, gossip columnists, gambling dens and beautiful clothes. Another of Nellie's sons tries to capture the zeitgeist in a dreadful novel called "The Age of Glitter", a nod to "Vile Bodies", Evelyn Waugh's satire of the era of the Bright Young Things. There are also references to popular songs of the day, T.S. Eliot's "The Waste Land" and the "curse of Tutankhamun" (Egyptology was all the rage after the boy-king's tomb was discovered). As the book hurtles towards its twisty climax, Ms Atkinson once again proves herself to be a consummate entertainer.

World in a dish

South to a very old place

ACWORTH, GEORGIA

On the curious and enduring appeal of Waffle House

PULL OFF an interstate before dawn in the American South and, outside city centres, you enter a shuttered, ghostly world: darkened businesses, petrol stations devoid of cars, traffic lights flashing red and yellow over empty junctions. But if you are lucky, you may spot a beacon: "WAFFLE HOUSE" spelled out on giant yellow tiles that tower above the restaurant of that name. It will be warmly lit and, more important, open.

The first Waffle House opened just outside Atlanta in 1955. Today there are around 2,000 of them in America, mostly in the South. They are so averse to closing that the former head of the federal emergency-response agency came up with a "Waffle House Index": if he arrived in an area that had been hit by a storm and found the local outlet shut, he knew he was dealing with a severe natural disaster. This perpetual welcome is only one reason for the affection that Waffle House—on its face, an unremarkable chain of cheap diners—inspires in devotees.

Waffle House may be the only chain restaurant to be name-checked in both hip-hop tracks ("After the party it's the Waffle House," raps Jermaine Dupri) and country songs: "Meet me at the Waffle House/Bring me my gun," croons Colt Ford in a ditty about a man pondering whether to kill his cheating wife. Donald Glover featured a late-night visit to one in his television series "Atlanta" (no city has more of them). The chain has a bespoke jukebox full of Waffle House-themed songs. In the pre-dawn hours, clubbers eating a late meal before bed sit alongside early-shift workers having breakfast. On Sundays church-goers filter in after the morning service.

In part, they come for the food. For Americans, breakfast food is comfort food, and Waffle House does it well. The coffee is hot, the waffles reliable, the eggs well-cooked and the hash browns unrivalled. They are crisp yet soft, and endlessly customisable, ideally using the restaurant's private lingo. "Scattered, smothered, chunked, capped and peppered", for instance, means spread out on the griddle for extra crispness, with onions, ham, mushrooms and jalapeños.

That semi-secret argot hints at another plus: Waffle Houses are widespread enough to be familiar, yet not ubiquitous like McDonald's or other behemoths. They feel like the South's own special restaurant, much as Whataburger does for Texans or In-N-Out Burger for Angelenos. Diners do not feel in-the-know when ordering a Big Mac; they do when asking for their breakfast to be scattered and smothered.

In contrast to fast-food chains, they can also see their breakfast being cooked in open kitchens. If business is slow, those seated at the counter may chat with the cook working the grill, who will probably hand them their food directly. Fast-food chains offer efficiency and anonymity, which have their place; sometimes you want to order from a standard menu, quickly and wordlessly. But sometimes it's nice to order hash browns and eggs the way you like them, and hear a waitress say, "I got you, baby." It feels like home. ■

Military history

The German way of war

Iron and Blood. By Peter Wilson.
Allen Lane; 976 pages; £40. To be published in America by Belknap Press in February; $39.95

ACCORDING TO A remark attributed to Voltaire, in the late 18th century Prussia was an army with a state rather than a state with an army. Its standing force of 200,000 men was vast for its relatively small population. A century or so later, the belief that Prussia and subsequently imperial Germany were uniquely militarised European powers was reinforced by Otto von Bismarck's famous address to the Prussian Diet in 1862. "Not through speeches and majority decisions will the great questions of the day be decided," he declared, "but by iron and blood."

Peter Wilson, a military historian at Oxford, does not dispute how integral militarism has been to Germany's past. But by providing centuries of context, he sets out to show that its history could have been different, and sometimes was.

Because of a focus on the two world wars, with perhaps a glance back to the Franco-Prussian war of 1871, a myth has evolved of a specifically German way of war, the author argues. In this telling, Germany's position in the heart of Europe, encircled by hostile neighbours, meant it needed a first-strike capability that could only be achieved by a "power state", an authoritarian system able to mobilise the necessary resources. This in turn has led to a further myth: of a unique German genius for war based on superior technology, skill ▸▸

Prussian blues

and martial spirit. Even today, Hitler's Wehrmacht is admired by many military types, especially in America. For Blitzkrieg, read "shock and awe".

Much of the book is taken up with conflicts within or involving that strange entity, the Holy Roman Empire, the collection of mostly German-speaking states dominated by Habsburg Austria that, as Voltaire also quipped, was neither holy, Roman, nor an empire. At least until the middle of the 18th century, this alone made the German way of war quite different from those of unitary states such as England or France. The quasi-autonomy of the component parts, which nearly all maintained their own armies, required a decentralised and collaborative approach—the antithesis of the authoritarian model that emerged later with such awful consequences.

Despite the horrors of the Thirty Years War (1618-48), which was largely fought within the empire's borders, and the fearsome reputation of its pike and musket formations, it was not much more prone to violence than other parts of Europe, and enjoyed long periods of relative peace. Even after the empire's collapse following defeat to Napoleon at Jena in 1806, and its metamorphosis into the German Confederation in 1815, peace held until the revolutionary uprisings of 1848 and the war with Denmark that began in the same year. But in 1864 a second war with the Danes forged the template for future conflicts.

The chief of the general staff, Helmuth von Moltke, was charged by Bismarck with achieving a quick, decisive victory before other powers could intervene. He did so, but more by luck than good judgment. The army had triumphed, in its view, because of its freedom from political supervision, an inference that led Prussia's rulers to place their faith ever more blindly in the top brass. That faith appeared to be vindicated when Prussia routed France in 1871, thanks to efficient mobilisation, brutally effective tactics and French mistakes. But, as Mr Wilson observes, these and other successes embedded "flaws ever deeper into the country's institutions, only to be repeated with ever more disastrous results in the subsequent two world wars".

Doomed to repetition

Before 1914, the unquestioned assumption of the general staff (under the leadership of Moltke the Younger, nephew of the original) was that, since a major war in Europe was inevitable, it should prepare for one. The possibility that politics or diplomacy might be more productive was barely considered. Thus the constant reworking of the notorious Schlieffen plan, which required the encirclement of French forces by racing to the coast via Belgium.

This was, says Mr Wilson, an "opening gambit rather than a strategic plan". Everything rested on a successful first strike, with little thought for the consequences if it failed—as it did. Not only was Germany unprepared for a war of attrition against foes with advantages such as greater resources and the Royal Navy's blockade power; it did not even start with clear and achievable aims.

Many of the same mistakes were repeated in the next war. If the Germans had a unique genius for war, it was at the battlefield tactical level, although Mr Wilson questions even that. When it came to strategy, the militarised power state again proved to be catastrophically lacking.

"Iron and Blood" delves into politics, economics, technology and social developments. Its long view of Germany's military history, magisterial detail and acute analysis provide a new understanding of what was once Europe's warring heart. Modern Germany has been very different. Before the invasion of Ukraine, it believed in "change through trade" with Russia and China, benefiting from the rules-based international order without contributing much to its defence. It is now being forced into another drastic shift. ■

A guide to the vale of tears

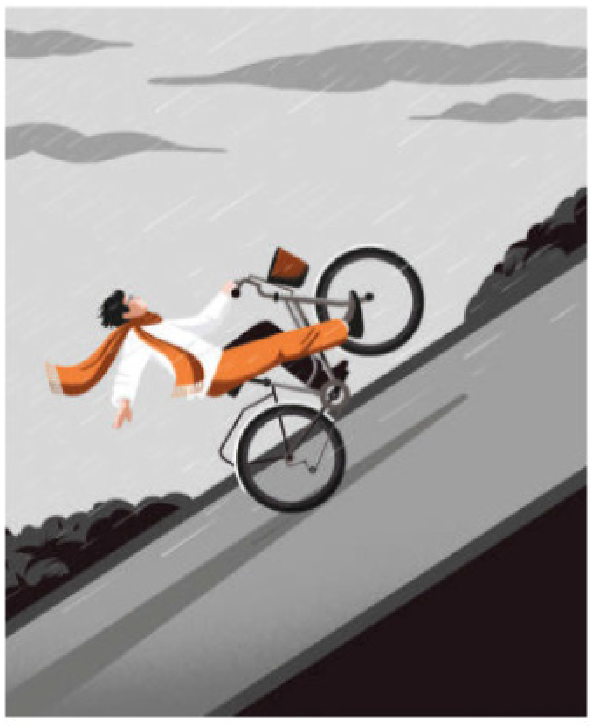
No other way but through

A philosopher explains how to live with unavoidable woes

Life is Hard. By Kieran Setiya. *Riverhead Books; 240 pages; $27. Hutchinson Heinemann; £16.99*

For many years, Kieran Setiya has suffered from chronic pain. Aristotle and many philosophers since have judged that such an affliction, like other major harms, must diminish or spoil a good life. Mr Setiya, a well-regarded professor of philosophy at the Massachusetts Institute of Technology, disagrees. "Life is Hard" is his wry and ever-thoughtful explanation of why.

Its short, engagingly written chapters examine six banes of life in turn: infirmity (including pain), loneliness, grief, failure, injustice and "absurdity", or a sense of life's futility. Everyone faces some of them at one time or another. Many people face several all the time. If suffering is in practice unavoidable, how is a good life possible?



A good question, but Mr Setiya aims to show how living well and hardship can go together. There is no single good life for everyone, he argues at the beginning. Such lives can include—but do not require—feeling happy. They involve the well-being of others, not just your own, a point reprised in the chapter on injustice. A good life also need not require you to define, let alone pursue, an ideal one: "The best is often out of reach."

As for life's banes, saying that people "should not turn away from hardship" is not to call for self-mortification out of religious guilt. Nor is Mr Setiya claiming, in Stoic or Buddhist fashion, that people can make pain, loneliness and the rest go away by persuading themselves not to care about their effects. Hardships are bad and best avoided. They should be minimised where possible but, where not, better understood and better described. To that main task "Life is Hard" then turns, with a mix of personal anecdote, analytical bite and refreshing distrust, based on factual evidence, of much received wisdom.

The chapter on "Infirmity" cites evidence that the handicapped can live as well as the non-handicapped. Pain, especially chronic pain, is different. Mr Setiya pores over the different ways pain is understood and talked about. He rejects the once-standard picture of pain as a grim but thoughtless feeling. "Pain", he counters, "is not lost for words."

"Loneliness" rejects a suspect picture of modern society as peopled by the lonely and disconnected. Instead, it focuses on particular harms, notably the widespread use of solitary confinement in American prisons. In analytical mode, it probes why ▶▶

love and friendship matter and what harm their absence causes. Most readers will think the answers are obvious until they try to put them into words. Again, Mr Setiya's distinctions come to their aid.

As for grief, Epicurus was wrong: it is not unreasonable. Death matters. It harms survivors (through loss of the dead) and the dead themselves (who are deprived of more life). Yet there comes a time for the bereaved to slow up or stop: "The tempering of grief is not betrayal." The chapter on "Failure" is less strong, but before false reassurance can take hold, Mr Setiya turns to justice. A good life, he presses, involves resisting injustice, for the well-being of any one person depends on that of others. Rather than guilty payment for past wrongs, he contends, pursuing justice should mean attending to social inequities now and planetary ruin to come.

It also gives life a purpose, so answering glum thoughts of its futility. And it offers grounds for hope, the topic of Mr Setiya's final chapter, in which he makes more nice distinctions and quietly reminds readers that he knows what he is talking about from personal experience.

"Life is Hard" will disappoint those looking for glibly reassuring self-help. It ambles and chats, citing a delightful range of writers and thinkers (and the occasional luminary of baseball); then a lot of compressed thought and sketched argument goes by in a few brisk paragraphs. It may unsettle academic philosophers with fixed notions of industry standards. Those features, however, are part of its strength. Attentive readers of this humane, intelligent book will come away with a firmer grasp and better descriptions of whatever it is that ails them or those they cherish. ■

Back Story The seventy year itch

Will anyone ever again be as famous as Marilyn Monroe and Elvis Presley?

NEITHER NEEDS a surname. Neither really needs a name at all: poses and disembodied features are enough to evoke their legends. Red lips and that beauty spot mean Marilyn, as does the dress billowing above the subway grate that is the opening image in "Blonde", a punishing vision of her story out on Netflix on September 28th. The quiff and swivelling hips stand for Elvis, celebrated by Baz Luhrmann in his latest film.

Wildly different in tone, these movies are alike in their gimmicky ambition. "Elvis" is all shook up by split-screen antics and a flashback narration by Colonel Tom Parker, the King's mountebank manager, played by Tom Hanks. "Blonde" includes shots from the point of view of Marilyn's cervix. But the standout fact about both is that they were made—almost 70 years after Marilyn sang "Diamonds Are a Girl's Best Friend" and Elvis recorded his first track. Will any of today's stars (Beyoncé, say, or Harry Styles) be so cherished 70 years from now? Will anyone, in fact, ever be as famous as Elvis and Marilyn again?

In "Blonde" (based on a novel by Joyce Carol Oates), the lights that illuminate the iconic dress scene bombard Marilyn like artillery. Men—directors, lovers, husbands, a president—patronise, exploit, hound, abuse and rape her. "Marilyn" is a role she reluctantly performs, as the icy sequences filmed in golden-era black and white convey. Elvis (Austin Butler) is manipulated by Colonel Tom and doped by unscrupulous doctors. In both cases celebrity is a cult that destroys those it venerates, fame a heartbreak hotel with only one exit.

Yet their tragic early deaths have helped them live for ever. Elvis is the biggest-selling solo artist in history. People still make a living impersonating him. Marilyn's style runs through Madonna to Lady Gaga and beyond. Ana de Armas (pictured), who in "Blonde" gets the girlish voice just right, is the latest of umpteen on-screen imitators. This mega-fame was the result of an alchemical equation: X-factor talent plus personal drama plus marketing and, indispensably, timing.

Seismic changes that could only happen once, happened as Elvis and Marilyn arrived in the 1950s. Rock'n'roll was born. In the person of Elvis, African-American music beguiled many white listeners for the first time (the film has him, in childhood, toggling between the juke joint and the revival tent). Youth culture became the dominant culture. Then there was sex.

In "Elvis", female fans writhe at his gyrations, as if sex were altogether news to them. And for many in the mid-1950s, it was, at least in such a public incarnation. The Hays code that regulated Hollywood morality was fraying but in force. In 1959 "Some Like It Hot" was made without the censors' blessing: a fiesta of cross-dressing, in which Marilyn cooed "I Wanna be Loved by You" in a see-through dress, it

was eventually approved and became a smash-hit. "Sexual intercourse began/In nineteen sixty-three," Philip Larkin wrote. He was out by a few years.

And technology brought these firsts to a mass audience that couldn't look away. Cinema attendance was already on the slide, but in the late 1950s around a third of Americans still went every week. Besides the movies, they had radio and a handful of television channels; Elvis bestrode the lot. Older viewers might have recoiled from his pelvis, but millions of them saw it on TV.

These days oldies might well disapprove of the teen idols of YouTube and TikTok—if they knew who they were. In theory 21st-century celebrities can reach everywhere at once, but as outlets and platforms proliferate, and audiences fragment, none do. The internet has made countless people famous for 15 minutes, but staying famous for longer has grown harder, let alone long enough to define an era, or gather the momentum to transcend it. As for the pictures, with the dawn of streaming, they finally got small. Compared with their big-screen heyday, the stars have dimmed.

Elvis left the building in 1977. Marilyn died in 1962. Like the Beatles, they made a leap to immortality that may no longer be possible. Does that matter? A little.

As David Haven Blake of the College of New Jersey puts it, the likes of Elvis and Marilyn are modern equivalents of Greek gods, their work reinterpreted and their stories endlessly retold to fit new times and values. In a fractious world, they are a kind of gossamer glue that stretches across generations and borders. Find them online and, in her wounded allure and his soulful swagger, you still see what all the fuss is about. Even the most bravura imitations seem thin.

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United States	1.7	Q2	-0.6	1.5	8.3	Aug	7.9	3.7	Aug	-3.7	-3.9	3.7		218	-	
China	0.4	Q2	-10.0	3.6	2.5	Aug	2.4	5.3	Aug‡§	2.2	-6.2	2.5	§§	-21.0	7.25	-10.9
Japan	1.6	Q2	3.5	1.8	3.0	Aug	2.1	2.6	Jul	1.8	-6.1	nil		-8.0	145	-22.9
Britain	2.9	Q2	-0.3	3.3	9.9	Aug	8.6	3.6	Jun††	-5.2	-6.8	4.3		337	0.93	-20.4
Canada	4.6	Q2	3.3	3.2	7.0	Aug	7.0	5.4	Aug	1.2	-3.6	3.1		159	1.37	-7.3
Euro area	4.1	Q2	3.1	2.9	9.1	Aug	8.3	6.6	Jul	1.5	-4.4	2.1		231	1.04	-17.3
Austria	6.0	Q2	11.5	4.6	9.3	Aug	8.9	4.6	Jul	-0.5	-4.7	2.8		275	1.04	-17.3
Belgium	3.3	Q2	0.8	2.3	9.9	Aug	9.6	5.9	Jul	-1.2	-5.1	3.0		284	1.04	-17.3
France	4.2	Q2	2.2	2.4	5.9	Aug	6.2	7.5	Jul	-1.9	-6.1	2.7		259	1.04	-17.3
Germany	1.7	Q2	0.6	1.0	7.9	Aug	8.3	2.9	Jul	3.5	-3.2	2.1		231	1.04	-17.3
Greece	7.8	Q2	5.0	5.0	11.4	Aug	9.5	11.4	Jul	-6.6	-5.3	4.8		397	1.04	-17.3
Italy	4.7	Q2	4.6	3.0	8.4	Aug	7.2	7.9	Jul	0.3	-6.1	4.6		373	1.04	-17.3
Netherlands	5.1	Q2	10.6	4.5	12.0	Aug	13.1	3.8	Aug	8.4	-2.2	2.5		252	1.04	-17.3
Spain	6.8	Q2	6.0	4.2	10.5	Aug	9.2	12.6	Jul	0.4	-5.4	3.3		287	1.04	-17.3
Czech Republic	3.6	Q2	1.9	2.1	17.2	Aug	16.7	2.3	Jul‡	-3.6	-5.7	5.2		318	25.6	-14.7
Denmark	3.3	Q2	3.7	2.1	8.9	Aug	8.2	2.7	Jul	8.3	0.8	2.6		246	7.72	-17.5
Norway	3.9	Q2	2.9	2.2	6.5	Aug	6.2	3.1	Jul‡‡	17.3	11.3	1.4		76.0	10.8	-19.8
Poland	4.9	Q2	-8.1	3.2	16.1	Aug	14.3	4.8	Aug§	-3.7	-3.7	7.0		488	5.01	-20.8
Russia	-4.1	Q2	na	-6.2	14.3	Aug	15.2	3.8	Aug§	11.9	-3.7	10.5		308	58.2	25.1
Sweden	4.1	Q2	3.6	2.2	9.8	Aug	7.3	6.6	Aug§	3.0	-0.2	2.3		195	11.3	-22.6
Switzerland	2.4	Q2	1.1	2.2	3.5	Aug	3.4	2.1	Aug	7.0	-1.1	1.5		161	0.98	-5.1
Turkey	7.6	Q2	8.5	4.1	80.2	Aug	75.4	10.6	Jul§	-5.9	-3.7	11.6		-634	18.5	-52.1
Australia	3.6	Q2	3.6	3.2	6.1	Q2	6.0	3.5	Aug	1.9	-2.6	4.1		263	1.54	-10.4
Hong Kong	-1.3	Q2	4.1	0.5	1.9	Aug	2.3	4.1	Aug‡‡	1.2	-6.8	3.8		252	7.85	-0.9
India	13.5	Q2	9.5	6.9	7.0	Aug	7.0	8.3	Aug	-1.5	-6.6	7.3		110	81.9	-9.6
Indonesia	5.4	Q2	na	5.1	4.7	Aug	4.9	5.8	Q1§	1.2	-3.8	7.4		110	15,262	-6.5
Malaysia	8.9	Q2	na	6.0	4.7	Aug	3.1	3.7	Jul§	1.6	-6.1	4.5		103	4.63	-9.5
Pakistan	6.2	2022**	na	6.2	27.3	Aug	18.5	6.3	2021	-5.0	-7.0	12.8	†††	244	232	-26.6
Philippines	7.4	Q2	-0.4	6.7	6.3	Aug	4.9	5.2	Q3§	-3.8	-7.7	7.3		253	59.0	-13.5
Singapore	4.4	Q2	-1.0	3.5	7.5	Aug	5.7	2.1	Q2	18.9	-1.0	3.5		188	1.44	-5.6
South Korea	3.0	Q2	3.0	2.6	5.7	Aug	5.1	2.1	Aug§	1.8	-3.3	4.2		197	1,440	-17.8
Taiwan	3.0	Q2	-7.0	2.9	2.7	Aug	3.0	3.7	Aug	13.8	-2.0	1.7		123	31.9	-12.9
Thailand	2.5	Q2	2.7	2.8	7.9	Aug	6.0	1.5	Dec§	-0.5	-5.0	3.2		157	38.4	-12.0
Argentina	6.9	Q2	4.2	4.6	78.5	Aug	70.8	6.9	Q2§	-0.6	-4.5	na		na	147	-32.8
Brazil	3.2	Q2	5.0	2.6	8.7	Aug	9.6	9.1	Jul§‡‡	-0.4	-6.2	12.2		102	5.36	1.3
Chile	5.4	Q2	nil	2.0	14.1	Aug	11.5	7.9	Jul§‡‡	-7.1	-1.7	7.0		157	966	-17.2
Colombia	12.6	Q2	6.0	6.6	10.8	Aug	9.8	11.0	Jul§	-5.1	-4.7	12.7		528	4,484	-14.2
Mexico	2.0	Q2	3.7	2.2	8.7	Aug	8.0	3.3	Aug	-1.1	-2.4	9.7		242	20.3	-0.1
Peru	3.3	Q2	2.3	2.6	8.4	Aug	7.8	7.7	Aug§	-3.7	-2.1	8.5		218	3.95	4.6
Egypt	3.2	Q2	na	6.2	14.6	Aug	12.5	7.2	Q2§	-4.9	-6.5	na		na	19.5	-19.6
Israel	4.8	Q2	6.8	5.7	4.6	Aug	4.4	3.4	Aug	2.7	-0.5	3.3		228	3.53	-9.1
Saudi Arabia	3.2	2021	na	7.6	3.0	Aug	2.5	6.0	Q1	14.4	9.3	na		na	3.77	-0.5
South Africa	0.2	Q2	-2.9	1.9	7.9	Aug	6.9	33.9	Q2§	-1.2	-6.2	10.8		151	17.9	-15.8

Source: Haver Analytics. *% change on previous quarter, annual rate. †The Economist Intelligence Unit estimate/forecast. §Not seasonally adjusted. ‡New series. **Year ending June. ††Latest 3 months. ‡‡3-month moving average. §§5-year yield. †††Dollar-denominated bonds.

Markets

In local currency	Index Sep 28th	% change on: one week	Dec 31st 2021
United States S&P 500	3,719.0	-1.9	-22.0
United States NAScomp	11,051.6	-1.5	-29.4
China Shanghai Comp	3,045.1	-2.3	-16.3
China Shenzhen Comp	1,938.3	-3.3	-23.4
Japan Nikkei 225	26,174.0	-4.2	-9.1
Japan Topix	1,855.2	-3.4	-6.9
Britain FTSE 100	7,005.4	-3.2	-5.1
Canada S&P TSX	18,648.9	-2.8	-12.1
Euro area EURO STOXX 50	3,335.3	-4.5	-22.4
France CAC 40	5,765.0	-4.4	-19.4
Germany DAX*	12,183.3	-4.6	-23.3
Italy FTSE/MIB	20,852.7	-5.4	-23.7
Netherlands AEX	641.1	-4.3	-19.7
Spain IBEX 35	7,442.2	-5.5	-14.6
Poland WIG	47,468.3	-4.1	-31.5
Russia RTS, $ terms	1,074.6	-2.9	-32.7
Switzerland SMI	10,220.8	-2.0	-20.6
Turkey BIST	3,198.2	-1.5	72.2
Australia All Ord.	6,659.8	-3.8	-14.4
Hong Kong Hang Seng	17,250.9	-6.5	-26.3
India BSE	56,598.3	-4.8	-2.8
Indonesia IDX	7,077.0	-1.5	7.5
Malaysia KLSE	1,401.9	-3.1	-10.6

	index Sep 28th	% change on: one week	Dec 31st 2021
Pakistan KSE	41,435.1	1.1	-7.1
Singapore STI	3,116.3	-4.5	-0.2
South Korea KOSPI	2,169.3	-7.6	-27.1
Taiwan TWI	13,466.1	-6.6	-26.1
Thailand SET	1,599.2	-2.1	-3.5
Argentina MERV	138,023.4	-6.1	65.3
Brazil BVSP	108,451.2	-3.1	3.5
Mexico IPC	45,442.2	-3.3	-14.7
Egypt EGX 30	9,702.2	-2.5	-18.5
Israel TA-125	1,918.3	-3.7	-7.5
Saudi Arabia Tadawul	11,170.1	-2.5	-1.4
South Africa JSE AS	63,808.3	-3.6	-13.4
World, dev'd MSCI	2,438.8	-3.1	-24.5
Emerging markets MSCI	875.8	-6.0	-28.9

US corporate bonds, spread over Treasuries

Basis points	latest	Dec 31st 2021
Investment grade	177	120
High-yield	507	332

Sources: Refinitiv Datastream; Standard & Poor's Global Fixed Income Research. *Total return index.

Commodities

The Economist commodity-price index 2015=100	Sep 20th	Sep 27th*	% change on month	year
Dollar Index				
All Items	148.9	145.1	-6.5	-4.2
Food	143.4	140.4	-5.3	8.3
Industrials				
All	154.0	149.6	-7.5	-13.0
Non-food agriculturals	144.9	139.0	-9.4	-2.7
Metals	156.8	152.7	-7.0	-15.4
Sterling Index				
All items	199.2	205.6	0.9	20.3
Euro Index				
All items	165.2	167.3	-2.9	16.2
Gold				
$ per oz	1,666.4	1,635.1	-5.2	-5.9
Brent				
$ per barrel	90.7	86.3	-13.2	9.6

Sources: Bloomberg; CME Group; Cotlook; Refinitiv Datastream; Fastmarkets; FT; ICCO; ICO; ISO; Live Rice Index; LME; NZ Wool Services; Thompson Lloyd & Ewart; Urner Barry; WSJ. *Provisional.

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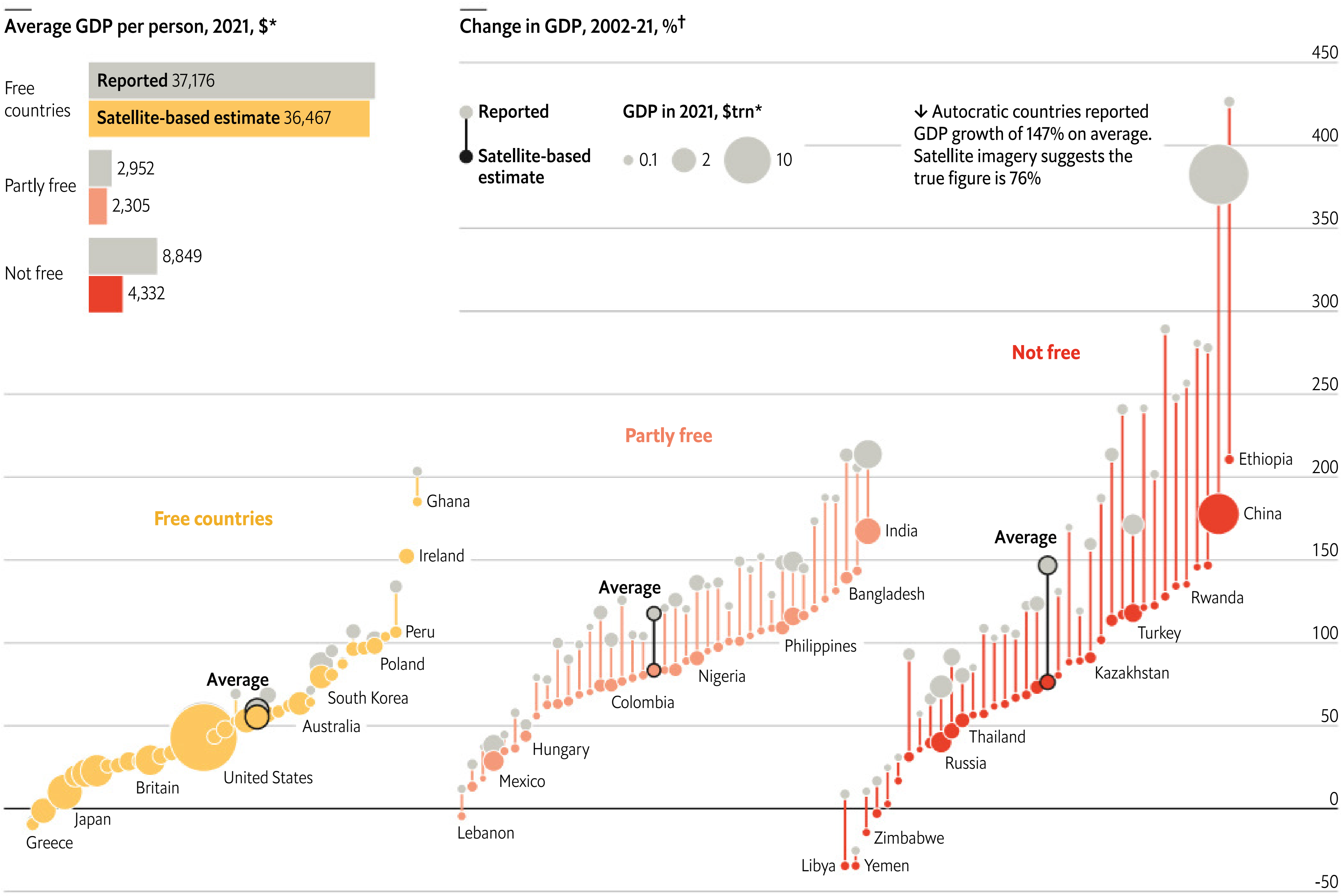
→ **Patterns in nocturnal luminosity suggest autocracies overstate their economic growth**



*In 2021 $ at market exchange rates, assuming reported 1992 GDP figures are accurate †Countries with over 5m people, freedom status in 2021
Sources: "How much should we trust the dictator's GDP growth estimates?", by L.R. Martinez, 2022; Freedom House; World Bank

Shining light on lies

A new study implies dictatorships' economic growth is greatly overstated

Benito Mussolini was a tyrant, but at least he made the trains run on time. Or so the story goes. Dictators are often seen as ruthless but effective. Official GDP figures support this view. Since 2002 average reported economic growth in autocracies has been twice as fast as in democracies.

But in fact, Mussolini's trains often ran late—and dictators' economic stewardship may not be as effective as they claim. New research finds that autocrats greatly overstate their countries' economic growth.

In a peer-reviewed article that will be published this month, Luis Martinez, an economist, investigated dictators' GDP-growth figures. To do so, he first obtained data on the brightness of countries' lights at night, as measured by satellites, a well-known proxy for GDP. He combined it with data from Freedom House, a think-tank, on countries' political systems. Assuming that the most democratic countries reported growth figures accurately, he then used the satellite data to estimate if other countries under- or over-stated theirs.

The data showed that dictators' reported GDP tended to grow much faster than satellite images of their countries would suggest. This could not be explained by their economies being based on different industries from other countries, or that people there had lower average incomes.

Curious patterns in the data suggest manipulation as the cause. Mr Martinez found that the mismatch between satellite and GDP data did not appear in dictatorships until they were too rich to receive some types of aid: only showing up when governments would not forfeit money. The irregularities were most prevalent in the parts of GDP figures that are easiest to manipulate such as investment and government spending), and was bigger when these countries' growth was low compared with others'. And as countries moved towards or away from dictatorship, their numbers grew more or less suspicious.

The differences between reported and estimated GDP-growth rates were large. While others have found similar relationships, Mr Martinez was able, using satellite data up to 2013, to estimate the bias more precisely. In updated figures he has provided to us, cumulative GDP growth between 2002 and 2021 in countries "not free" is nearly cut in half: from 147% to 76%.

The explanation is probably simple: opportunity and motive. Part of what makes dictatorships dictatorships is that questioning the official line is dangerous. At the same time, autocratic regimes have a strong incentive to report healthy growth: its absence may be taken as a sign of incompetence or weakness, which dictators can ill afford.

Autocrats' subordinates face similar incentives. In a related study Jeremy Wallace, a researcher, found misreporting by Chinese provinces, too. As he notes, a leaked American diplomatic cable from 2007 revealed the view of Li Keqiang, the prime minister, then a provincial party secretary. He had said, with a smile, that GDP figures were "for reference only": he relied instead on proxies, such as electricity use.

Like their leaders, citizens in dictatorships often assume they are being lied to. Outsiders should be similarly sceptical. ■

The ghosts within

Hilary Mantel, writer and seer of things others couldn't, died on September 22nd, aged 70

"So now get up."

As she wrote those words, Hilary Mantel lay sprawled on the cobbles of 16th-century Putney. Her father's boot was in her face; through blood, she saw that its stitching was unravelling. Her hair rested in her own vomit. Yet she had also arrived just where she needed to be, in the place she had been aiming at for 30 years. She was behind the eyes of Thomas Cromwell, chief minister to Henry VIII, the man whose porcine bully-boy look had fascinated her from schooldays. Now she could write the enormous book that had been gestating in her.

The first part was called "Wolf Hall". The volumes that followed were "Bring up the Bodies" and "The Mirror and the Light". Together, they covered almost 2,000 pages and sold in millions. The first and second won the Booker prize. From a niche author, well-reviewed but not much bought, she emerged into the literary dazzle as a celebrity, with a look of permanent delight and surprise.

Cromwell had been the most pushy of the many ghosts who haunted her. They had surrounded her from childhood, the creatures others wouldn't see, or said were not there. The sense of oppression lurking in tangled bracken. A flicker on the staircase, a shape against the curtains. The insolent, formless shift of air that sent her running in traumatised, at seven, from the family garden. Ghosts that hung beside jackets, or lay like curls of stripped wallpaper on the floors of derelict houses.

Her left eye was the seer, the peeled one. With this she looked on other people, "winding their fabric back onto the bolt and pricing them by the yard". On her daily walks to convent school she "did" the weather, pinning it down until she had a perfect paragraph. Through that eye, the world was acute and strange. Sunlight lay "pale as the flesh of a lemon". The air was "clotted, jaundiced". Her dreams persisted like "the dim leaf-mould interiors of a copse". The river watched her back, "with its grey blink". The nuns too were grey, as if kept under stones.

Truth was her talisman, and it was often squalid. To find it was like "sifting through landfill". But words could nail things exactly. Reading her favourite books, "Jane Eyre" and "Kidnapped", she was less absorbed in the story than in thinking, "How is this done?" Relentlessly, she studied the power of words: the deathly hiss of "marzipan", the hammer-force of "liar". She kept in reserve, for a good moment, "horripilation" and "persiflage". Their eerie magic never faded.

In particular she was haunted by children that would never be born: the children expected of all women or wanted by most men, especially kings; those lost by miscarriage, and the child she imagined she and her husband Gerald would soon have, after their youthful marriage. She was to be called Catriona. The unborn had a way of insisting. But instead of Catriona, books came, half-formed fetal creatures that brought the lost and dead into being. They lived not only in her but in stacks of notebooks and journals; even after the Cromwell trilogy she could still go to her cupboard, she said, and pull half a dozen books out.

She also wrote herself into being. Catriona was never born because her ghost-mother was almost permanently ill. "Little Miss Neverwell", one doctor called her. There were migraines and measles, unexplained fevers; then, as a young woman, chronic and disabling pain. She diagnosed this at last as severe endometriosis caused by wandering, scarring cells. Her insides were rearranged by hands pushing into the obscure cavities of her body, a body no longer her own but "a thing done to". She had been thin and frail; now, given steroids, she ballooned into something solid, set, grotesque to herself. Though she had hoped to be a barrister, it was impossible to work unless she was on her own, in control. That meant writing books for a living.

Slowly, then, they appeared. Eighteen years elapsed between her first researches into the French revolution and the publication of "A Place of Greater Safety", her massive revolutionary novel. Few wanted such a thing. She drilled her way into the cultural establishment by writing contemporary novels instead, but slightly regretted it. Literary fashions and London sets left her cold; she was always an outsider in that world. She went on ferreting out truth in her dogged, disturbing way, putting her darkest finds into "Beyond Black", a tale of a psychic in London's suburbia communing with the dead.

But the call of history was stronger. She needed facts to steer by, however inconvenient or incoherent. Round those facts, she could bend the fiction flexibly; but truth was not optional. She did not want to make things up. If she did not know precisely how Cromwell would have dried a fresh document, by sprinkling sand, she could not go on. She was responsible for this man, who was real, even if dead. For years she inhabited his thoughts, wading each day slowly into them, until by early evening she would find herself working manically, like a fiend. She wrote his death, in several drafts, when she had not yet finished "Wolf Hall": choosing the bloodiest account of his end, three strokes of the axe, so that she could follow his consciousness to the last. The time to write that scene announced itself when she suddenly began to cry at the checkout in Sainsbury's: a premonition.

Cromwell made her. It was a late flowering but a glorious one, her triangular form shimmering through literary festivals, then stage and screen, in blue and silver and immense black capes lined with silk. She became queen of pebbly Budleigh Salterton in Devon, where she had always wanted to live. Fame was gleeful, because she had laboured so hard, against such odds, to earn it. Like Cromwell from the smithy in Putney, the curious working-class child from northerly Glossop had made good, despite the miseries and knocks of getting there. That was all the spur someone of his, or her, intense ambition needed: the terse, ghost command, "So now get up." ■

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