The Economist

MARCH 23RD–29TH 2024

ISRAEL ALONE

The world this week

Politics

Mar 21st 2024

Tens of thousands of **Russians** used a federal election to protest against Vladimir Putin, bravely displaying anti-war banners in queues for polling stations and silently marking their ballots with the name of Alexei Navalny, the opposition leader who died in an Arctic penal colony last month. No serious opponents to Mr Putin were allowed to stand in the tightly managed election. The president decided to allot 87% of the vote to himself, ten percentage points more than in the previous sham poll in 2018.

America, Britain and the EU condemned the Russian authorities for suppressing opposition to Mr Putin's regime. The election was also held in the regions of **Ukraine** that Russia has invaded, including Crimea, which Lord Cameron, the British foreign secretary, described as "abhorrent". China, India, Iran and North Korea congratulated Mr Putin.

The European Union's member states and the European Parliament reached a deal that extends the liberalisation on **imports of Ukrainian goods** for a year. In a nod to protesting farmers, some products, such as poultry and oats, were added to a list of items that are safeguarded against imports flooding the market. Wheat and barley were not on the list.

Leo Varadkar said that he would step down as prime minister of **Ireland**, an announcement that took his countrymen, and his own deputy prime minister, by surprise. He said his reasons were personal and political without giving any further details, though his government recently suffered heavy referendum defeats over altering the constitution. Fine Gael, which heads the governing coalition, will choose a new leader in the coming weeks.

Vaughan Gething was confirmed as the new first minister of **Wales** by the Welsh Parliament. He is the first black person to hold the post. For the first time none of the leaders of Scotland, Wales and Northern Ireland or the British prime minister is a white male.

Shockwaves

Chuck Schumer, the Senate majority leader in America and one of **Israel's** staunchest supporters in the Democratic Party, called for early elections, saying that Binyamin Netanyahu, the country's prime minister, had "lost his way". Joe Biden endorsed the message. Mr Netanyahu agreed to send officials to Washington to discuss Israel's plan for an invasion of Rafah—which the American president has suggested is a "red line". Mr Netanyahu insisted that the offensive was still necessary.

Antony Blinken, America's secretary of state, said that **Gazans** were facing "acute food insecurity" and that it was the first time an entire population had been so classified. He is pushing Israel to prioritise the provision of humanitarian aid. **Israeli forces** again raided al-Shifa hospital in northern Gaza. Israel said that it was targeting Hamas officials who had regrouped there, despite Israel's claim to have control over the area.

Jake Sullivan, America's national security adviser, confirmed that Marwan Issa, the deputy commander of **Hamas's** military wing, had been killed in an Israeli airstrike. He is the group's most senior leader to die since October 7th.

Mahmoud Abbas, the president of the **[Palestinian Authority](#)**, appointed a new prime minister, Mohammad Mustafa. Mr Mustafa has long had a close relationship with Mr Abbas as his economic adviser. Outsiders hope that he will clean up the PA.

The military junta in **Niger** revoked a military accord with America, under which roughly 1,100 American troops have been based in the country to help fight jihadists in the Sahel. The announcement came after senior American diplomats told the junta they were concerned about its growing ties to Russia and Iran.

The UN warned that 5m people in **Sudan** could face "catastrophic" levels of hunger because of civil war and because both sides in the conflict, the Sudanese Armed Forces and the Rapid Support Forces, are obstructing the delivery of aid. The UN said it has not been able to cross the front lines to reach parts of Khartoum, the capital, since October.

Donald Trump cannot raise $454m to pay the penalty awarded against him in a civil trial, according to his lawyers. The penalty was handed down by a judge to Mr Trump for fraudulently inflating the value of his assets. He has asked an appeals court to put the judge's decision on hold while he launches an appeal against it.

Peter Navarro, a trade adviser to Mr Trump when he was president, began a four-month jail sentence for ignoring a subpoena from Congress in its investigation into the storming of the Capitol on January 6th 2021. The Supreme Court rejected a last-minute plea from Mr Navarro to avoid prison while he appeals against his sentence.

Meanwhile, **Mike Pence**, Mr Trump's vice-president in the White House, said he "could not in good conscience" support his former boss's second run for the presidency. Mr Pence also ruled out voting for Joe Biden.

Over 1m **abortions** were performed in America last year, 10% more than in 2020 and despite the Supreme Court's removal of women's constitutional protections for abortion in 2022. The Guttmacher Institute, which compiled the data, said abortions had surged in states that border the 14 states where the procedure has been banned. Abortions were up by 72% in Illinois and 257% in New Mexico, for example.

Hong Kong passed a new security law covering acts such as insurrection and sabotage. Critics fear it will be used to target dissidents. The authorities in Hong Kong moved quickly to approve the measure at the behest of China's central government, which has tightened its grip on the territory.

Vietnam's ruling Communist Party forced the resignation of Vo Van Thuong as president. He had been in the job a little over a year following the similarly abrupt dismissal of his predecessor. The sudden exit appears related to an anti-corruption drive by the party. Analysts worry that the campaign is beginning to threaten the country's political stability as competing party factions use it to tarnish rivals.

Singapore's opposition leader, Pritam Singh, pleaded not guilty to two charges of lying to a parliamentary committee. Mr Singh's Workers' Party has been challenging the People's Action Party, which has ruled Singapore since 1959, ahead of a planned transition of power. The prime minister, Lee Hsien Loong, is preparing to hand over his job to his deputy, Lawrence Wong, before an election that is due by November next year.

Jair Bolsonaro, **Brazil's** president from 2019 to 2022, could face a criminal indictment for the first time, after police proposed that he face charges of altering his covid-certification card to say he'd had a vaccine in order to travel to America in 2022. Mr Bolsonaro insists he has never had the jab and denies any knowledge of his records being interfered with.

We're melting

The World Meteorological Organisation confirmed that 2023 was the **warmest year on record**, with the average global surface temperature at 1.45°C above pre-industrial levels. The UN agency listed some of the effects of a warmer world: the global mean sea level reached a record high, the extent of Antarctic sea ice hit a record absolute low and food insecurity has increased.

Business

Mar 21st 2024

The **Bank of Japan** raised interest rates for the first time since 2007. The target rate for overnight loans was raised from between minus 0.1% and zero to between zero and 0.1%, making the BoJ the last central bank to end a negative- interest-rate policy (it first took rates below zero in 2016). The bank also ditched its yield-curve controls, which capped the yields on long-term government bonds. The change in direction had been signalled for months, but Ueda Kazuo, the bank's governor, said it would maintain "accommodative financial conditions". The bank will still buy about ¥6trn ($40bn) a month in government bonds.

The **Federal Reserve** left rates unchanged at its meeting. Investors were more interested in the Fed's "dot plot" of the path for interest rates, which suggested that it still expects to make three quarter-point cuts this year. Markets soared.

In a busy week for big central banks, the **Bank of England** also met and kept interest rates on hold. Meanwhile, Britain's annual inflation rate fell to 3.4% in February, from 4% in January.

Reddit priced its shares at $34 ahead of its debut on the New York Stock Exchange, the top end of the price range it had submitted to investors. The social-media platform's IPO was heavily oversubscribed.

After years of fighting his extradition from Britain and ten months under house arrest, **Mike Lynch** went on trial in San Francisco over claims that he fraudulently misstated revenues at Autonomy, a software firm that he sold to Hewlett-Packard in 2011 for $10.3bn. HP subsequently took a huge write-down on the value of its acquisition and alleged that Mr Lynch, Autonomy's founder, had deceived the company. The prosecution says it is the biggest case of fraud in Silicon Valley's history. Mr Lynch denies the charge. His defence counters that HP mismanaged Autonomy.

A rocky road

Under pressure from activist investors, **Unilever** set out a restructuring plan that could see it shed 7,500 jobs, about 6% of its workforce. The consumer-goods conglomerate is also spinning off its ice-cream division, which includes the Magnum and Ben & Jerry's brands. Ice-cream accounts for 16% of Unilever's sales, but prospects for the business's growth are melting.

Apple reached a $490m settlement over claims that it misled investors in 2018 about strong demand for the iPhone in China. In January 2019 the tech giant admitted that its business in China was struggling. The lead plaintiff in the investors' lawsuit is the pension fund for the English county of Norfolk. Apple denies wrongdoing.

Intel is to receive $8.5bn in government grants and up to $11bn in public loans to build or expand factories in Arizona, Ohio, New Mexico and Oregon, the biggest beneficiary yet of the Biden administration's programme to boost chipmaking in the United States and ensure the country dominates the market for high-end chips. Intel is pledging to invest $100bn in American chip manufacturing. The public money it receives will be tied to production benchmarks.

Meanwhile,**Nvidia**unveiled the Blackwell graphics-processing unit, its latest line of chips for use in artificial intelligence, which will greatly increase the computing power of large language models. Containing 208bn transistors, the new chips could cost up to $40,000 each.

May the force be with you

George Lucas said he supported **Disney** and its chief executive, Bob Iger, in its fight against Nelson Peltz, an activist investor who is seeking two seats on the board in order to overhaul the business. Mr Lucas, the creator of "Star Wars", is one of Disney's biggest individual shareholders. His Lucasfilm production company has been a Disney subsidiary since 2012 and his endorsement is a big boost for the company. Mr Peltz takes his proxy battle to the annual general meeting on April 3rd.

The Biden administration unveiled sweeping new **vehicle-pollution rules** which it hopes will ensure that most new cars and light trucks sold in America are either pure-electric or hybrid by 2032. The new standards require carmakers to raise caps gradually on the amount of exhaust-pipe pollution their vehicles emit, but it does not ban them. The regulations come amid a weakening demand for EVs in America, and will probably be challenged all the way to the Supreme Court.

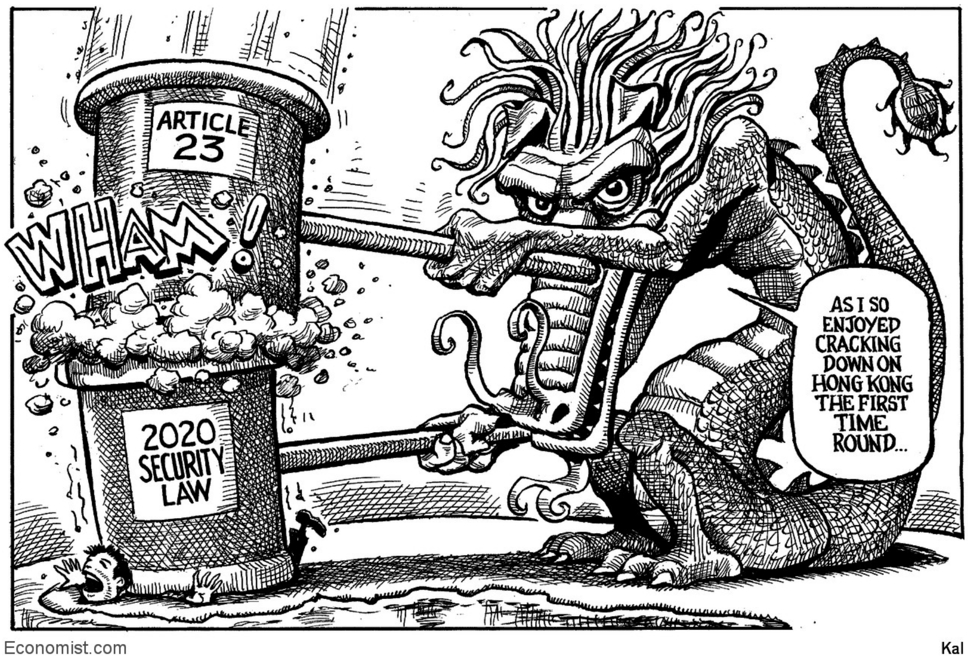
Xiaomi, one of China's biggest makers of smartphones, published a solid set of quarterly earnings. The company is making a diversion into the EV market, delivering its first electric car on March 28th.

Bentley Motors reported its second-best ever annual profit. The luxury carmaker made lots of money from record levels of customers ordering bespoke vehicles. One customer reportedly wanted wood from his personal forest to furnish his car's interior.

The world this week

KAL’s cartoon

Mar 21st 2024



Dig deeper into the subject of this week’s cartoon:

[Hong Kong passes a security law that its masters scarcely need]
[Hong Kong is becoming less of an international city]
[China’s draconian security law for Hong Kong buries one country, two systems] [from 2020]

KAL’s cartoon appears weekly in The Economist. You can see last week’s here.

The Economist

This week's covers

How we saw the world

Mar 21st 2024

SOME WEEKS, including this one, we publish more than one cover. In most of the world, we consider Israel's predicament as the war in Gaza continues. Talks over a temporary ceasefire with Hamas may fail. That could leave Israel locked in the bleakest trajectory of its 75-year existence, featuring endless occupation, hard-right politics and isolation. We argue that America should help it find a better strategy.

Leader: At a moment of military might, Israel looks deeply vulnerable
Briefing: The war in Gaza may topple Hamas without making Israel safer
Middle East & Africa: America wants Binyamin Netanyahu out. But his exit is fraught with dangers

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In Britain, we explain why the country is the best place in Europe to be an immigrant. The idea of Britain as a nation of immigration might seem counterintuitive. Its citizens voted to leave the European Union in 2016 after they were promised a tighter chokehold on inflows of people from Europe. Yet Britain now has a larger share of foreign-born residents than America. It is good at assimilating immigrants. We consider what other countries can learn from its example.

Leader: [Britain is the best place in Europe to be an immigrant]
Britain: [Without realising it, Britain has become a nation of immigrants]

Leaders

An unexpected beacon

Britain is the best place in Europe to be an immigrant

What other countries can learn from its example

Mar 21st 2024

THE IDEA of Britain as a nation of immigration might seem counterintuitive. Its citizens voted to leave the European Union in 2016 after they were promised a tighter chokehold on inflows of people from Europe. This week politicians in Parliament tussled over a bill that will make it easier to ship asylum-seekers to Rwanda without hearing their pleas—the latest in a string of illiberal laws designed to "stop the boats".

Neither does the country crow about the migrants it has. Other places have grand immigration museums; the one in New York harbour draws millions of tourists each year. Britain's small Migration Museum, which was founded not by the state but by some worthies, sits in Lewisham Shopping Centre in south London, between a discount store and a shoe shop.

Yet Britain now has a larger share of foreign-born residents than America. One in six of its inhabitants began life in another country. The share is rising because, even as it strains to stop the boats, the Conservative government has opened the door to workers, students and selected victims of authoritarianism such as Hong Kongers and Ukrainians. Asylum is a sideshow in terms of the numbers. Fewer than 30,000 people floated across the English Channel last year. Long-term immigration in the year to June 2023 stood at 1.2m.

More surprising still is the fact that the country is so good at assimilating immigrants. Angsty politicians gripe that Britain is letting in people from poor countries to do menial jobs, and weak students who want visas only so they can deliver pizzas. Multiculturalism has failed, they say: too many immigrants live parallel lives in segregated neighbourhoods. Nonsense: Britain excels at getting foreigners up to speed economically, socially and culturally. It is (in this respect, at least) a model for the rest of the world.

In many countries even skilled immigrants struggle to find jobs. In the EU foreign-born adults with degrees who are not still in education have an employment rate ten percentage points lower than natives with degrees. In Britain the gap is a trivial two points, and scantily educated foreign-born people are 12 points more likely to work than their British-born peers.

Even immigrants stuck in dull jobs know that their children tend to fare well in school. In England teenagers who do not speak English as their first language are more likely to obtain good grades in maths and English in national GCSE exams than native English-speakers. The PISA tests run by the OECD, a rich-country club, show that immigrants and their children perform badly in much of Europe. In Germany immigrants' children scored 436 points in the latest maths test, against 495 for natives. In Britain they did slightly better than natives.

The idea that Britain is dividing into ghettos is a myth. Every ethnic group has consistently become less segregated since the census started keeping track in 1991. The foreign-born population is growing fastest not in traditional melting-pots such as Birmingham and inner London but in staid suburbs and smallish towns. Even within those towns, foreigners do not cluster together.

It is true that immigration remains the subject of furious political debate. But that is probably because the people who really dislike it are prepared to base their voting decisions on this issue alone. Britons as a whole have become more relaxed, especially since the Brexit vote. They seem unfussed by one remarkable recent development. The top political jobs in Britain, Scotland and London are all held by the children of immigrants, all of South Asian descent. The first ministers of Northern Ireland and Wales were born abroad (although Michelle O'Neill only moved north from Ireland).

Britain cannot turn every migrant and every migrant's child into well-educated, productive members of society. It struggles with imported prejudices and aggressive Islamism, although that problem is sadly often home-grown. Asylum-seekers do not adjust as well as others, possibly because the government crams them into hotels and prevents them from working while it sluggishly gets round to hearing their cases. Nor is the state good at bureaucracy. The Home Office is famously incompetent. It actually retards assimilation by charging so much for naturalisation—in real terms the cost has increased by six times since 2000.

Moreover, Britain has a couple of advantages that other countries cannot replicate. It is a long way from a war zone, so it gets relatively few uninvited refugees, and it happens to use a language that lots of people speak a little. But two other explanations for its success are easier for others to copy.

The first is Britain's flexible labour market. Compared with the rest of Europe, hiring and firing is straightforward, even for people who are employed under regular contracts. That helps immigrants find an economic foothold, which makes everything else easier. Xenophobic credentialism is weaker. One unusual thing about Britain is that immigrants with foreign qualifications have almost exactly the same employment rate as those with domestic qualifications. In most European countries the gap is large; in Greece it is an amazing 25 percentage points.

Ghetto fabulists

The country's other advantage is the attitude of its people. Britons are open-minded. Just 5% told the World Values Survey that they would object to living next to an immigrant (and migrants' children report being bullied at school less often than natives' children). Britons combine an intolerance for discrimination with high expectations. Compared with other Europeans, they are keen for migrants to learn the language, obtain qualifications, adopt the culture and become citizens. It probably helps that Britain never had guest workers. But politicians elsewhere would be wise not to predict that newcomers it has accepted will one day go home, as Angela Merkel, then Germany's chancellor, said of refugees in 2016.

Britain has not been an obvious country to copy recently. Its major service to the rest of Europe has been to show the costs of leaving the EU. But on integration it is the place to beat.■

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The war in Gaza and beyond

At a moment of military might, Israel looks deeply vulnerable

America should help it find a better strategy

Mar 21st 2024

THERE IS STILL a narrow path out of the hellscape of Gaza. A temporary ceasefire and hostage release could cause a change of Israel's government; the rump of Hamas fighters in south Gaza could be contained or fade away; and from the rubble, talks on a two-state solution could begin, underwritten by America and its Gulf allies. It is just as likely, however, that ceasefire talks will fail. That could leave Israel locked in the bleakest trajectory of its 75-year existence, featuring endless occupation, hard-right politics and isolation. Today many Israelis are in denial about this, but a political reckoning will come eventually. It will determine not only the fate of Palestinians, but also whether Israel thrives in the next 75 years.

If you are a friend of Israel this is a deeply uncomfortable moment. In October it launched a justified war of self-defence against Hamas, whose terrorists had committed atrocities that threaten the idea of Israel as a land where Jews are safe. Today Israel has destroyed perhaps half of Hamas's forces. But in important ways its mission has failed.

First, in Gaza, where its reluctance to help provide or distribute aid has led to an avoidable humanitarian catastrophe, and where the civilian toll from the war is over 20,000 and growing. The hard-right government of Binyamin Netanyahu has rejected plans for post-war Gaza to be run by either the Palestinian Authority (PA) or an international force. The likeliest outcome is a military reoccupation. If you add the West Bank, Israel could permanently hold sway over 4m-5m Palestinians.

Israel has also failed at home. The problems go deeper than Mr Netanyahu's dire leadership. A growing settler movement and ultra-Orthodox population have tilted politics to the right and polarised society. Before October 7th this was visible in a struggle over judicial independence. The war has raised the stakes, and although the hard-right parties of the coalition are excluded from the war cabinet they have compromised Israel's national interest by using incendiary rhetoric, stoking settler violence and trying to sabotage aid and post-war planning. Israel's security establishment is capable and pragmatic, but no longer fully in charge.

Israel's final failure is clumsy diplomacy. Fury at the war was inevitable, especially in the global south, but Israel has done a poor job of countering it. "Lawfare", including spurious genocide allegations, is damaging its reputation. Young Americans sympathise with it less than their parents do. President Joe Biden has tried to restrain Mr Netanyahu's government by publicly embracing it, but failed. On March 14th Chuck Schumer, Israel's greatest ally in the Senate, decried Hamas's atrocities but said Israel's leader was "lost".

It is a bleak picture that is not always acknowledged in Jerusalem or Tel Aviv. Mr Netanyahu talks of invading Rafah, Hamas's last redoubt, while the hard right fantasises about resettling Gaza. Many mainstream Israelis are deluding themselves, too. They believe the unique threats to Israel justify its ruthlessness and that the war has helped restore deterrence. Gaza shows that if you murder Israelis, destruction beckons. Many see no partner for peace—the PA is rotten and polls say 93% of Palestinians deny Hamas's atrocities even took place. Occupation is the least-bad option, they conclude. Israelis would prefer to be popular abroad, but condemnation and antisemitism are a small price to pay for security. As for America, it has been angry before. The relationship is not about to rupture. If Donald Trump returns he may once again give Israel a free pass.

This seductive story is a manifesto for disaster. Consider defence. The damage to Israel's reputation could make it harder to fight on in Gaza. The long-term threat is from Iran and its proxies, including Hizbullah. Deterring this requires a military partnership with America that needs bipartisan backing, and ideally Gulf Arab support, too. The economy depends on tech exports and experts with access to global markets. And rather than making Israelis safe, permanent occupation poisons politics by emboldening the hard right and breeding Palestinian radicalism. Israelis are right that they have no partner for peace today, but they are best placed to break the cycle.

Israel's trajectory will intensify its ethno-nationalist politics and pose legal threats to the economy. As estrangement from the West deepens, so deterrence may weaken. Firms could be blacklisted. Bosses could move high-tech businesses abroad or, if they are reservists, be arrested there.

America must help Israel avoid that fate—and if it fails it will itself pay a heavy diplomatic price. Best would be a temporary ceasefire, opening a route to two-state talks. Without this, American policy will need resetting. Mr Biden's early embrace has failed, but so would coercion. If America tried to force Israel out of Gaza while Hamas could still regroup, or curbed military support, or withdrew its support at the UN, Israel's security could be in jeopardy.

America should therefore use other means. It should dispense more humanitarian aid unilaterally and decline to supply weapons for an invasion of Rafah, given the lack of civilian provision. It should broaden sanctions against settlers and right-wing fanatics to show Israeli voters that America underwrites their security but not extremism or permanent occupation. And it should continue to signal that it is keen to recognise Palestine as part of a two-state peace negotiation.

The battle to come

America, however, can do only so much. Most Israeli wars are followed by political upheaval. Removing Mr Netanyahu will not be easy. But when the reckoning comes it will be huge. The war has shattered many illusions: that the Palestinians can be ignored; that the PA has any appetite for reform; that antisemitism is rare; that Israel can pay lip-service to two states as settlements expand; and that the hard right can be tamed. The good news is that there are grounds for hope. Polls suggest that centrists in Israel command perhaps 50-60% of votes, institutions like the Supreme Court are still strong and better leaders exist. A struggle for Israel's future awaits. The battle in Gaza is just the start.■

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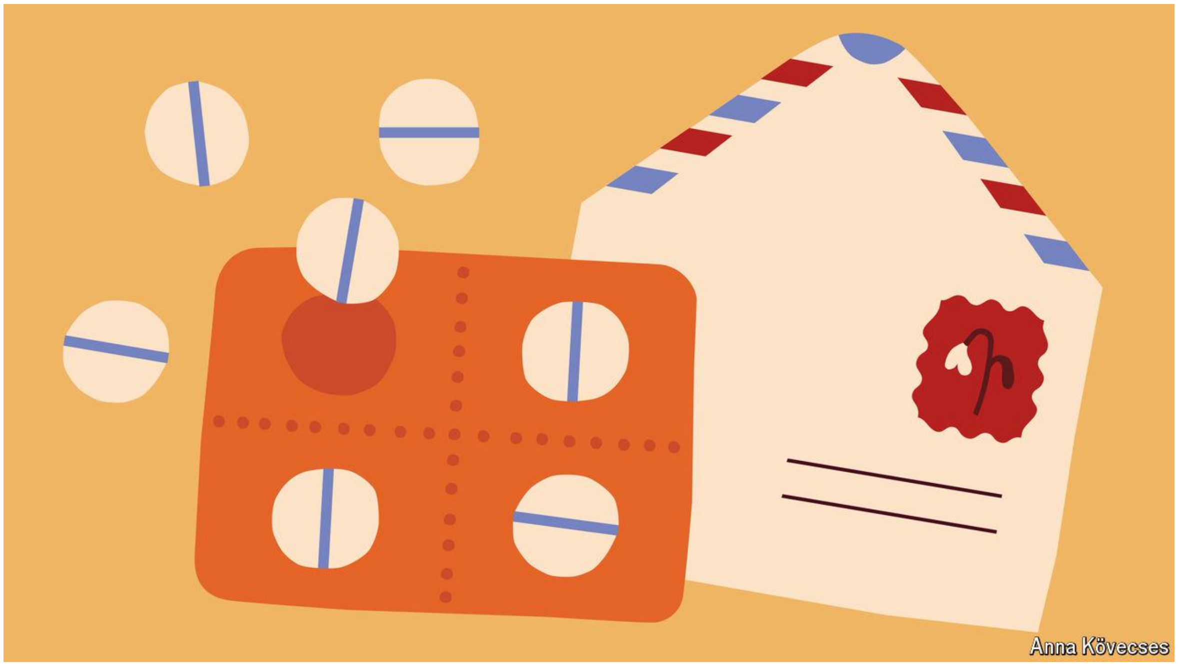
Pills by post

America's Supreme Court should reject the challenge to abortion drugs

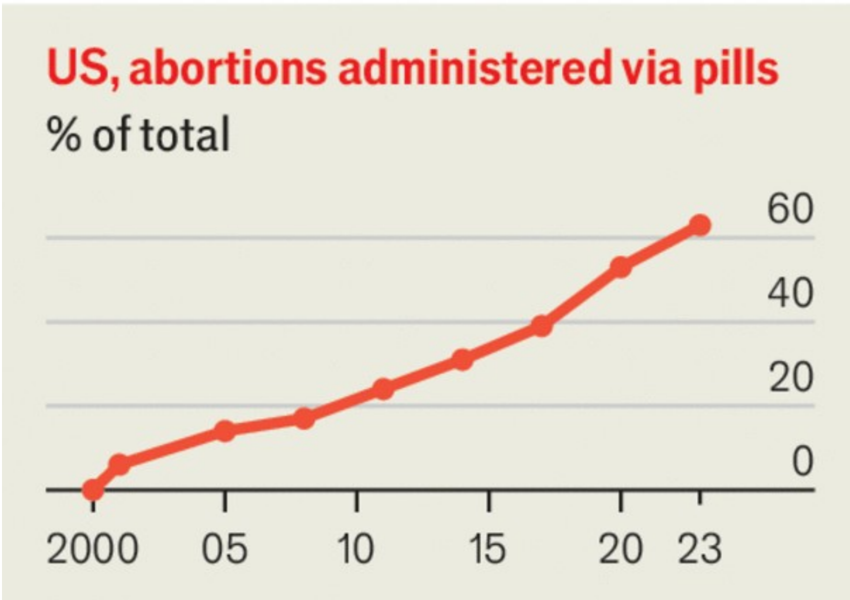
The case against mail-order mifepristone is legally and medically spurious

Mar 20th 2024



AMERICAN WOMEN are thought to have more abortions today than they did before the Supreme Court overturned *Roe v Wade* in 2022. The main reason is probably abortion pills. Safe and effective, cheap and convenient, and small enough to fit into an envelope, they enable many women to have an abortion without leaving home. The pills account for nearly two-thirds of terminations in America, up from almost a quarter in 2011, partly because the Food and Drug Administration (FDA) has loosened rules around their use and distribution. No wonder pro-lifers want the Supreme Court to clamp down on them. Medically and legally, that would be an error.

The court will hear the case on March 26th—its first on abortion since it ignited a nationwide battle over reproductive rights by scrapping *Roe*. The Alliance for Hippocratic Medicine, a conservative group, wants greater restrictions around mifepristone, a drug typically used in combination with another, misoprostol, to induce abortions. Arguing that the FDA's rulings have been "arbitrary" and "capricious", it wants to restore a strict seven-week limit on use of mifepristone, as well as a requirement that only doctors can prescribe and provide it—and that this must be in person.



The Economist

That would be a bad outcome for women's health. Mifepristone is safer than Tylenol (paracetamol) and has fewer complications than later-stage surgical abortion. It is also cheaper, less invasive and more convenient than surgery, especially for women who cannot easily get to a clinic or when prescribed through telemedicine. Pill-based abortion has risen globally. In England and Wales, and much of Scandinavia, around 90% of terminations now use pills. During the pandemic, which limited visits to doctors, trials found that remote prescriptions of abortion pills have many benefits and no added risk.

Restricting mifepristone's use to seven weeks of pregnancy makes no sense medically. If anything, the FDA's current ten-week limit is too restrictive. The World Health Organisation lists mifepristone as safe and effective for abortions up to 12 weeks. Although women now detect and terminate pregnancies earlier than in the past, 49% of abortions in America still happen between six and 12 weeks (94% take place in the first trimester). Without mifepristone, most of these women will still have abortions, using either misoprostol alone or surgery. But these options tend to bring more hassle, discomfort and a higher risk of further medical intervention.

Siding with the plaintiffs would also be a bad legal outcome. Courts should require strong grounds to conclude that a regulator has got a technical assessment wrong. If judges can substitute their own supposed expertise for the FDA's, it will weaken America's system of technically informed regulation—especially if the test case is a charged issue in which the empirical evidence is strong and the plaintiff has suffered no concrete injury. Anyone with a cause, from moral objections to contraceptives to conspiracy theories about covid-19 jabs, will be encouraged to sue the FDA. Meritless challenges against other agencies will proliferate, too.

This case presents an opportunity for the justices to rein in judicial activism. Our hope is that the Supreme Court took it on chiefly for that reason. It can best do so by coming down unanimously in favour of the FDA. ■

Steel men

Why Joe Biden was wrong to oppose a Japanese takeover of US Steel

Uncertain political benefits do not justify a bad policy

Mar 21st 2024

EVER SINCE news broke in December of the acquisition of US Steel, an iconic industrial firm, by Nippon Steel, a Japanese competitor, opponents have lined up to condemn the deal. On March 14th Joe Biden joined the chorus, saying that it was "vital" for the business to be domestically owned. "I told our steelworkers I have their backs," he said, "and I meant it." Others, including trade unions, see American ownership as the best way to preserve local jobs and investment. Free-traders rightly dispute such claims, but even they might accept an economically unsound idea for political reasons. If blocking the deal helps Mr Biden win crucial swing states and thus keeps Donald Trump from returning to the White House, surely that would be better for America and the world?

Consider the stakes. Mr Trump has strongly hinted that he would abandon Ukraine to its Russian invaders, betraying a democracy and undermining the security of the West. He refused to accept electoral defeat in 2020, and has threatened “retribution” against his enemies at home. He is also much more protectionist than Mr Biden. He ruled out the Nippon deal in January, and has proposed a 10% blanket tariff on all imports. Mr Biden’s policy will probably win him votes in close races in Pennsylvania, where US Steel is based, or in Michigan, where he campaigned on the day he denounced the deal. It could even be the difference between victory and defeat.

On the face of it, that presents an ironclad case for blocking the steel merger. Take a step back, though, and the argument is less clear. The costs are greater than the deal-blockers imagine and the benefits are more uncertain. What is more, in a knife-edge campaign similar claims about ends and means can be used to justify pretty much any policy, however bad.

The costs of blocking the steel deal are stiff. Curbing the free flow of capital means less efficient steel production and ultimately higher prices for consumers. Moreover, Nippon has promised not to cut jobs and plans to increase investment. If so, concerns about the local economy are misplaced. The deal could even end up making US Steel stronger.

Worse, the way in which Mr Biden reached his decision was arbitrary. He had promised to guard a “small yard” with a “high fence”, with clear rules to let foreign investors know what sorts of assets are off-limits for reasons of national security, while allowing free markets to operate everywhere else. Yet he commented on the steel deal even as the Committee on Foreign Investment in the United States (CFIUS) was still mulling whether it posed a security risk. By doing so, he signalled that the rules are there to be broken. Foreign investors will fear that there is little to stop that small yard getting bigger. Many more American firms will demand protection.

Far from bolstering national security, Mr Biden has undermined it. Only days before the deal was announced, lawmakers were proposing to add Japan to a whitelist that bypasses the most stringent CFIUS rules. Now America looks high-handed and fickle. US Steel is nothing like TikTok, which the House of Representatives voted last week to ban in America unless its Chinese owner sells up. One is a media giant open to influence from a hostile power. The other is a medium-sized manufacturer that is being bought by one of America’s closest allies.

Even if you fully count these costs—and, given his increasingly protectionist rhetoric, there is every reason to doubt that Mr Biden has—banning a steel acquisition might make sense because the political benefits are so clear. The trouble is that they are hard to game out. Any number of factors could affect the election. Third parties may gain more prominence. More voters may notice how well America's economy is doing, and warm to Mr Biden. In a very close race with so much uncertainty, it is anyone's guess whether any single intervention will be enough to yield him the decisive electoral benefit he craves. That's why one intervention leads to the next.

Doing bad things for good reasons is the oldest trap in politics. How many more arbitrary and unwise policies will Mr Biden adopt in the hope of winning over this or that group of swing-state voters? Every industry and its workers would like more handouts and new rules to hobble their rivals. Every time the costs mount and the precedents multiply. Mr Biden should beware lest he end up poisoning his own victory. ■

Japan today, Japan tomorrow

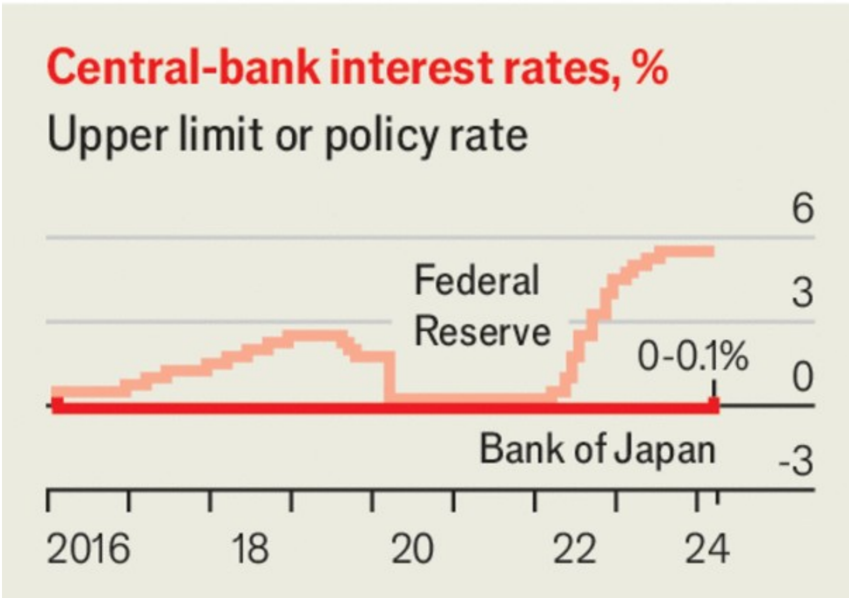
Why Japan's economy remains a warning to others

Low real rates, low growth and high debts are not going away

Mar 19th 2024

FOR MOST of this century it has looked as if the world's economy was turning Japanese, with low growth, below-target inflation and rock-bottom interest rates. Today the question is how much Japan will come to look like the rest of the world. On March 19th the Bank of Japan raised interest rates for the first time since 2007, after inflation seemed at last to have become entrenched. The interest-rate target for overnight loans, previously between minus 0.1% and 0%, will rise by a tenth of a percentage point. The central bank also scrapped its policy of yield-curve control, which capped long-term bond yields at 1%. Having kept monetary policy ultra-loose for years, Japan has now begun to follow the course set by other economies since widespread inflation took hold.

It is a remarkable moment. Before 2022 annual inflation had been above 2% for only 12 of the previous 120 months; today it has been above that level for 22 consecutive months. Japan's biggest firms recently agreed to increase wages by 5.3%, a level that would have been unthinkable before the global inflation breakout. There is a sense that change is here to stay. Stocks have been booming—the Nikkei 225 recently passed the record it set in December 1989—and investors are optimistic about the economy.



The Economist

Yet it would be wrong to conclude that Japan is de-Japanifying. More important than an economy's nominal attributes such as inflation, headline interest rates and stockmarket growth are its real, structural features. If you look at the fundamentals, even the rise in interest rates is not quite what it seems. The 2% inflation target which the Bank of Japan believes is now in sight is 1.4 percentage points higher than the average inflation rate over the ten years to the end of 2021. This 1.4-point rise in projected inflation towers over the 0.1-point rise in interest rates, which in real terms have therefore fallen, not risen. Moreover, the bank made clear in its statement on March 19th that it expected to maintain "accommodative" financial conditions and would keep buying some bonds.

Rock-bottom real rates reflect the fact that Japan has abundant savings, partly because its population is so old—30% are over 65. Firms struggle to put these to productive use, because an economy with a shrinking population has less appetite for capital investment. Japan's demography and reluctance to admit immigrants also constrain its growth. The IMF expects GDP to rise by only 0.5% annually over the next four years, compared with 2% in America. That is respectable given the lack of workers—growth in output per worker has been healthy. But it is hardly a resurgence.

A final factor is Japan's enduring public indebtedness. The debt-to-GDP ratio is 255% in gross terms, or 159% after netting off the government's financial assets; both measures are the highest in the rich world. Even with low interest rates, nearly 9% of the government budget is spent on debt interest. Japan could not withstand a monetary tightening anything like as severe as the one in America, where rates have reached 5.25-5.5%.

Long before they got to such levels in Japan, the government would have to reduce its deficit, which was 5.6% of GDP in 2023. The economy would cool from fiscal belt-tightening, not higher rates. With monetary policy, as with growth, there remains only one path by which Japan will cease to be exceptional: if the rest of the world comes to resemble it. ■

Letters

- **Letters to the editor**

On American trade policy, universities, anger, Al Gore, artificial intelligence, the middle ages, markets

Letters to the editor

A selection of correspondence

Mar 21st 2024

Trading arguments

The case made by Robert Lighthizer, America's trade representative under Donald Trump, for protective tariffs is full of logical, factual and economic fallacies (By Invitation, March 8th). First, Mr Lighthizer slays a straw man. The economic case against tariff increases is that they worsen the economy's performance and not, as he claims, that they "destroy capitalism". The survival of America's market-oriented economy in the wake of Mr Trump's tariffs, therefore, does nothing to discredit the case for free trade.

Second, Mr Lighthizer insists that the past several decades have left America in dire need of "reindustrialisation". In fact, industrial output in America rose rather steadily from the end of the second world war until the Great Recession of 2008 and 2009, and then slowly rose again until the pandemic, after which it once again increased. It hit its all-time high in September 2018 and is today only 1.5% below that record level. As for America's industrial capacity, today it is a mere 0.4% below the historic peak it reached in December 2016, the month before Mr Trump took office.

Third, it is simply untrue that increases in a country's imports to match any increases in its exports is "how trade is supposed to work". Trade can work in this way. But it can also work when a country uses its export earnings, not to import more, but to invest abroad, thus potentially increasing the amount of capital available in destination countries. This has happened in America in every year since 1975, when it last ran a trade surplus.

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DONALD BOUDREAUX
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Brett Ryder

Education and social justice

Schumpeter wrote about how universities are “torn between their responsibilities to learning and social justice” (February 24th). This tension underlies the crisis in higher education. Learning and knowledge have been central to universities since the Middle Ages, but the idea that they have a mission to further social justice is new and it is a misunderstanding. Although the definition of knowledge (justified true belief) has remained remarkably constant and is not political, interpretations of what constitutes justice vary widely and are fundamentally political and cultural.

These interpretations range from Plato’s “Republic” to Augustine’s city of God, Edmund Burke, Karl Marx and John Rawls. Even the Hindu caste system can be considered an expression of justice, based on a metaphysical worldview that involves reincarnation and a soul receiving a just incarnation based on behaviour in previous lives.

The pursuit of knowledge can unite diverse cultures and political views, but any push for social justice is, by nature, culturally and politically narrow. Universities can resolve many of their woes by returning to a core mission based on knowledge.

DAVID BERTIOLI
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University of Georgia
Athens, Georgia

Is running a top university really America’s hardest job, or has university leadership just finally arrived in the real world? The average tenure of a Fortune 500 chief executive is seven years, according to Spencer Stuart, a consulting firm, so the average tenure of a university president of six years doesn’t look too surprising. Leaders should understand real-world complexities and be comfortable stepping out of the ivory bubble, building bridges between academia and the industries and communities they study. Like their corporate peers, university presidents have to manage the tensions created between the needs of multiple groups in their ecosystem strategically.

In short, what we need are entrepreneurial leaders. Good luck telling that to university bureaucrats.

DR MARTIN IHRIG
Associate dean
New York University School of Professional Studies

The new president of Dartmouth, Sian Beilock, has won widespread acclaim for her secret sauce of keeping the academic space academic. A perfect example is the university's Israel-Palestine course, which is co-taught by the Jewish and Middle Eastern studies departments. The professors lead by example. They disagree, sometimes vehemently, but the conversation never stops and the discourse always stays civil.

Asking questions and listening to answers, even if you don't agree with them, might be all it takes to be a good university president. Oh, and don't build your résumé on plagiarised papers, that would probably help too.

EVAN KELMAR
Washington, DC

It's time to get angry

Reading Bartleby on channelling anger at work (March 2nd) I was reminded of the comment by Russell Baker, a Pulitzer prizewinner, that "What we need is not another volume on How To Make Love but some foolproof advice on How to Make Anger." I agree.

Of the many people who have sought my help with "anger issues" over the years, very few were there of their own prompting. Rather, they were court-ordered, or their wife thought they ought to, or the dean of students said their staying in school depended on it. This suggests the anger part feels pretty good; it's the whole "consequences" thing that muddles it up.

KURT ELA
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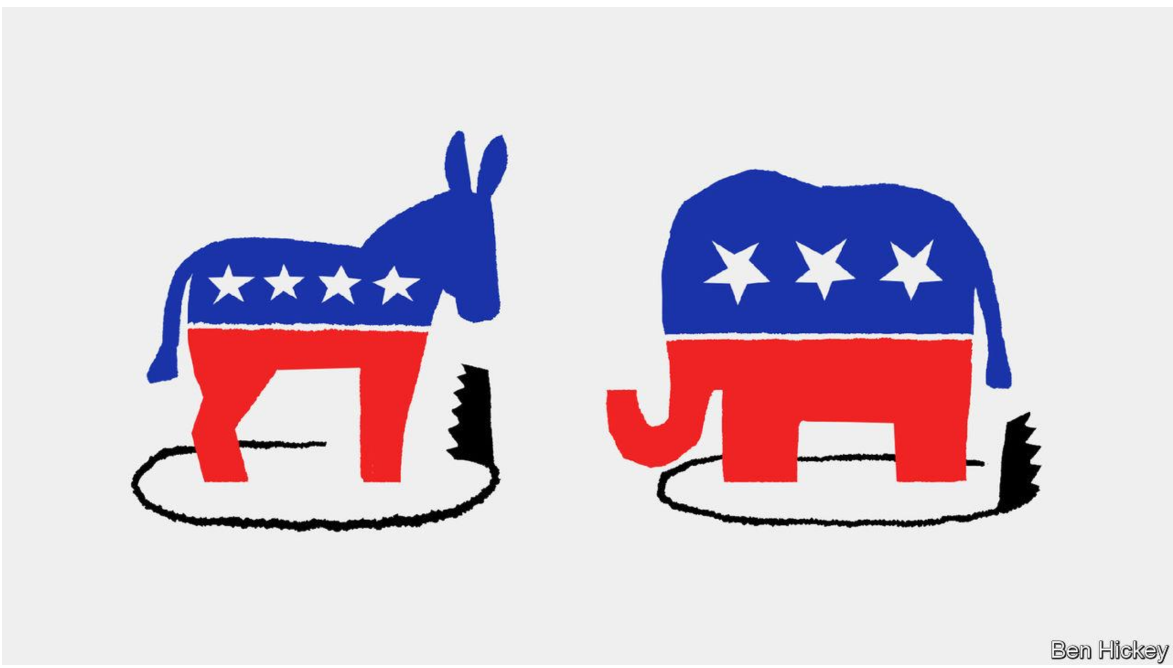

Could have done better

The first sentence in "Spoilers" (March 9th) mentioned Al Gore narrowly losing the presidency in 2000 by failing to carry Florida against George W. Bush, which some blamed on a third-party candidate taking some of Mr Gore's vote. All the post-election hullabaloo in the Sunshine State (hanging chads, butterfly ballots, third-party candidates, the role of Governor Jeb Bush, and more) conveniently masked the great embarrassment to Mr Gore and the Democrats that he had failed to carry his home state of Tennessee. Had he won there, a not unreasonable expectation for a presidential candidate, he would have beaten Mr Bush in the electoral college by 277-260, and the extremely close Florida result would have been reduced to a footnote.

CHASE UNTERMEYER
Professor of practice
Hobby School of Public Affairs
University of Houston

Bias in generative AI

Of course Google's Gemini models are biased, whether through the transitive properties of our own bias, intentional counter-weighting of that bias, or safety ("Answers that raise questions", March 2nd). ChatGPT behaves like an absurdly prudish, liberal-leaning pedant that has been hiding from pop culture its whole life. Gemini's behaviour doesn't raise some core issue at Google. Instead it speaks to one of many fundamental differences between a generative model and a general intelligence: self doubt.

Intelligence is about more than a mathematical likelihood, and these models will probably always be too biased to trust absolutely.

ADAM NELSON
Oakland, California

Great minds think alike

In his “History of Western Philosophy” Bertrand Russell said that “The thirteenth century had brought to completion a great synthesis, philosophical, theological, political, and social, which had been slowly built up by the combination of many elements.” It seems he would agree that the medieval period was greatly misconstrued (“Middle ages, misunderstood”, February 24th).

MARK YEOMANS
Regina, Canada

Justin Metz

Onwards and upwards?

"How high can markets go?", you ask (March 2nd). One thing is clear. When we see books at airports with titles like "Dow 100,000" or perhaps even "Dow 250,000", it will be time to sell (the Dow index is currently just below the 39,000 mark).

AVINASH DIXIT
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By Invitation

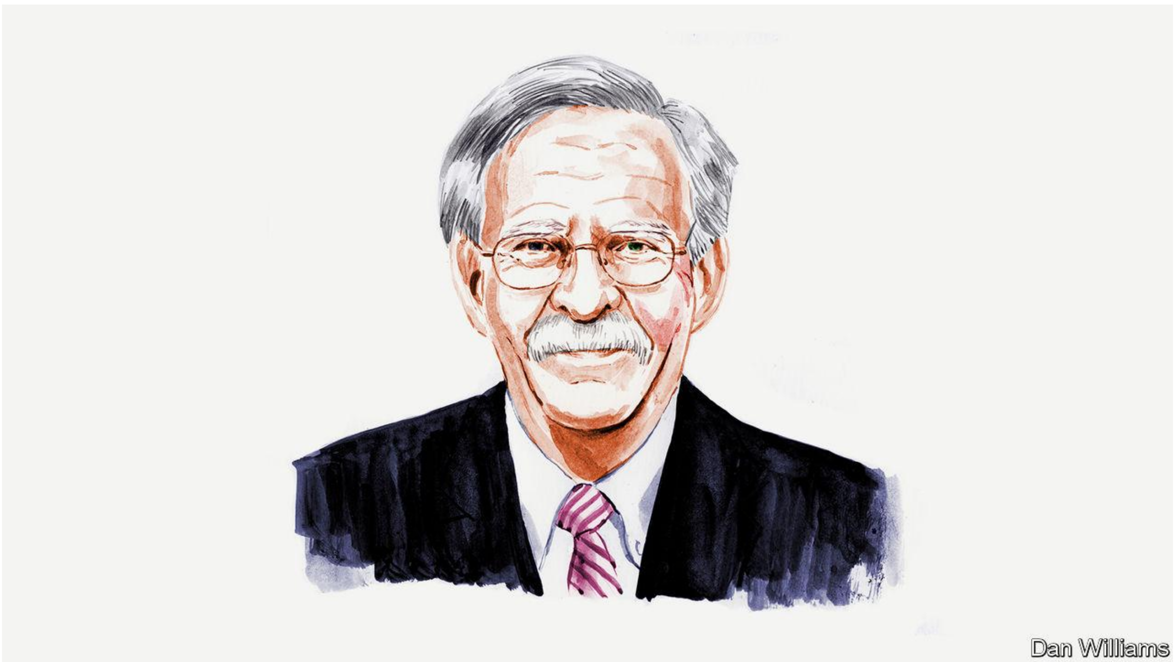
- **Both Biden and Trump are foreign-policy flops, argues John Bolton**
- **The new Palestinian prime minister maps out his vision for a path to peace**
- **Gurcharan Das on why it’s lonely being an Indian liberal**

American foreign policy

Both Biden and Trump are foreign-policy flops, argues John Bolton

Threats will go unthwarted, whoever wins in November, says the former national security adviser

Mar 21st 2024



SADLY, FOR America and the world, neither candidate in this November's election is fit to be president. Polling shows voters did not want a rematch between Joe Biden and Donald Trump, but that's what they're getting.

A president's most important national-security responsibility is to identify the risks and opportunities facing America, and to craft ways to thwart the threats and advance the country's interests. Whether because of incompetence, fading mental capabilities or, worst of all, succumbing to domestic political pressures, Mr Biden and Mr Trump have repeatedly proven unable to perform this mission. For years both have fared poorly at distinguishing friend from foe, a pretty low bar even for neophytes, let alone those seeking another turn in the Oval Office.

Mr Trump's increasingly strident threats to withdraw America from NATO, for example, came perilously close to reality at the alliance's summit in 2018. America dodged a bullet then, and Mr Trump's short attention span kept him from resurrecting the idea before his term ended. Subsequently, however, he has repeatedly insinuated or explicitly advocated withdrawal. Recently, he rejected protecting NATO members whose defence spending did not meet their commitments.

Mr Trump is serious, but supporters and opponents alike discount the extraordinary risk of America leaving NATO. They call his bluster "negotiating tactics" to spur defence-spending increases, or just "Trump being Trump". This is a grave error. His complaints about NATO or allies like Japan or South Korea shirking their responsibilities are intended not to strengthen America's alliances but to be grounds for abandoning them. Some believe his most recent comments suggest he is becoming less inclined to withdraw from NATO. Don't bet on it.

Mr Trump's views on NATO assisting Ukraine after Russia's invasion are similarly dangerous. Nonsensically, Mr Trump has said he could solve the conflict in 24 hours. Even worse, just weeks ago Viktor Orban, Hungary's prime minister and a friend of Mr Trump, said that Mr Trump "will not give a penny into the Ukraine-Russia war and therefore the war will end…[I]f the Americans do not give money the Europeans are unable to finance this war on their own." Granted, with Mr Trump nothing is ever final until it is, and sometimes not even then, but the pattern is unmistakable.

Mr Biden is comparably flawed. In today's Middle East conflict, he sees only a war between Israel and Hamas. He is unable or unwilling to grasp that Iran is assaulting Israel on several fronts through terrorist proxies. Despite initially embracing Israel and (literally) its prime minister, Binyamin Netanyahu, Mr Biden's crabbed strategic sense now has him cowering under pressure from the Democrats' anti-Zionist left wing. Rather than responding to Iran's long-standing "ring of fire" squeeze against Israel, America is reducing political support for Israel, and there are threats from the White House and congressional Democrats to impose conditions on military aid that could reduce or eliminate it. Mr Biden is in effect granting moral equivalence between Hamas's terrorist atrocities on October 7th and Israel exercising its legitimate right to self-defence.

The atrocities committed by Hamas (not to mention by Houthis, Hizbullah and Iraqi Shia militia) over decades have been unspeakable, as has Hamas's ability to get away with inflicting suffering on its own people. Mr Biden has been duped, as have many others in the West, which is why they primarily blame Israel for civilian casualties. He fails to see that Hamas is at fault for civilian casualties through callously intermingling Gazan civilians with its own fighters and war infrastructure. Neither Hamas nor anyone else acquires a "terrorist veto" over Israel's right to self-defence by sacrificing their own innocents.

Mr Biden, confused and beleaguered, echoed Hamas's demands for a ceasefire, essential for Hamas to buy time to regroup, resupply and continue its war. Iran's other terrorist proxies are preparing for a long struggle, with the Houthis, for example, now claiming to have acquired hypersonic missiles to continue trying to close the Red Sea and Suez canal passage to international commerce.

Instead of focusing on the real culprits—Iran and the terrorists—Mr Biden now criticises Israel. Releasing "intelligence" that suits his objectives, he implies that Israel's government could fall if it doesn't bend to his views, and that Israel's policies will foster terrorism for a generation. Mr Biden backed Chuck Schumer's demand for Israeli elections to oust Mr Netanyahu, saying the majority leader of America's Senate "expressed serious concern shared not only by him, but by many Americans".

Both candidates' views of China offer further evidence of their foreign-policy flaws. Mr Biden spent his first term trying not to offend China, so as not to interfere with his holy grail of bilateral agreement on climate change. No deal emerged, and China wouldn't have kept to it anyway. Meanwhile, China's menace continued growing around its long Indo-Pacific periphery. Mr Trump's holy grail with China was "the biggest trade deal in history". He may still want that, but for now he blames China for covid-19 and hence for depressing his vote in 2020, thereby making it easier for Mr Biden to "steal" the election. He is instead calling for massive tariffs (his go-to answer on international problems) on Chinese goods, while misguidedly disparaging Taiwan for stealing America's microchip industry.

Mr Biden and Mr Trump certainly both believe they will benefit politically from their respective approaches. Unfortunately, their understanding of America's proper place in the world, and of the threats facing it and other Western democracies, is badly flawed, as are their responses. Many American voters despise both candidates, and with good reason. To the delight of America's enemies, whichever of them wins, a long, grim four years lie ahead.■

John Bolton was America's national security adviser from 2018 to 2019 and its ambassador to the United Nations from 2005 to 2006.

A way forward?

The new Palestinian prime minister maps out his vision for a path to peace

It will require reunification—and reforms—across the Palestinian territories, says Mohammad Mustafa

Mar 17th 2024

AS I STEP into the role of prime minister-designate of the Palestinian National Authority (PNA) under excruciating and unprecedented circumstances, I am acutely aware of the monumental challenges that lie ahead. The Palestinian people find themselves at yet another critical juncture, facing a tragic confluence of crises that are testing our resilience and ingenuity, qualities we have proved we possess in abundance time and time again.

There are, however, at least a couple of differences this time: the injustices are more horrific than ever, and they are on global display.

At this pivotal moment, Palestinians and the international community are more galvanised and determined to create real change than perhaps ever before. It is therefore imperative that we chart a clear path forward to stop the humanitarian catastrophe in Gaza, end the occupation and establish an independent Palestinian state in the West Bank and the Gaza Strip with East Jerusalem as its capital. It is time we were given a fair chance at realising our collective aspirations for justice, freedom, security, peace and prosperity—fundamental rights that Palestinians have been denied for 76 years.

Foremost among our priorities is addressing the dire situation that has transpired since October 7th. The devastation wrought by the continuing Israeli bombardment and deprivation (on top of years of siege) has left our people in Gaza in ruins, with unimaginable human suffering.

The statistics are staggering, and the personal stories behind them are devastating. In less than six months, more than 30,000 people have been killed in Gaza, at least 13,000 of them children. On average, ten children every day lose at least one limb, and more than 17,000 are now considered "unaccompanied", or without a parent. At least 70,000 people are injured and 1.7m—75% of the population of the Gaza Strip—have been internally displaced. Over 60% of housing units have been destroyed or damaged, the education and health systems have completely collapsed, and food and water insecurity have reached catastrophic levels. Nothing can justify the hell that the people of Gaza are experiencing.

Nor, for that matter, can anything excuse the deterioration that is occurring at the same time in the West Bank. As settlers ramp up violence and the occupation's restrictions continue to make it difficult to pay salaries and live stable lives, the pressing security and economic situations have again become impossible to ignore.

Immediate action is needed to end this suffering. Our priority, therefore, will be to continue to work with regional and international partners to secure an immediate and permanent ceasefire and lead a humanitarian relief campaign to help our people in Gaza. In parallel, we aim to establish an independent, competent and transparent agency for Gaza's recovery and reconstruction and an internationally managed trust fund to raise, manage and disburse the required funds. The siege must end, and the Palestinian people of Gaza (and the West Bank) must be allowed to live and thrive.

Crafting a proactive blueprint is essential. This blueprint must not only tackle the immediate crises we face, but also pave a path for a sustainable and prosperous Palestinian state that allows for the inalienable right of the Palestinian people to self-determination, a cornerstone for peace and stability in the region.

To realise this vision we must bring together various parties and voices that are committed to the principles and frameworks established by the Palestine Liberation Organisation (PLO). Acknowledging the complexities on the ground, we must forge a non-partisan, technocratic government that can gain both the trust of our people and the support of the international community. This government will foster the engagement of all Palestinian factions and parties in a constructive dialogue at the PLO level. The aim should be to reach a consensus on how to bring about peace, an independent Palestinian state and the democratic governance of our institutions.

Central to this vision is the reunification of our institutions and laws across Gaza, the West Bank and East Jerusalem under cohesive governance, facilitating economic integration and ensuring freedom of movement and access (until the establishment of a permanent territorial link). This vision has been the international consensus and the only accepted way forward to lasting peace and stability, yet its implementation remains long overdue.

The incoming Palestinian government is determined to undertake all necessary internal reforms to gain the trust of our people and to succeed in the enormous tasks ahead. We will undertake comprehensive reforms that include improving financial controls and transparency, streamlining the bureaucracy, strengthening the rule of law, safeguarding the independence of the judiciary, fighting corruption, upholding human rights and freedom of expression, empowering civil society and oversight bodies, and preparing for elections.

To be clear, we will pursue a policy of zero tolerance towards corruption and full commitment to transparency. An effective and accountable government is crucial not only for garnering international support and credibility but, more important, for gaining the trust of our own people.

The scepticism that greets declarations of reform may be understandable given the history of our governance. But I am committed to showing progress and accountability. My government's measures will include putting together a credible and professional cabinet and establishing a Transformation Office tasked with charting the required reforms and implementing them in co-operation with civil-society groups and international organisations with relevant experience, such as the World Bank and the UNDP. To succeed, this will require support from the international community, to ensure that the restrictive and disabling policies of the Israeli government are brought to an end.

An essential step in regaining the trust of our people and ensuring the legitimacy of our governance is the commitment to hold democratic elections. We aim to hold both presidential and parliamentary elections, a vital step towards reinvigorating our democratic institutions. We will strive for a process to make these free, fair and inclusive. However, the realities on the ground in Gaza, the West Bank and East Jerusalem must be conducive to ensuring these elections are genuinely representative.

Improving the fiscal stability of the PNA and revitalising our economy will be an important task, but also a daunting one given our significant reliance on dwindling external aid and the systemic restrictions imposed by the occupation. However, it is not insurmountable. Israeli restrictions must be removed. Then, with the assistance of the international community and our private sector, including in the diaspora, we will be able to diversify our revenue sources, reduce dependence on external aid and create a thriving, resilient economy.

Moving forward requires bold ideas and reforms, decisive action, engagement, transparency and pragmatism. It is time for the suffering of Palestinians to finally end. We are a strong and capable people, but we cannot do this alone. The support of the international community and our regional partners is indispensable in fostering peace, security, stability and prosperity for Palestinians and the region. The time is now to free Palestine —once and for all. ■

Mohammad Mustafa is the prime minister-designate of the Palestinian National Authority.

India’s election

Gurcharan Das on why it’s lonely being an Indian liberal

But the attraction of Hindu nationalism will fade, argues the author

Mar 19th 2024

I GREW UP in an India that was a proud liberal democracy saddled with an illiberal, over-regulated economy that micro-managed private enterprise. We called it the Licence Raj. I worked for a company that made Vicks VapoRub. One year there was a flu epidemic and sales of Vicks went through the roof. At the end of the year a summons arrived from the government, claiming my company had broken the law: sales had exceeded the production of Vicks authorised in our licence. It was a criminal offence, we were told.

I was asked to appear at a hearing before a government official. I explained that the epidemic had resulted in extra demand; we were only doing our duty, keeping store shelves stocked. But the official pronounced us guilty, declaring that the law would now take its course. As I got up to leave, I asked the official to imagine how our country would look to the world when news broke that our government had punished someone for alleviating the misery of millions during an epidemic.

In the end, the government quietly dropped the case. But I abandoned socialism to become a classical liberal and joined the liberal Swatantra Party. Liberalism offered me a philosophy that champions human progress that does not expect it to come solely from the state. I learned to believe in the liberal virtues of openness, mutual respect and tolerance of others' views.

India had to wait until the liberalisation of 1991 to win its economic freedom, after sacrificing two generations to missed opportunities. I wrote a book, "India Unbound", predicting the rise of India based on the reforms. India obliged by becoming the world's second-fastest-growing large economy, expanding at an average annual rate of almost 6% over the next 30 years, lifting 400m people out of poverty and expanding the middle class from 10% to 30% of the population.

But just when everything seemed to be going well, democracy began to weaken. The past decade has seen the rise of identity politics, majoritarianism, Hindu nationalism and Islamophobia. Critics are being silenced and discourse on social media has become a weapon of the right. The atmosphere of hate has damaged India's cherished secular ideal of *sarva dharma samabhava,* respect for all religions. Although there has been no communal riot on the same scale as those in Gujarat in 2002 or in Delhi in 1984, there have been many localised incidents of violence, not least against Muslims suspected of selling beef.

Today, Indian liberals like me face a dilemma: not only do we have no one to vote for, but even if we did they would be unelectable. It can feel like a lonely road. I lost my friends on the right when I publicly condemned the riots in Gujarat and criticised the banknote demonetisation in 2016 by the government, led then, as now, by the Bharatiya Janata Party (BJP). I lost my friends on the left when I voted for the BJP in 2014.

Sadly, I am the man in the middle, disappointed with both sides. I cannot vote for the authoritarian, identity politics of the BJP. But I also do not trust the redistributive, populist and statist economics of the opposition Congress party, ever ready to make a false trade-off between growth and equity. Nor do I have much faith in the INDIA alliance of opposition parties that was formed last year with Congress at its centre.

Lamentably, in the past ten years the opposition has not come up with a single new idea to deal with most of India's biggest issues: jobs, air quality, education and health care. Handing out pocket money to women in Karnataka or free bus rides in Delhi will not cut it. The INDIA alliance is incapable of doing the heavy lifting to take the economy to the next level.

India may have become a fast-growing economy but it has still not created enough jobs. It has failed to create an industrial revolution. Manufacturing accounts for only 17% of GDP and India punches well below its weight when it comes to exports of industrial goods. It needs to find more productive jobs for the 45% of its workers stuck in agriculture.

But how? It will require major reforms, including three that Narendra Modi's BJP government tried but failed to enact because of the lack of opposition support: simplifying the acquisition of land for industrial purposes; modifying rigid labour laws to give companies flexibility to hire and lay off workers while protecting them from exploitation; and overhauling farm laws to improve productivity. I trust the BJP to execute these reforms far more than the opposition—though the BJP, while a party of modernisation, is not an ideological reformer.

Liberals are partly to blame for this unhappy state of affairs. One reason is that liberalism in India remains an elite enterprise: the rise of Hindu nationalism is partly a revolt against the English-speaking elite. Another reason is that no liberal political leader has had a serious dialogue with tradition. Mahatma Gandhi, alas, died too soon. He had been able to translate the liberal ideas of liberty and equality into the civilisational language of *dharma*—his moral principles—and thus capture the hearts and minds of the masses.

And yet, despite this gloomy situation, I remain optimistic about liberalism's future in India. India's civilisational temper is open, inclusive and liberal. In a land of 330m gods where no god can afford to feel jealous, and where people are argumentative, narrow Hindu nationalism is unlikely to have a long shelf life. Liberalism will win out in the end.■

Gurcharan Das is an author and a former chief executive of Procter & Gamble India. His two most recent books are "Another Sort of Freedom"

(2023) and “The Dilemma of the Indian Liberal” (2024).

Briefing

- **The war in Gaza may topple Hamas without making Israel safer**

No winners

The war in Gaza may topple Hamas without making Israel safer

It will end up even more deeply mired in the conflict that is the main threat to its security

Mar 21st 2024 | JERUSALEM

Sergey Ponomarev/The New York Times/Redux/Eyevine

"I WISH I could say we have a very detailed plan," an Israeli army officer admitted to your correspondent in the chaotic days following Hamas's brutal assault on southern Israel on October 7th. More than 1,100 people had been killed; some 240 had been dragged back to Gaza as hostages. It was clear from the outset of the war in Gaza, now six months old, that Israel's two main goals—to eliminate Hamas and to free the hostages—were at odds. It was also clear that invading the territory, in which 2.2m people live cheek by jowl and under which Hamas had built a labyrinth of fortified tunnels to help it withstand an attack, was going to be immensely difficult. And there was always the risk that war in Gaza would spiral into a bigger conflict.

It is possible to look at this unpromising starting point and conclude that Israel's invasion of Gaza has not gone badly—and many Israelis take just that view. After all, Hamas's fighting capacity has been massively reduced, with little in the way of Israeli casualties. Some of the hostages have been released and negotiations continue in an attempt to free the remainder. And all the while, there has been no regional conflagration, nor even much unrest in the West Bank (the more populous of the two Palestinian territories) or among Israelis of Palestinian origin.

Pyrrhic progress

Yet others question whether Israel's security has improved at all. Hamas's leader in Gaza and the mastermind of the attacks of October 7th, Yahya Sinwar, remains at large. The devastation Israel has unleashed—around 20,000 civilians have perished, food and medicine are in desperately short supply and more than half the territory's buildings have been destroyed or damaged—will make it almost impossible to institute a stable, peaceful regime after the war. And Israel's perceived indifference to civilian suffering is eroding international sympathy and prompting allies to question their support. Could Israel, the sceptics ask, be winning the battle but losing the war?

The view that the war has been a success starts with the damage done to Hamas. Israeli officials claim that they have killed 13,000 Hamas fighters, around half of the group's pre-war strength. Some foreign spies suggest a lower toll, of perhaps a third. Hamas itself admitted casualties of at least 6,000 in mid-February. While it is hard to know which figure is accurate, the damage is real. Most of Hamas's brigades have been mauled. It has lost commanders, too. This week news emerged of the death of Marwan Issa, the deputy leader of its military wing, during an airstrike on Gaza in early March. Saleh al-Arouri, another senior leader of the military wing, was assassinated in Beirut in January. Israel, meanwhile, has lost around 250 soldiers during its ground invasion—the most in any war since the 1980s, but far fewer than many feared from intense urban warfare.

Hamas's estimated arsenal of 20,000 rockets is depleted. It has fired 60% of them, to little effect, and thousands more have been destroyed. Its network of tunnels has been badly damaged, especially in northern Gaza. Short of men and materiel it will probably not pose a serious threat to Israel or even run Gaza again in years—if it ever does. Polling suggests the group's popularity there has fallen sharply, presumably because many Gazans blame

Hamas for dragging them into a hellish war it could not hope to win. Only 38% want to see Hamas retain power after the war.

At the same time, Israel has managed to free almost half of the hostages without making any big concessions to Hamas. That is no comfort to the families of the 130 or so still unaccounted for (perhaps a quarter of whom are already dead, the army estimates). But it is a better outcome than many people expected immediately after October 7th. What is more, Israel has done all this without triggering serious violence by other Palestinians, either in the West Bank or inside Israel itself. It has also maintained an equilibrium on its northern border. Hizbullah, a Lebanese Shia militant group, has kept up near-daily missile attacks on Israel, but it has stopped short of opening a full second front.

At home, the public set aside a year of political acrimony and rallied around the flag. Reservists reported for duty as required, which some had threatened not to do last year at the height of public protests about a controversial judicial overhaul, since shelved. The cross-party war cabinet formed in the wake of the attacks has held together for five months despite deep animosity between its members. The economy has suffered a predictable contraction, but the shekel has pared its initial losses. Public debt will rise from 60% of GDP last year to a projected 67% by 2025, but that is still manageable, and the central bank has a healthy cushion of $207bn in foreign reserves.

Many foreigners have expressed outrage at the war's toll on civilians, but Israelis consider this normal. Moreover, the outrage has not translated into action. Most close Western allies, including America, Britain and Germany, have not even called for a permanent ceasefire, let alone taken any sort of punitive action against Israel. Even the six Arab states with which Israel has diplomatic relations have not done much beyond recalling their ambassadors, despite popular anger at Israel's conduct of the war. Israelis can still board daily flights from Tel Aviv to Dubai.

The Economist

But none of this considers the longer term. Start with security. Body counts are a poor measure of success in an asymmetric war. America learned this lesson in Vietnam, and then again in Afghanistan and Iraq. It seems unlikely that militant groups will have trouble recruiting in future amid Gaza's ruins.

When the war ends, Gaza will be unlivable. Hundreds of thousands of people will lack homes to return to. Researchers at the City University of New York and Oregon State University estimate that at least 55% of the buildings in Gaza have suffered structural damage (see map). The economy has been obliterated: factories have been bombed; small businesses wiped out; crops and livestock destroyed. Tanks have ripped up the roads and air strikes have wrecked the power grid and water network. The UN estimates that 76% of Gaza's schools have been damaged or destroyed. Its hospitals are in equally dire shape.

Flight risk

Educated people will try to start new lives abroad. Humbler migrants will attempt to flee, too, trying their luck on boats to Europe. Most Gazans, however, will have no choice but to endure. They will linger for months, perhaps years, in crowded shelters and tent cities, with few opportunities for work and nothing but aid on which to subsist. The enclave, already populated in large part by the descendants of refugees from what is now Israel, will become a giant displacement camp.

If Hamas tries to emerge from its tunnels when the fighting ends and reassert its writ, it is likely to fail, given its diminished strength and wilting popularity, let alone the likelihood of further conflict with Israel. Instead it may revert to its days as a guerrilla force, carrying out attacks on Israeli troops and on Palestinians deemed to be collaborators.

But the Palestinian Authority (PA), the moderate body that governs part of the West Bank, will also struggle to swoop in and take power. It can barely keep control of the territory it currently administers and has been absent from Gaza since Hamas expelled it in 2007. Mahmoud Abbas, its ageing president, is scrambling to contain support for Hamas in his own statelet: 62% of West Bankers say the militants should represent the Palestinian cause (compared with just 43% of Gazans). Fully 88% of Palestinians want Mr Abbas to resign, and he lacks a clear successor. On March 14th he named Mohammad Mustafa, an economist, as prime minister. He hopes that will show sceptical Western donors that he is serious about reforming the notoriously corrupt PA. But for many the underwhelming gesture merely affirmed how clueless and incapable the PA has become.

America and its Arab allies hope to reactivate thousands of idle Gazan policemen, who worked for the PA before Hamas's takeover and have since been paid to sit at home. But the right-wing elements of Israel's government do not like this idea and, anyway, it is unlikely to work. The Gazan police were unable to stop Hamas taking control of the enclave in 2007 and have presumably not become more effective after 17 years' leave. Authority will probably devolve to powerful clans, which are already trying to control the flow of aid. Instead of a functioning government, Gaza may end up with warlords. But whatever emerges from the wreckage, it is unlikely to make Israelis feel secure.

For decades, Israel's security doctrine has rested on three pillars: deterrence, early warning and decisive victory. If the first two failed, as they occasionally did, Israel fought short, sharp wars to restore deterrence. Those conflicts had limited consequences on the home front. During a previous war against Hamas in 2014, the longest until this one, the civilian death toll in Israel was a mere six people; for Palestinians, it was around 1,500.

All three pillars have now crumbled. Hamas was not deterred from carrying out an audacious attack. Israel’s vaunted intelligence services failed. So did an array of high-tech gadgets meant to monitor the border with Gaza. And the war that followed has been neither short nor decisive. In October Israel needed support from America, which sent two aircraft-carrier groups to the region to deter Hizbullah and other armed groups from opening a second front. While Hizbullah has not launched an all-out attack on Israel, it has done enough to displace 80,000 Israelis from cities and towns in the north. When the fighting in Gaza ends, they will have to decide whether to return to the north, knowing an adversary far better equipped than Hamas lurks just across the border.

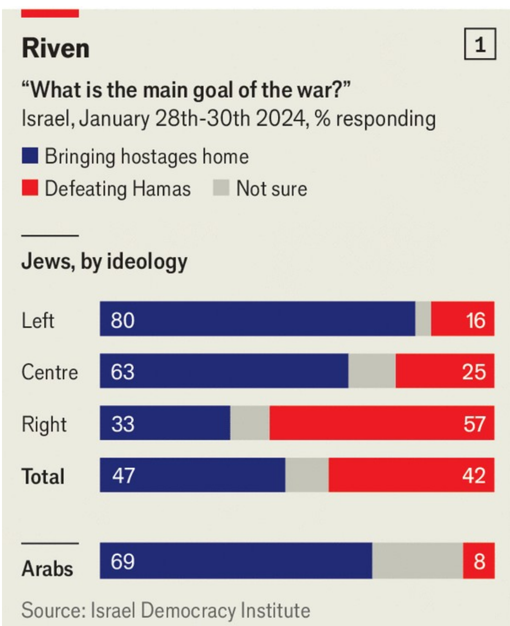
The Israel Democracy Institute, a non-partisan think-tank, asks Israelis each month whether they are optimistic about “the future of national security”. Its first wartime survey, in late October, found that 46% of Israeli Jews were hopeful. By March that number had fallen to 41%. Half a year of war has made Israelis feel less safe, not more. “The self-confidence of all of Israel has changed dramatically, and will never be the same as what it was before,” says an army officer.

Part of the problem is domestic politics. Three-quarters of Israelis want Mr Netanyahu to resign (they are split on whether he should do so now, or after the war). The public holds him responsible for October 7th—not only for missing warning signs, but also for his years-old policy of strengthening Hamas to undermine the PA. He spurns talk of resignation or responsibility. His media outriders (the “poison machine”, as his critics call it) have spent months trying to shift the blame elsewhere. Mr Netanyahu himself even took a wartime swipe at the army in a since-deleted tweet.

Mr Netanyahu is deepening the divisions by pandering to his far-right coalition partners, presumably in the hope of warding off an early election. Take his wartime budget, approved by the Knesset earlier this month. It imposes deep cuts on civilian ministries but preserves a number of goodies for the religious right. There is 1.7bn shekels ($467m) for ultra-Orthodox schools, which often ignore the state curriculum, and another 200m shekels for a make-work ministry led by a far-right settler. At the same time, Israelis displaced from the north and south complain that the government has offered little help beyond paying their hotel bills.

Total confusion

Even the war itself has become divisive. Israelis are split over whether to continue fighting in pursuit of the "total victory" promised by Mr Netanyahu or to stop to facilitate a hostage deal. Just 42% of Israelis want to keep going, whereas 47% are ready to call a halt (see chart 1). The police, overseen by Itamar Ben-Gvir, a far-right cabinet member, have blasted water cannons at the families of hostages protesting against the government, while handling with kid gloves far-right activists who try to block the delivery of aid to Gaza.



The Economist

Benny Gantz, a former army chief who joined the unity government in October, is the favourite to succeed Mr Netanyahu in an election, although he has yet to work out how to engineer one. If he becomes prime minister he will spend much of his time dealing with the fallout from the war. Longer conscription terms and a heavier burden on reservists will be a drag on the economy. Higher defence spending and the cost of rebuilding battered towns near the borders will necessitate cuts in other areas, or higher taxes or both.

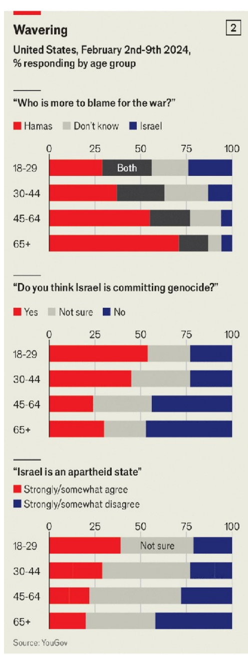
His voters will be divided and traumatised—and, on top of that, he will have to contend with a paroxysm of global outrage.

Before the war, the Arab world was drifting toward normalisation with Israel. No longer. Gaza's trauma has been a constant fixture on Arab television screens and smartphones since October—not only scenes of death and desperation, but also an endless torrent of dehumanising Israeli rhetoric about Palestinians. The authorities in Saudi Arabia have spent years trying to prepare their population for normalisation with Israel, but a survey released in December by the Washington Institute, a pro-Israeli think tank, found that 96% of Saudis thought Arab countries should sever all ties with Israel.

The new normal

Supporters of the Abraham accords, the agreement in 2020 that saw four Arab states recognise Israel, say they can still be expanded. That would require Arab leaders to ignore near-universal opposition. Perhaps they will (they are all autocrats), but that is hardly a strong foundation for a treaty which has, anyway, lost much of its strategic rationale. The accords were not just about allowing Israelis to holiday in Dubai. They were also meant to cement a regional alliance against Iran and to foster an "outside-in" approach to resolving the Israeli-Palestinian conflict: as Arab states established ties with Israel, they would press the Palestinians to sign a peace deal, too. Both goals now seem out of reach. Gulf states have backed away from confrontation with Iran, lest it lead to attacks on their own countries. And with the Israeli right citing the atrocities of October 7th as further reason to disavow a two-state solution, which it has anyway resisted for decades, bringing Palestinians around does not seem like the main obstacle.

It is not only Arab opinion that has shifted. Even before the war, young people in the West were less pro-Israel than their elders. A survey in 2022 by the Pew Research Centre, a polling outfit, found that just 41% of Americans aged 18 to 29 had a favourable view of Israel, compared with 69% of over-65s. The war has widened that gulf. A YouGov poll in February found that 20% of Americans over 65, but 39% of 18- to 29-year-olds, consider Israel an apartheid state (see chart 2). When Gallup asked Americans last month whether they sympathise more with Israelis or Palestinians, old people picked Israel by a 40-point margin, whereas young ones chose Palestinians, 45% to 37%. Results are similar across the Atlantic: 52% of young Britons think Israel's war is unjustified, compared with 36% of over-65s.



Israelis tend to dismiss this. There may be some angst on college campuses and in lefty synagogues, they argue, but it has not swayed Western officials. Unless today's students become far more hawkish, however, Israel's future support looks shaky. And even some of today's politicians are unexpectedly wobbly. Chuck Schumer of New York is perhaps the most pro-Israel Democrat in the Senate. He was one of just four Democratic senators to vote against the nuclear deal with Iran in 2015, siding with Mr Netanyahu over Barack Obama. On March 14th, though, he delivered a broadside against Mr Netanyahu from the Senate floor, saying the prime minister had "lost his way" and calling for early elections to replace him.

Mr Schumer has not given up on Israel. For now his anger, like that of some other Democrats, is aimed at Mr Netanyahu: they want a new Israeli leader, not a rupture in the alliance. Optimists in Israel hope that a change in their government will put them back in America's good graces. Perhaps it would—but only for a time. A coalition led by Mr Gantz would probably include right-wing parties opposed to a two-state solution; it is unlikely to do much to curtail settlements, revive the peace process or advance other American interests. And it is unlikely to take power before autumn, at the earliest.

The longer Mr Netanyahu remains in power, the longer the unthinkable starts to become plausible in American politics. Withholding military aid to Israel, or imposing conditions on it, used to be ideas expressed only on the political fringe. Now they have become mainstream. Even the likes of Chris Coons, a centrist Democratic senator and confidant of Mr Biden, has discussed such notions publicly. A showdown may be coming. Mr Biden has said that an Israeli incursion into Rafah, the only city in Gaza it has not overrun, would be a "red line" because of the likelihood of lots more civilian casualties. Mr Netanyahu says flatly that Israeli troops will enter Rafah at some point.

Mr Biden may back down. He has shown no appetite for confrontation with Israel thus far. If Donald Trump succeeds him as president, there will be even less chance of a clash. He attacks Mr Biden and other Democrats as insufficiently supportive of Israel (and any Jews who vote for Democrats as hating Israel and their religion). Nonetheless, a Rubicon has been crossed in that military assistance for Israel is now subject to open debate. Take, for instance, the instructions the president gave the State Department in February, to report on whether foreign governments are committing atrocities with American weapons. This is a box-ticking exercise for now, but future politicians may not use it that way. America has also imposed sanctions on violent Israeli settlers in the West Bank; these could be broadened to ensnare politicians like Mr Ben-Gvir. By the same token, federal law bars military aid to states that commit war crimes. Should the State Department implicate Israel, America would have to curtail its support.

Palestinian misery, Israeli liability

The International Court of Justice is hearing a complaint, brought by South Africa, that Israel is committing genocide in Gaza. Even if it rejects it, the International Criminal Court (which hears complaints against individuals rather than countries) may take up other cases. It started probing possible war crimes in Israel and the occupied territories in 2019. Belgium has promised it €5m ($5.4m) to investigate potential crimes in the current war. The court will presumably want something to show for these efforts. South Africa's foreign minister said earlier this month that citizens who fight with the Israeli army in Gaza would be arrested when they return home. Liberal Israelis have long warned of a future in which their politicians and generals are no longer free to travel abroad, lest they be hauled off to The Hague. That day may not be here yet—but it is closer than it was six months ago.

The war is also reviving old political rifts. In the 1990s and early 2000s conflict with the Palestinians was a seminal issue for Israeli voters. Then the peace camp collapsed and the topic faded into the background. Over the past 15 years Israel's elections have been referendums on Mr Netanyahu's continued rule. In 2015 the main opposition party's campaign slogan was "It's us or him". The next election may be the last such referendum. Mr Netanyahu's popularity has evaporated, he is on trial for corruption and after the war he will face a commission of inquiry investigating October 7th and the war. It is hard to imagine even such a survivor winning another term.

Yet Mr Netanyahu's exit, if it comes, will not end political discord. Moderate Israelis pine for a leader who will drag their politics back to the centre. They want someone to marginalise the extreme right, end draft exemptions for ultra-Orthodox Jews and strengthen democratic norms. But the maladroit Mr Gantz seems an unlikely candidate. The Palestinians will be back on the agenda, a subject the right has tended to exploit by stoking voters' fears, with great political success.

Critics offer a long list of things Israel could have done differently since October 7th. It could have provided far more humanitarian aid to Gaza and censured chauvinist politicians with their talk of ethnic cleansing. It could have waited to retaliate and then opted for limited special-forces raids rather than wholesale aerial bombardment. It could have been open to discussing post-war arrangements with America and Arab states. Some of these complaints are valid. The hunger in Gaza is both a moral failure and a strategic liability for Israel. Others are fanciful. Few armies would eschew a blitz from above before tossing their troops into urban warfare.

Yet the biggest problem with the war is not its conduct but its likely outcome: that it will leave Israel even more deeply mired in an occupation that has warped its society and poisoned its foreign relations for decades. Israel is not solely to blame for this lamentable situation, of course. A rejectionist streak runs deep among Palestinians, even though it has brought them only misery since 1948. When the fighting stops, both Israel and Hamas will probably claim victory. In fact, no one is winning. ■

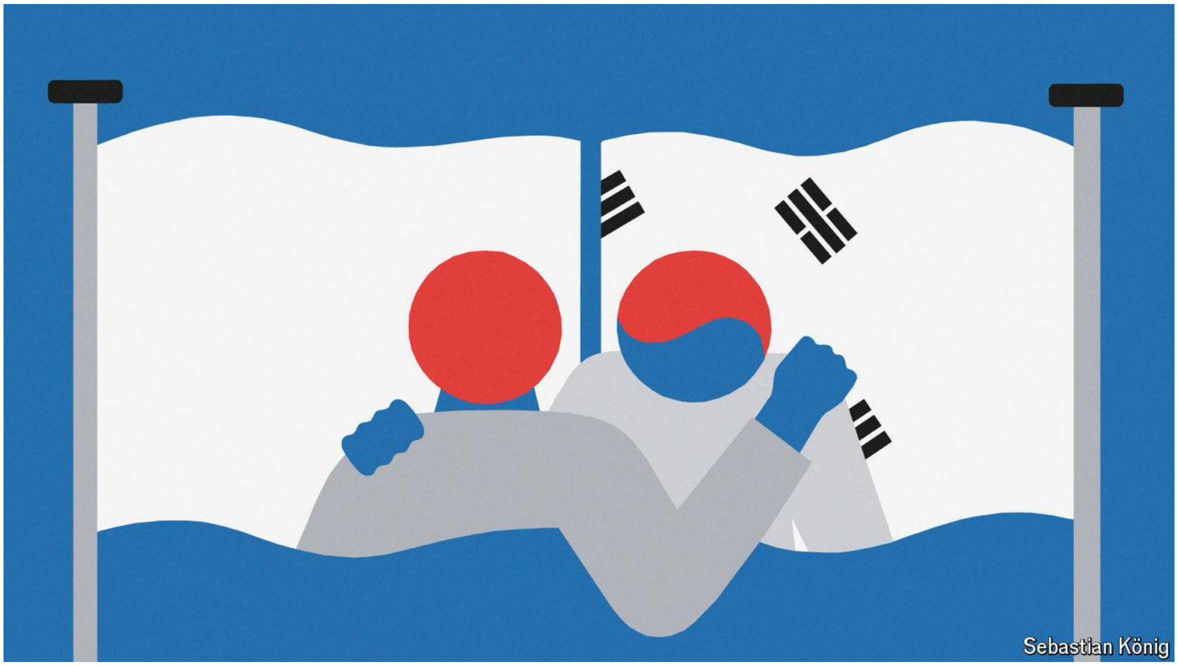
Asia

East Asian dramas

Relations between Japan and South Korea are blossoming

But how long can the good times last?

Mar 18th 2024 | Seoul and Tokyo



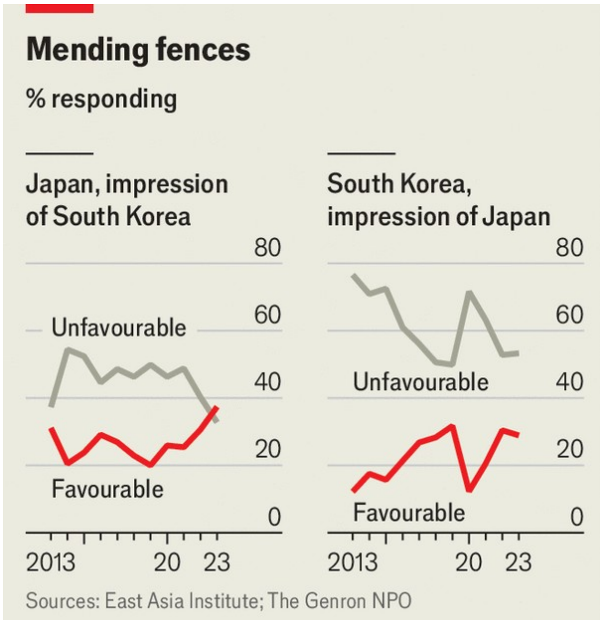
MOTOMIYA YURI, the heroine of "Eye Love You", a hit television series in East Asia, is a Japanese woman with the power to read minds. Her gift makes romance hard, so she gives up on love—until she meets Yoon Tae-oh, a hunky South Korean who becomes an intern at her chocolate company. He thinks in Korean, rendering Ms Motomiya's mind-reading moot; the two begin a torrid affair. The show is the first Japanese prime-time love story to feature a Korean actor as the lead. Since its launch in January, it has amassed legions of fans in both countries.

"Eye Love You" echoes developments off screen. Since Yoon Suk-yeol, South Korea's president, took office in 2022, relations between the two neighbours and American allies have blossomed. The question is whether the good times can last. The legacy of Japan's colonisation of Korea between 1910 and 1945 haunts the budding romance. And political changes in both countries this year could upset its development. Kishida Fumio, Japan's prime minister, had considered a visit to South Korea this week to meet Mr Yoon (and to watch Ohtani Shohei, a Japanese baseball star, play in Seoul). A looming parliamentary election in South Korea and a continuing financial scandal in Japan made that difficult. How the relationship evolves will have big implications for the balance of power in the Indo-Pacific.

The rapprochement began after Mr Yoon's election. Under his predecessor, Moon Jae-in, ties had frayed amid recriminations over past Japanese atrocities. A particular bugbear was two decisions in 2018 by South Korea's Supreme Court, which ordered Japanese companies to compensate Koreans forced to work in their wartime factories, as well as their surviving relatives; Japan considers the matter settled by a treaty signed and payments made in 1965. With liquidation of the Japanese assets looming, Mr Yoon created a foundation to compensate the plaintiffs, using funds from South Korean firms that benefited from normalised relations. The plan was unpopular with the public, but Mr Yoon persevered.

Mr Yoon travelled to Tokyo on March 16th last year, the first official visit between the two countries in more than a decade. Mr Kishida went to Seoul two months later and paid his respects at a national cemetery where Korean independence fighters are interred. The two leaders have held five more summits since, including a landmark meeting with Joe Biden, America's president, at Camp David last summer. Security co-operation has deepened. The three nations have conducted large-scale joint drills at sea and in the air. When North Korea launches missiles, they now share data in real time.

Commercial activity and mutual exchanges are reviving. Last summer South Korea was put back on Japan's "whitelist", which speeds up exports, having been taken off it in 2019. In December the two countries struck a currency-swap deal, nearly eight years after their last one had expired. Business leaders in both countries are sounding optimistic notes.



The Economist

Public opinion appears to be shifting, at least compared with the antagonism during Mr Moon's administration. In a joint survey conducted in late 2023 by Genron, a Japanese think-tank, and the East Asia Institute (EAI), a South Korean one, more Japanese had positive views of South Korea than had negative ones for the first time since the survey began in 2013 (see chart). Meanwhile South Koreans' views of Japan have recovered from a low in 2020.

Yet much wariness remains. Security co-operation is still conducted via America. Japanese foreign direct investment into South Korea was $1.3bn last year, a far cry from nearly $4.5bn in 2012. South Korean views of Japan actually worsened slightly between 2022 and 2023. Many South Koreans feel Japan has not done enough to atone for the past and that Mr Yoon is giving it a free pass. Proponents of the relationship believe Mr Kishida has been too cautious about seizing the opportunity that Mr Yoon represents.

Japanese worry that Mr Yoon's successor may overturn his policies, much as Mr Moon did with a deal made in 2015 to settle issues related to "comfort women", as Koreans and others forced into brothels for the benefit of Japanese soldiers during the second world war were euphemistically called. The foundation that Mr Yoon tasked with settling the forced-labour cases lacks funds and faces its own challenges in court. South Korea's Supreme

Court has ruled in favour of settlements for 15 plaintiffs. Four refused to accept the mechanism and have appealed it. As additional cases move through the courts, the number of people entitled to payments is set to grow, perhaps to more than 1000. There may yet be "serious snags in the final path to the end", says Shin Kak-soo, a lawyer and former South Korean ambassador to Japan.

Domestic political change also threatens to knock the relationship off course. Mr Yoon's hold over his own party will wane as the end of his term, in 2027, draws closer (South Korean leaders are limited to one term in office). It may seep away even sooner if his party fails to recapture a majority in April's parliamentary elections. His opponents, who enjoy stirring anti-Japanese sentiment, will criticise his policy either way. Mr Kishida's standing at home is shaky—he may not survive elections for the leadership of Japan's ruling party in September. His successor may prove more wary of taking risks on relations with South Korea. And if Donald Trump is elected president in America in November, he is unlikely to press his allies to get along as much as Mr Biden has.

Nonetheless, there are good reasons to believe the current relationship will endure. Mr Yoon has personally committed himself to Japan in a way few South Korean leaders have. His childhood experience of the country, where he lived while his father was a visiting scholar, predisposed him to have "good feelings" towards Japan, says one former senior South Korean official.

Two larger structural forces are also at work. First is generational change. While the struggle against Japanese colonialism remains a pillar of South Korean identity, the bitter history generates less passion among today's youth, who learn about it only through textbooks, says Lim Eun-jung of Kongju National University. The latest EAI survey suggests that age is among the most important variables affecting South Koreans' favourable views of Japan. The highest-rated film in South Korea these days is "Exhuma", a supernatural horror with seemingly anti-Japanese overtones—a message lost on many young viewers. "I didn't even think about anti-Japanese sentiments," says Kim Do-hoon, a 23-year-old fan. "My blood isn't boiling from anger."

Second is geopolitical change. Faced with an assertive China, a threatening North Korea and a disruptive Russia, the two East Asian democracies have ever more reasons to get along. Doing so also helps strengthen both countries' alliances with America. Even in South Korean opposition circles "the stance on Japan is changing little-by-little, and the main reason is the strategic environment," says Wi Sung-lac, a former diplomat and adviser to progressive politicians. As the governments look ahead to next year, which will mark the 60th anniversary since they established formal relations, the "scope and depth" of their co-operation is "wider than ever", says a senior Japanese official. It will be an opportune occasion for the two to renew their vows. ■

Immobile republic

How to make India richer

It would help if more people moved within the country

Mar 21st 2024 | DELHI

EVERY DAY roughly two dozen trains set off from Delhi, India's capital, to Bihar, an impoverished eastern state. This week more will be added to ferry the thousands of Biharis heading home to celebrate Holi, the Hindu festival of colours that falls on March 25th this year. Even so, there will be many more people hoping to travel than train seats—not just on the Delhi-Bihar routes, but also on the hundreds elsewhere in India that carry people between its pockets of prosperity and its hinterlands.

Such internal mobility is central to the country's development. Internal migrants are an important pillar of urban economies. Big cities pull in professionals from across the country. Lower-skilled migrants work on construction sites, guard gates and clean houses. The money they send home brings relief to areas that desperately need it. Yet given enormous income disparities between Indian regions, the number of Indians who migrate is small by comparison with other large and unequal countries such as China. The country could be much richer if more did so.

Consider the case of Vijay Kumar, who works as a security guard in a posh suburb of Delhi. He earns 15,000 rupees ($181) a month, far more than he would at home. The 8,000 rupees ($96) he transfers to Rataul in Bihar is enough to feed his family and send his children to school. According to an estimate in India's annual economic survey, domestic remittances were worth the equivalent of 1% of GDP in 2016-17.

That number could be much larger if Indians started moving more. Reliable data on the number of migrants do not exist, in part because so much of India's economy is informal. One survey conducted in 2021 estimates that 29% of Indians (nearly 400m people) are migrants. That includes those that move within the same state. Just 12% (160m) move between states. The overwhelming reason for both types of migration is marriage, accounting for 72% of all moves. The share of those moving for work is just 11%, including migration within states. Most of them are men: only 2% of women move for work.

By international standards migration in India is weak. One study in 2014 found that India's internal migration levels were lower than in all but one of the 82 countries examined. More recent globally comparable data are not available, but urbanisation rates, a proxy for domestic migration, suggest that India still lags. The World Bank estimates that in 2021 35% of Indians lived in cities, a lower share than China (63%), Indonesia (57%) and other lower-middle-income countries (43%).

The other issue is that a lot of migration is "circular", says Chinmay Tumbe of the Indian Institute of Management in Ahmedabad and author of "India Moving". He reckons that there are 100m temporary migrants in the country, who will return home eventually. But lasting wealth is created only when families spend generations in cities. Returning migrants also add pressure to strained rural economies.

Why are Indians not more mobile? In cities most work is too precarious for migrants to put down roots. Housing is expensive and jobs do not pay enough to cover it. A quarter of Mr Kumar's salary goes on renting "a pigeon hole and a shared toilet". Differences in culture and language are another barrier in a country with hundreds of different languages and no lingua franca. So is the rise of nativist movements across the country. This year Bangalore, India's tech capital and a magnet for migrants, has been embroiled in a battle over language. Municipal authorities have required businesses to display signs predominantly in Kannada, the state's tongue, or risk losing their licences. Calls to reserve jobs for locals are getting louder.

The lack of a safety-net is another obstacle. Migrants lose welfare benefits, such as access to public health care, when they cross state borders. Welfare spending is skewed towards villagers, who enjoy generous subsidies in agriculture and can get access to a guaranteed workfare programme. Few equivalents exist in cities.

Some signs of change are visible. After a sudden pandemic-era lockdown triggered an exodus of migrants from cities, their travails prompted the national government to improve the portability of government welfare schemes. One initiative now allows people to access subsidised grain anywhere in the country. The southern manufacturing hubs of Karnataka and Tamil Nadu are planning to provide safe accommodation to encourage more women to move there, possibly mindful of the role female workers played in China's manufacturing boom.

At the national level, the government could establish an inter-state migration council to help migrants and ensure their freedom of movement, suggests Mr Tumbe. Narendra Modi, the prime minister, extols the importance of national unity and national industries to make India a developed country by the time it celebrates 100 years of independence in 2047. Making it easier to move around would be one way to achieve that goal. ■

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India’s election could be the world’s most expensive

Big Indian companies have been buying “electoral bonds”, mostly for Narendra Modi’s ruling party

Mar 21st 2024 | Delhi

David Talukdar/Zuma/eyevine

ASK WHICH of this year’s many elections will be the most expensive, and most people would say America’s. They could well be wrong. India’s most recent general election, in 2019, was already the most costly at the time by some estimates, with campaign spending conservatively put at $8.5bn. America’s presidential poll the next year exceeded that. But India’s parliamentary vote this spring will be much dearer and could exceed the $10bn-16bn that is likely to be splurged on the White House race.

India’s ballooning campaign costs have often been linked to illicit cash, sometimes from the criminal underworld. In recent days, however, a spotlight has fallen on corporate funding after Indian companies, including some of the country’s biggest, were revealed to have made political donations worth hundreds of millions of dollars via an opaque system of “electoral bonds”. Proceeds went overwhelmingly to the ruling Bharatiya Janata Party (BJP).

When the government launched the bonds in 2018, it said they would stop the flow of “black cash” into politics by providing a legal yet anonymous channel for donations. But in a rare setback for the prime minister, Narendra Modi, the Supreme Court declared the scheme unconstitutional on February 15th. It ordered the State Bank of India (SBI), the bonds’ sole issuer, to provide details of who bought and received them by March 6th to the Election Commission, which was required to publish those details a week later.

After a failed attempt to extend the deadline until late June, the bank complied. The Election Commission published the data on March 14th, just two days before announcing that the election would be held over six weeks starting from April 19th (with results on June 4th).

Data published so far only identify bond purchasers and recipients without showing which donation went to which party. They have caused a stir nonetheless, as about 50% of $2bn in bond proceeds since 2018 has gone to the BJP, compared with some 12% to its main national rival, the Congress party. The 25 largest buyers of bonds were all Indian companies. Some depend heavily on government contracts and approvals. Several were previously targeted by tax or investigative agencies. A handful bought bonds worth considerably more than their profits.

The BJP denies any wrongdoing. But opposition leaders and activists accuse the government of strong-arming donors into buying bonds for the BJP while deterring them from funding opposition parties, for fear that Indian authorities could get hold of bond buyers’ data via the government-run SBI. Rahul Gandhi, a Congress parliamentarian, branded the scheme “the world’s largest extortion racket”.

One surprise from the data was the identity of the single biggest bond buyer. That was Future Gaming and Hotel Services, a lottery and gaming company based in the southern state of Tamil Nadu whose donations totalled 13.68bn rupees ($165m). Tamil Nadu’s ruling party, the Dravida Munnetra Kazhagam, says it received 37% of that total. It is among ten parties that have identified their bond donors. Neither the BJP nor Congress have done so.

Other leading bond buyers are more familiar names, such as Megha Engineering and Infrastructures, an engineering and construction firm that has won big government contracts. The top ten buyers also included Vedanta, a big mining company, and Bharti Airtel, India’s second-largest telecom carrier by subscribers. The biggest individual buyer was Lakshmi Mittal, an Indian steel magnate based in Britain.

More details may soon emerge if the SBI complies with an additional Supreme Court notice to provide serial numbers for each bond, allowing activists to match buyers with recipients. That could be politically damaging for several parties but especially the BJP. Indian companies have long made political donations, often funding incumbents and opponents simultaneously. But Mr Modi is particularly close to a handful of Indian tycoons who have thrived in the past decade.

The BJP says that its share of donations reflects the number of seats it won in 2019 (303 out of 543 in the lower house) and the number of states it governs (12 out of 28, versus three for Congress). It also blames Congress for the influx of illicit cash in politics after its prime minister, Indira Gandhi, banned corporate funding in 1969. Her son, Rajiv, lifted the ban in 1985 but clandestine cash payments continued, not least because opposition donors feared retribution from those in power.

Critics say the bond scheme did not stop the flow of undeclared cash to parties, which still far exceeds what they report officially and is often used to buy votes or bribe candidates to switch sides. But even activists who challenged the scheme in court are divided on how to replace it. Some favour total transparency, calling for all donations to be made digitally while others argue that anonymous channels are essential to safeguard opposition donors.

The Communist Party of India (Marxist), which governs the state of Kerala and was among the bond scheme’s legal challengers, advocates a German-style system of state funding for political parties. But its leader, Sitaram Yechury, says there is little support among other parties. “Nobody wants to stop corporate funding," he says. The risk now, he warns, is that if campaign costs continue to grow "parties like ours will find it very difficult to contest". ■

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Banyan

A string of setbacks for the junta in Myanmar presents an opportunity

Outside powers must not waste it

Mar 21st 2024

ON MARCH 17TH General Min Aung Hlaing, the leader of the junta that overthrew Myanmar's democratically elected government in a coup more than three years ago, stopped at Bago, not far from the commercial capital, Yangon, to reconsecrate an ancient Buddhist pagoda. He struck the pagoda bell nine times, following an old superstition that this might avert disaster. It did him no good: that same day his forces lost yet one more town, Rathedaung, to rebel forces, this time in Rakhine state in the west.

As the junta loses its grip on the country, its sense of crisis is palpable. Yet for Myanmar's battered people and democracy, the pressure under which the army finds itself presents an opportunity. The ethnic and democratic forces that have been fighting the army are more united than before. With appropriate support from outside, they may be able to start laying the groundwork for a future without the generals.

The junta's troubles mounted sharply in late October, when three militias from the ethnically diverse borderlands launched "Operation 1027", named for the date it began. They staged lightning attacks on the junta and its allies in northern Shan state, bordering China. The Three Brotherhood Alliance, a grouping of the Arakan Army (AA), the Myanmar National Democratic Alliance Army, and the Ta'ang National Liberation Army, overran scores of outposts. In January the rebels seized Laukkai, a notorious base for Chinese mafia bosses and junta allies running online gambling dens and internet scams.

Operation 1027 inspired others. Militias have achieved successes in Kayin state in the south-east and in Chin state in the west. Rakhine state is the latest front. The AA, which represents ethnic-Rakhine Buddhists, has had astonishing military success there. A week ago it seized the main township on Ramree island in the south of the state—next to Kyaukpyu, where China has developed a deepwater port and terminals piping oil and gas to its landlocked south-west. This week AA forces reached the outskirts of Sittwe, the state capital.

The junta's response, as ever, is indiscriminate violence. Late last month heavy shelling killed a dozen civilians in a busy Ramree market. On March 10th navy vessels shelled a coastal town near Sittwe. Army morale is low. When in February the junta announced conscription for young men and women, queues quickly formed at Thailand's embassy.

Many of those not trying to flee have joined "people's defence forces" loyal to the national unity government (NUG) in exile. The junta has all but lost control of the borders, depriving it of funds from tax collection and rackets smuggling drugs, gems, timber and people.

The junta's humiliation is compounded by growing accommodation among a multifarious opposition. In January the NUG and three major ethnic armed groups declared shared goals to end military rule and foster a federal, democratic future. China, which had long supported the junta, is doing deals with others. It backed the Triple Brotherhood Alliance and flew Laukkai's kingpins out in handcuffs. China will surely seek an accommodation with the AA at Kyaukpyu in order to protect its energy supplies there.

The indifference to recent developments of external powers, other than China, is concerning. A Myanmar over which China establishes dominance is in no country's interests but China's. Yet America is distracted. India has called for dialogue but offered little else. The ten-country South-East Asian club, ASEAN, timidly sticks to a lame "five-point consensus" that the junta does not even pretend to honour.

Instead, ASEAN and the West should do much more to foster dialogue among opposition groups, nudging them towards a consensus about how a post-junta Myanmar might be governed. Aid should be ramped up. It is encouraging that the new civilian government in next-door Thailand, which recently replaced an army-led administration, is tilting away from the junta.

Thailand should now go further and set up a formal aid corridor, through which it and others can send food and medicine. This month Japan offered a further $37m—a good start, which ASEAN, the West and even India should copy. It is not only Burmese who have an interest in seeing their country emerge from its long nightmare.■

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What will Prabowo Subianto's foreign policy look like? *(Feb 29th)*

Also: How the Banyan column got its name

China

Clicks and control

America is concerned about social media. China is, too

Most Chinese get their news from such platforms. The Communist Party is paying attention

Mar 21st 2024 | BEIJING

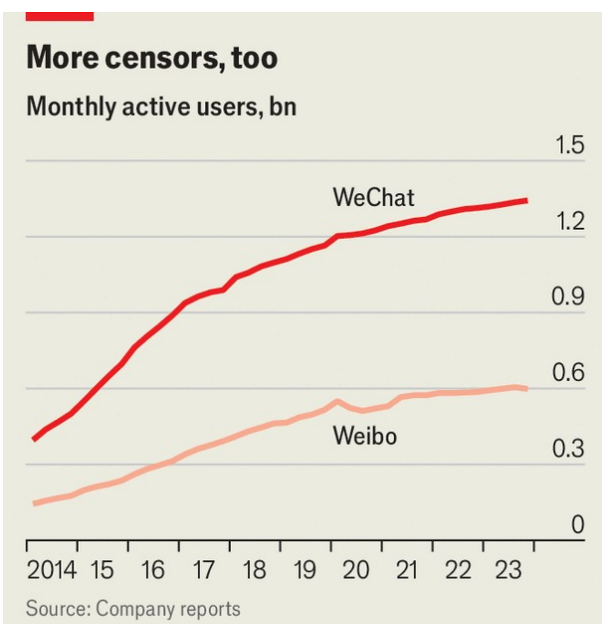
THERE SEEMS to be no end to official anxiety over social media in America. The idea that TikTok, a popular Chinese app, might be used as a tool of Communist Party propaganda has terrified politicians. On March 13th the House of Representatives passed a bill that would force the platform's Chinese owner, ByteDance, to sell the app or else face a ban in America. Five days later the Supreme Court heard a case over the Biden administration's requests that social-media companies remove posts containing misinformation. Both stories speak to the power of these firms, which play an enormous role in disseminating news and guiding opinions.

That is no less true of social media in China. The party long ago banned American-owned sites such as Facebook, X and YouTube. But China's own versions have filled the gap. Like their American counterparts, they have evolved into broad media platforms. A survey in 2022 found that 46% of

Chinese get their news from short-video apps such as Douyin, the domestic form of TikTok which has about 740m active monthly users (China's population is 1.4bn). Another third or so catch up while perusing platforms like Weibo, an X-like site owned by a company called Sina. Many also look to WeChat, a messaging app from Tencent which has 1.3bn users.

Given the party's tight control of information and deep suspicion of private enterprise, this looks from the outside like a remarkable state of affairs. The party, though, has harnessed social media to deliver its message. The platforms are scrubbed of subversive content. Still, officials in Beijing worry about them as much as politicians in Washington do.

The party certainly did not plan for social media to play such a big role in informing the public. For much of their life, these firms were viewed by the government primarily as drivers of economic growth. Their founders were held up as entrepreneurial heroes. And, for the most part, they knew not to cross the party. In 2018 the founder of ByteDance, Zhang Yiming, issued a cringeworthy public apology after one of his social-media platforms was criticised by regulators for hosting indecent content. "I have been filled with remorse and guilt, entirely unable to sleep," he said, admitting that his product was "incommensurate with socialist core values".



The Economist

But as their audiences and influence grew (see chart), social-media firms, along with the rest of the tech industry, came under more scrutiny. In 2020 regulators clamped down, deeming tech companies to have strayed too far from the values cited by Mr Zhang. The regulatory regime that emerged embeds the party even more deeply in the industry. ByteDance, Tencent and Sina already had internal party committees that were consulted over big decisions. In recent years state investors have also taken small stakes in key subsidiaries of the firms. These "golden shares" let the government appoint board members, among other things.

Even so, party officials exhibit anxiety similar to—if not exactly the same as—the twitchiness on display in America. While the Biden administration goes after misinformation, China's ruling party desperately tries to root out anything that contradicts its line. The methods, of course, differ. China's government spends $6.6bn a year censoring online content, estimates the Jamestown Foundation, a think-tank in America. In one two-month period last year the authorities claim to have deleted 1.4m social-media posts and 67,000 accounts (ironically, they branded many of the posts "misinformation"). More recently officials launched an investigation into short-video platforms that were spreading "pessimism" among young people, many of whom are struggling to find jobs.

Unwelcome content still gets through, however. In 2022, for example, a short video showing the cruelties of a covid-19 lockdown in Shanghai was shared by millions of Chinese netizens. They moved faster than censors could keep up, using tricks such as inverting the video or embedding it in cartoon clips in order to avoid detection.

Hostile content

Perhaps a bigger concern is foreign interference via social media. Here, too, the anxiety resembles America's. "All sides strive to spread and amplify their own propaganda, and denounce and suppress the other party's propaganda, by manipulating social-media platforms," wrote a researcher at China's Academy of Military Science in 2022. The fears of Chinese officials were no doubt heightened when Reuters reported this month that in 2019 the CIA launched a clandestine campaign on Chinese social media aimed at turning public opinion against the government. (It is thought to have made little impact.)

Today the government is digging in deeper, examining the algorithms that decide what users see on social media. Since 2022 companies have been required to register their algorithms with regulators and explain their logic. Most of the time, the code brings to the fore content the party likes. The top spot on Weibo's list of trending topics is usually news about what China's leader, Xi Jinping, is doing. In 2020 researchers at Stanford University tracked which videos were trending on Douyin over a period of four months and found that 57% were created by government or party-affiliated organisations.

But the algorithms work in mysterious ways. Sometimes even their creators cannot explain why they recommend one thing over another. The party does not like such uncertainty. In many ways it has co-opted social media for its own purposes. Yet it must long for the days when Chinese people could only get their news from state-run television and newspapers. ■

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Bang and blast! It’s too noisy to muffle

Even China’s own state media sometimes resent state control

Censorship of a deadly explosion causes ructions among local journalists

Mar 21st 2024 | Yanjiao

THERE IS NOTHING unusual about the sight of Chinese policemen oafishly blocking the lens of a television-news camera, or bundling reporters away from the scene of a big event. It happens to foreign journalists all the time. But many were stunned this month when reporters from China Central Television (CCTV), the country’s leading state-run broadcaster, got the same treatment. Even the anchor of a live telecast could not hide her on-air surprise when colleagues reporting from the site of a deadly explosion were shoved away.

The blast occurred at rush hour on the morning of March 13th in Yanjiao, a commuter town just a few kilometres beyond the boundary of Beijing, China’s capital. Seven people were killed and 27 injured. The incident highlighted long-simmering questions about the regime’s control of news.

In another incident a reporter for China Media Group, CCTV's parent company, posted a video online of her team's similarly rough handling by police at the scene. Pointed commentary came quickly, as it often does around controversial events, on social media. The mighty party-controlled media, wrote one user, "also gets a taste of the iron fist of socialism". Now, wrote another, CCTV journalists are enjoying the same treatment as foreign media.

More unusual was a sharp statement on the night of the explosion by the All-China Journalists' Association, normally a docile party-controlled lot. "Legitimate news-gathering is a journalist's right," said the group. The authorities must not "crudely obstruct journalists from conducting their work in a normal manner in order to control public sentiment". Objective reports, the association said, can help "alleviate public anxiety" and "protect the people's right to know".

Since taking power in 2012 the country's leader, Xi Jinping, has made clear that informing the public with objective information is not the Chinese media's priority. Rather it is to "safeguard the party's authority" and "closely align themselves with the party leadership in thought, politics and action".

CCTV staffers say state control over their work has tightened in recent years. It is rarely as visible as it was in Yanjiao. But reporters have long had to get advance approval before reporting at any site and are strictly supervised by censors in choosing topics and deciding whom to interview.

Local officials apologised a day later for their treatment of the journalists in Yanjiao. A week after the explosion, the site remained full of emergency vehicles and roped off behind police cordons. Local residents still grumbled about remaining in the dark over the disaster's true cause. In polite but very firm fashion, police insisted that your correspondent must not take photographs.■

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Article 23

Hong Kong passes a security law that its masters scarcely need

But the city's clampdown on dissent will please officials in Beijing

Mar 19th 2024 | HONG KONG

AS A SYMBOL of China's tightening grip on Hong Kong, the national-security law known as Article 23 takes some beating. The measure, which grants the authorities more powers to clamp down on dissent, was passed unanimously by the city's legislative council, or Legco (pictured), on March 19th. That is hardly surprising. Since 2021 members of the body have had to swear allegiance to the central government in Beijing. Opposition politicians have been disqualified, thrown in jail or forced to flee abroad. Still, the swift passage of a bill that few Hong Kongers thought was needed, but the central government demanded, reinforces the city's loss of autonomy.

The law covers offences such as treason, insurrection and espionage. It overlaps with a security law imposed on Hong Kong by the central government in 2020, a year after the city was rocked by big pro-democracy gatherings. But the latest measure has new elements that ought to worry liberal types. For example, anyone accused of breaking the law can be denied access to a solicitor and have their detention extended by 14 days (on top of the 48 hours previously allowed) with court approval. The law also makes more cases eligible to be heard by national-security judges—who are picked by John Lee, Hong Kong's chief executive—rather than by a jury.

Just as concerning is the new law's focus on "external interference" in Hong Kong's affairs. Mr Lee thinks that shadowy foreign forces were behind the demonstrations in 2019 and are still stirring up trouble today (a conspiratorial view shared by the central government). He has warned of "wolves" trying to undermine China by advocating freedom and democracy in Hong Kong. Government-friendly media have reported that Amnesty International, which campaigns for human rights, and Greenpeace, which focuses on the environment, could be among the international NGOs designated as national-security threats.

The press itself may also find its job harder. The law protects news reports that are in the public interest, but the government will be the arbiter of that. A letter signed by several foreign outlets (including *The Economist*) expressed concern that normal journalistic activity, such as analysis and criticism of decision-making and investigating government malpractice, could be criminalised.

The wording of the law is vague, probably by design. It gives the authorities lots of room for manoeuvre. And the government no doubt hopes that Hong Kongers and foreigners, facing fuzzy red lines, will pull up well short of them. But officials have also had to bat down several rumours, such as that Western social-media platforms might be banned. There was also buzz that people might be prosecuted for possessing old newspapers that contained articles deemed seditious. This is "completely wrong", said the government—the offence would apply only if the owner did not have a "reasonable excuse".

A less fragrant harbour

When Hong Kong was handed back to China by the British in 1997 it was given a mini-constitution, called the Basic Law, and promised "a high degree of autonomy" under the "one country, two systems" model. Residents were granted freedoms and civil liberties denied to Chinese on the mainland.

Yet Article 23 of the document loomed over the city. It required Hong Kong to pass national-security legislation that many people feared would alter its character. When the government tried to push through such a measure in 2003, the public responded with large protests and the city's leaders backed down.

The ease with which the measure passed this time round shows just how much has changed in Hong Kong. In recent years, controls on speech, news media, books and culture have grown more stifling, at the behest of the central government. The older security law had already deterred most people with political grievances from attempting to challenge the authorities. The new one adds to this atmosphere of fear. No big protests are expected in the coming days.

But the speed with which the government moved to pass Article 23 has raised eyebrows. It was unveiled on January 30th. There followed an unusually brief public consultation, which closed on February 28th. The bill was then rushed through Legco. Some believe the aim was to avoid criticism by catching foreign observers off guard. If so, the gambit failed. The UN's high commissioner for human rights suggested the measure was incompatible with international law. The EU warned that it might threaten Hong Kong's status as a global commercial hub. Britain said it would "damage the rights and freedoms" of city residents.

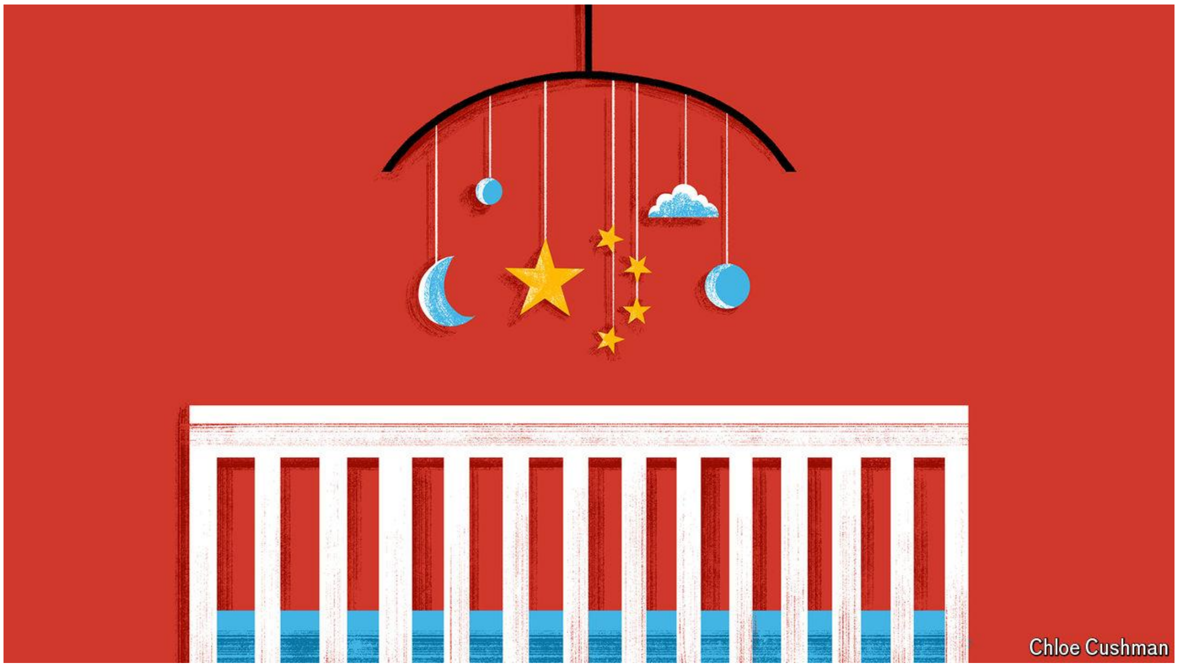
Hong Kong officials are expecting repercussions. The lawmakers who scrutinised the bill at the committee stage are said to have begun referring to themselves as "martyrs" because they expect to be hit with sanctions by Western governments. But Mr Lee always aimed to please a different audience. He called the moment "historic", adding that Legco "did not let the central government down". The chief executive and his colleagues credit the original security law with helping to bring peace and prosperity to the city, and think the new law will have a similarly positive impact. If the people of Hong Kong disagree, they will have to say so quietly. ■

Chaguan

China’s low-fertility trap

The one-child policy may be gone, but its harmful effects linger

Mar 21st 2024



ASMALL NUMBER should haunt the sleep of China’s leaders: 1.1. That is the number of children that, given prevailing trends, each Chinese woman is expected to have on average during her child-bearing years. China’s total fertility rate (TFR), to use the demographers’ term, has fallen far below the 2.1 children needed for a stable population. Sure enough, in 2023 China’s population declined for the second year in a row.

Communist Party bosses may cling to a (thin) comfort. This disaster has many causes, only one of which is their one-child policy, the harsh system that between 1980 and 2016 limited most urban families to a single child, and many rural folk to two. Most of China’s fertility decline happened in the 1970s, as a result of such forces as urbanisation and women’s education (Mao-era calls for large families also stopped). Similar forces saw birth rates plunge across East Asia. Japan’s TFR has fallen below 1.3 and in South Korea, catastrophically, it is below 0.8. The rapid ageing of China’s population also follows patterns seen region-wide.

Even so, pangs of remorse should trouble party chiefs' dreams. The one-child policy is not the sole reason for this crisis, but its legacy will make it exceptionally hard for China to escape demographic doom. China's population structure has been left permanently skewed. Brutal, often corrupt officials enforced rules with propaganda, fines and tens of millions of abortions and sterilisations, many of them involuntary. There are about 150m one-child families today. Worse, many parents who wanted sons chose to abort girls, leaving China with 30m fewer women than men.

The policy was both cruel and a blunder. Family-planning officials assumed that birth rates would spring back once controls were abolished. Alas, they re-educated parents too well. One child became the norm, certainly in cities. Consider another figure that should haunt leaders: 1.7. That is the number of children that, on average, Chinese women of child-bearing age call ideal. China's ideal is one of the world's lowest, far below the number given in Japan or South Korea. Chinese women born after 1995 want the fewest of all: 48.3% of them told the Chinese General Social Survey of 2021 that they desire one or no children. There is growing evidence that such attitudes are powerfully shaped by how people, and those around them, experienced the one-child policy.

When asked why they want small families, Chinese parents usually cite the costs of child-rearing. In fact, there is no neat link between fertility rates and average incomes. Birth rates are very low in China's richest city, Shanghai, but also in its post-industrial north-east. Those very different places do have something in common. Shanghai enforced childbirth rules sternly. So did state-owned firms that employed millions in the north-east, notes Yu Jia of the Centre for Social Research at Peking University.

Another revealing variation involves the roughly one in 11 Chinese who are from ethnic minorities. The policy was enforced (a bit) less strictly for minorities, allowing larger families to remain the norm in isolated places like Tibet, but also in diverse rural regions home to the Bai, Miao, Yi, Zhuang and other peoples. Distinctive effects may be seen to this day. Even after controlling for education and degrees of social contact with China's dominant Han majority, many ethnic groups stand out for wanting larger families. One consistent factor, says Ms Yu, is that minority households had "different one-child rules applied to them".

Intrigued, Chaguan headed to Guizhou, a province in China’s south-west with many minorities and the highest birth rates of any region outside Tibet. Locals offered varied explanations for high fertility rates and vivid memories of family-planning rules. Heading into the mountainous heartland of the Miao people, a first stop was the township of Zhou Xi. Locals thronged an open-air fair marking a Miao festival, Lusheng. Stalls sold tangerines, sugar cane and roast dog. Mr Wang, a father in his 30s, watched two sons playing on a bouncy castle. One of three siblings himself, he recalled how his own mother hid from officials enforcing her village’s two-child limit. Rule-breakers braved fines and the confiscation of cows, chickens or pigs to have larger families. “We Miao are more hospitable in every way, we prefer to have lots of relatives and friends,” Mr Wang explained.

Next, a winding road led to Puzi, a wood-smoke-scented mountain hamlet. Many working-age villagers are Miao, but toil in faraway Han Chinese towns. Some have picked up big-city views. Mr Mu has worked in a factory in Dongguan, a southern coastal city, for almost 12 years. He returned to Puzi for the recent Spring Festival and stayed on to attend a funeral. He has two sons and cited Miao beliefs that one child is not enough. But his neighbours in Dongguan with a lone child enjoy an “easier” life, he ventured. Faced with the prospect of helping his sons buy cars and homes so that they can marry, he sighed: “I’m under a lot of pressure.”

Beware officials claiming to plan for the long term

The final stop was Guiyang, the sleepy provincial capital where Han Chinese and minorities live side by side. In a park outside a children’s hospital, your columnist met a Han couple in their late 30s from Hunan province, Mr Luo and Ms Yang. They had a first child 13 years ago, while working in the wealthy eastern province of Jiangsu, and feared more would be “too tiring”. If they had stayed in Jiangsu, they would still have one, they said. But after moving to Guiyang to open a shop, Miao neighbours convinced them that solo children are “lonely”. They ended up with three, laughed Ms Yang, as a pair of small children tugged at her sleeves.

Even here, 20-something locals are converging with national norms, marrying later and wanting just one or two children, reported Ms Yang, adding: “Probably we are the generation who will have the most children.” Words to haunt China’s leaders. ■

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Why China’s confidence crisis goes unfixed *(Mar 7th)*
China tells bankers to be more patriotic *(Feb 29th)*
Xi Jinping plays social engineer *(Feb 22nd)*

Also: How the Chaguan column got its name

United States

- Joe Biden’s weakness among Latinos threatens his re-election
- Donald Trump tries his hand with meme-stocks
- Fewer states allow abortions, yet American women are having more
- The Supreme Court hears its first abortion case since ending Roe
- Is the most powerful teachers union in America overreaching?
- Binyamin Netanyahu is alienating Israel’s best friends

That’s DWAC

Donald Trump tries his hand with meme-stocks

Investors in his SPAC may get burned, but they don’t seem to mind

Mar 20th 2024 | New York

THERE IS a spirited corner of the internet where MAGA die-hards go to talk politics, God and the stockmarket. On Reddit and Rumble (a kind of far-right YouTube) they pump up their man Donald Trump and his social-media company, Truth Social, which they pray will soon go public via a special-purpose acquisition company (SPAC). Together they pore over its latest filings with the Securities and Exchange Commission (SEC), then they read a Bible verse or two. One Old Testament proverb—“Buy the truth and do not sell it”—is almost too apt. “That’s what we’re doing here, folks,” says Chad Nedohin, a hype-man on Rumble. “Literally, as a team of investors, we have bought into truth and we are never selling because we are diamond-handed HODLers”. That is crypto-speak for “hold on for dear life”.

Faith is a prerequisite for this merry band of meme-stock traders. Truth Social’s path to the public markets has been long and fraught, dogged by an SEC probe, lawsuits by disgruntled former employees and a cash crunch. At last a flotation looks imminent. On March 22nd investors in a SPAC—a listed pot of capital—called Digital World Acquisition Corp (DWAC) will vote on whether to merge with Truth Social's parent company, Trump Media & Technology Group. If enough assent the combined firm will start trading under the NASDAQ ticker DJT.

The deal comes at an opportune time. Trump Media is running on fumes: in the first three quarters of last year it lost $49m and had just $1.8m cash on hand as of September. Through the merger it will raise about $240m, estimates Michael Ohlrogge of New York University School of Law. At DWAC's current share price the new entity will have a market capitalisation of $6.3bn. As with other meme stocks, that makes no economic sense. The firm has reported 8.9m sign-ups for Truth Social but prefers not to disclose how many are active daily. "Focusing on these KPIs might not align with the best interests" of Trump Media, says its prospectus.

Mr Trump will own a stake worth $4.1bn. But a six-month lock-up, during which he cannot sell, makes paper gains of little use in his present liquidity crunch. In February Mr Trump was fined nearly half a billion dollars for fraud at his property business; by March 25th he must secure a bond for that amount while he appeals against the judgment.

That is proving tricky: about 30 bond companies have turned him down so far because he lacks enough cash to put up as collateral. He has asked an appeals court to reduce the bond. If it refuses he will have to sell assets or ask a rich supporter to bail him out. Failing that Letitia James, the prosecutor who brought the case, could freeze his bank accounts or seize some of his property. She likes to say that she can see 40 Wall Street, one of Mr Trump's towers, from her office.

As for DJT, economic reality should sink in eventually. If and when Mr Trump liquidates his holdings the share price will drop. Since the beginning of 2019 nine out of ten SPACs have lost value after combining with their target company, notes Michael Klausner of Stanford Law School. On average the share prices of post-merger SPACs have declined by 60%. Target companies got a good deal in these mergers while SPAC shareholders who stuck through the listing—mostly unsophisticated retail investors—took a bath.

The DJT crowd hears the critics; it just thinks they are wrong. Back in 2022, when the SEC was investigating the deal, Mr Nedohin, the Rumble hype-man, insisted that Trump Media was not a Ponzi scheme. “This is different,” he assured his excitable followers. “We are helping promote a company that has the potential to be a trillion dollars easily…It will be paying out!” ■

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Down is up

Fewer states allow abortions, yet American women are having more

What's going on?

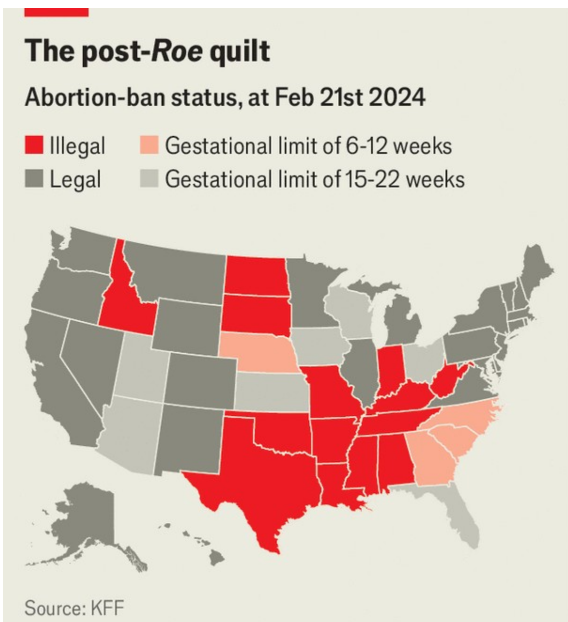
Mar 19th 2024 | NEW YORK AND WASHINGTON, DC

ON A COMMERCIAL stretch of Queens, New York, across from a hair-braiding salon and next to a McDonald's, two security guards mark the entrance to the Jamaica Sexual Health Clinic. For years this has been the neighbourhood's go-to place for STI testing and HIV treatment. Joaquin Aracena, from the Bureau of Public Health Clinics, proudly shows its newest addition: the reproductive-health wing. With freshly painted white walls and pastel-green doors, it is distinctly less institutional-looking than the rest of the clinic.

"Once they did [away with] *Roe v Wade* I was able to get this space," he says. The clinic now offers walk-in medication abortions free to all. Word is clearly spreading. Last year it provided just over 700 abortions; in January it was 100, and this morning the two nurse practitioners have already sent four women home with a non-transparent bag containing the pills they need to terminate their pregnancies.

This is one of the more unexpected results of the Supreme Court's decision in 2022 to overturn *Roe*, a ruling that returned the issue of abortion to states and triggered bans. That gave the city's government new energy to take a more active role in co-ordinating access to abortion, says the city's health commissioner, Ashwin Vasan. This included putting up billboards in Arizona and Texas and opening clinics in underserved pockets of the city. Less than nine months after *Dobbs v Jackson*, the ruling that overturned *Roe,* the Jamaica clinic's abortion service was up and running.

Many hurdles—practical, financial, social—can stand in a woman's way, even where abortion is legal. One consequence of *Dobbs* is improved access in states with a supportive approach to abortion.

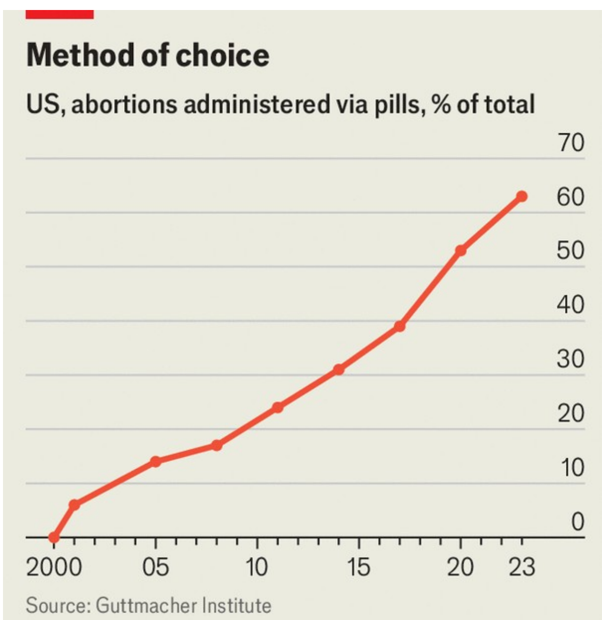


The Economist

New data from the Guttmacher Institute, a pro-abortion-rights research group, estimate that over 1m abortions were performed in America in 2023—a rise of 10% compared with 2020 and the highest number in over a decade. This is astonishing, given that the procedure is now banned in 14 states and has become restricted in several more. States bordering those with bans had the steepest rises: up by 72% in Illinois since 2020, 76% in Virginia and 257% in New Mexico.

Last year more than 160,000 women—over 400 a day—crossed state borders to terminate pregnancies, versus 81,100 in 2020 (albeit a covid-19 year). More surprising is the growth among residents of abortion-supporting states. In California locals had an estimated 21,470 more abortions in 2023 than in 2020 (accounting for 88% of the state's increase) and in New York they had 20,460 more (97%). Overall, in states without bans, over half of the rise was the result of locals having more abortions.

Efforts to improve access in such states may help explain this growth. Several states have reduced out-of-pocket spending for patients. Illinois, New Mexico and New York have increased their Medicaid reimbursement rates for first- and second-trimester abortion procedures by more than 200%, according to forthcoming analysis by KFF, a health-research group. In ten states health insurers are now required to cover abortion, up from six before *Dobbs*.



The Economist

Nothing has helped expand access as much as abortion pills, which now account for 63% of abortions in America, up from 45% in 2019 (see chart). Medication abortions are cheaper than procedural ones, and easier for clinics to provide and (especially in rural areas) for patients to receive. They are effective in the first trimester, when 94% of abortions happen. Telehealth experiments during the pandemic helped fuel the expansion, as did a loosening of regulations on their use and distribution. Next week the Supreme Court will consider whether the rules should be tightened again.

Whereas in 2020 only 7% of providers offered abortions via telemedicine, by 2022 that had increased to 31%. Mai Fleming from Hey Jane, a virtual-only abortion provider, says she can offer medication abortions at "a fraction" of the cost of bricks-and-mortar clinics. She has seen particularly large increases in orders from states that border restrictive states, such as Colorado, Illinois and New Mexico.

Abortion havens have also solidified legal protections, both for patients (eg, data privacy) and providers (eg, malpractice insurance). Some have amended state constitutions to include a right to abortion. Six states now have telemedicine shield laws that protect licensed practitioners from prosecution if they prescribe and send pills to patients in states that ban abortion.

Alternative explanations for the nationwide rise in abortions, beyond the spread of pills and efforts to lower barriers, do not seem to hold water. It does not, for example, appear to stem from a spike in unplanned pregnancies, which—a short bump during the covid pandemic excepted—show little sign of change since *Dobbs*.

It would be wrong to conclude that all is fine in post-*Roe* America. Abortion pills may be a godsend for early unplanned pregnancies, but for women in states with bans who need an abortion later—often due to fetal abnormalities detected at the 20-week scan—getting an abortion is harder than it has been for decades.■

Correction (March 19th 2024)*: An earlier version of this article misstated the number of women who crossed state borders to terminate pregnancies in 2020. Sorry.*

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Miffy-ed

The Supreme Court hears its first abortion case since ending Roe

This time, anti-abortion activists face an uphill battle

Mar 21st 2024 | NEW YORK

NEARLY TWO-THIRDS of the Americans who choose to end their pregnancies now do so using pills. Medication abortion has been an increasingly popular option since 2000, when the Food and Drug Administration (FDA) first approved mifepristone as part of a two-drug regimen with misoprostol. More recently, the FDA widened the window during which the medicine may be used and eased dispensing requirements. But on March 26th the Supreme Court will consider whether these loosened regulations should be tightened back up.

FDA v Alliance for Hippocratic Medicine began as an assault on the FDA's original approval of mifepristone. In April 2023 the district-court judge in Texas who heard the case invalidated the authorisation from 2000 and each of the subsequent liberalisations. The Fifth Circuit Court of Appeals kept mifepristone on the shelves when it pared back this extraordinary ruling last August. But the appeals court agreed that the 2016 and 2021 changes—

allowing the drug to be used through ten weeks of pregnancy (up from seven) and to be sent to women by post with a remote prescription—had to go.

The plaintiffs will be represented at the Supreme Court by Erin Hawley, wife of Senator Josh Hawley of Missouri. They contend that the FDA violated the Administrative Procedure Act, a law governing how agencies operate, when it expanded access to the purportedly “high risk” drug in 2016 and 2021. The changes in 2016 followed a “piecemeal analysis” of insufficient data, the Alliance writes, and the action of 2021 relied on “unreliable” information. Lifting “long-existing and common-sense safety standards” was “arbitrary and capricious” and thus “unreasonable”.

The federal government and Danco, which markets mifepristone as Mifeprex, paint the FDA’s decisions in a rosier light. The move in 2016 was based on “an enormous and highly reliable data set”, the government says. The decision to allow pills-by-post in 2021 was informed by “extensive published literature”, plus more than two decades of women safely using mifepristone. Emergencies arise in at most 0.7% of cases, making the medicine safer than Viagra or penicillin.

The two sides will surely debate the wisdom of the FDA’s moves in next week’s oral argument. But the question of standing could dominate the conversation: whether the challengers have the legal right to bring the case. The Supreme Court has held that fierce opposition to a policy is no grounds to sue the government. Litigants must show they have suffered a “concrete injury” with a clear causal link.

The plaintiffs advance a host of arguments to claim standing. Their main contention is reminiscent of a Rube Goldberg machine: pro-life doctors could be forced to violate their conscience if no one else is available to complete terminations for women rushed to the emergency room after complications from a medical abortion prescribed elsewhere. This “long chain of contingencies” stemming from “an exceedingly rare serious adverse event” is purely speculative, the government argues: the plaintiffs have not named “even a single doctor among their thousands of members who has ever been required to perform an abortion in the decades mifepristone has been on the market”.

The Supreme Court arguably bent the rules of standing last year in a case that dashed President Joe Biden's plan to cancel student loans. But the winding argument from mifepristone's foes—and the legal adventurism of the lower courts—may stretch too far even for the five justices who dispatched *Roe v Wade* in 2022.■

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Militant tendency

Is the most powerful teachers union in America overreaching?

Chicago's teachers have become a model for radical left-wing organising

Mar 21st 2024 | CHICAGO

AS ELECTION-NIGHT parties go, the mood was bleak. On March 19th primary-election voters in Chicago were asked to vote on a ballot measure that would have raised the transfer tax on properties worth over $1m so as to generate money to pay for homelessness relief. The measure was backed by the city's entire progressive establishment. Its opponents, mostly from the real-estate industry, did not even bother to organise a rival event. And yet by 9pm on election night, "No" was leading by around eight percentage points. "Let's just pretend," said Myron Byrd, from the Chicago Coalition for the Homeless, an activist group, mournfully, before he belted out a song he had wanted to perform to celebrate victory. The party ended with chants of "we will not give up", long after most attendees gave up and left.

The defeat of the "Bring Chicago Home" measure was crushing for Chicago's mayor, Brandon Johnson, who had heavily promoted it. But it is perhaps an even bigger defeat for his former employer, the Chicago Teachers

Union (CTU), which put $400,000 and the organising work of its 28,000 members into getting a Yes vote. In the past decade or so, the union has become one of the most powerful in the country by adopting a model of radical left-wing political organising. From 2022 to the end of last year it put $2.3m into Mr Johnson's campaign fund. Its support helped elevate Mr Johnson, previously an unknown county commissioner, into office. This year it hopes to reap the spoils—the teachers' contract is up for renewal. But is the union overreaching?

The CTU's transformation began over a decade ago, when Rahm Emanuel was mayor. On coming into office and discovering a huge hole in the teachers' pension scheme, Mr Emanuel cancelled a pay rise and took a hardline approach to negotiation. In 2012 incensed teachers went on strike for the first time in 25 years. In 2013 he then began a deeply controversial programme to close 50 of the city's public schools, further invigorating the union's organising efforts. After another strike in 2019, by last year it had developed the confidence to help push out Mr Emanuel's successor, Lori Lightfoot.

With Mr Johnson in office, the CTU is in an enviable position. Instead of dealing with somebody like Ms Lightfoot or Mr Emanuel, this year teachers will negotiate with their own union's former lobbyist. They expect a payoff. In early March the Illinois Policy Institute (IPI), a right-leaning think-tank, leaked the union's early negotiating proposals. Among the suggestions were that teachers ought to get "cost of living" pay increases of 9% a year, subsidised housing, more generous pensions, and health insurance with smaller copays. The union also wants every school in the city to be guaranteed a librarian and more staff of all sorts to be hired. "They can demand almost anything under the sun," says Austin Berg, of the IPI.

Johnson's choice

The union sees this as only what it is due. At its head is Stacy Davis Gates, a former history teacher who says she was radicalised by school closures. Ms Davis Gates takes a no-compromise approach to politics. In a speech to bigwigs at the City Club on March 5th she told journalists wondering about how the district would pay for her union's proposals to "stop asking that question". She also discussed the toll it took on her mental health to have it revealed she sends her teenage son to a private Catholic school, rather than a public one. At the end of the speech she finally offered a figure for the cost of her proposals: "$50bn and three cents".

The trouble is there is no more money. This year the budget amounts to $29,000 per pupil. Such spending is possible only thanks to a huge slug of federal covid-relief funding. By 2026 the school district projects it will have a deficit of $691m even before the costs of a new contract. It cannot raise its property tax any faster. A state bailout is unlikely, says Hal Woods of Kids First Chicago, a charity. That leaves only the equally cash-strapped city. Even some once sympathetic to the CTU are nervous. "They are trying to solve the bad policy decisions of the past two or three decades by just throwing money at it," says Stephanie Farmer, an academic at Roosevelt University. "It makes me very disappointed."

What Chicago's schools actually need is reform. As things are, even large sums of money do not go especially far. One of the biggest problems is that there are simply too many schools. Over the past two decades enrolment has shrunk by over a quarter, even as new charter schools opened. Over a third of the city's schools are operating at below 50% capacity. A few high schools have less than 10% of the number of students they were built for. Oversized schools cost huge sums to run even as they have to skimp on services (like librarians). Closing them would be fiercely unpopular, but the CTU's solution in essence amounts to staffing them all as though they are full.

In the negotiations Mr Johnson has a choice. If he simply pays up, he will have to starve the rest of the city's services to pay for it. The alternative is defying those who put him into office. And yet in a way, the results of the Bring Chicago Home ballot measure could make that easier. In the mayoral race last year, when asked about how he would negotiate with the teachers, Mr Johnson replied, "who better to deliver bad news to friends than a friend?" That becomes a lot easier if your friend suddenly seems a lot less popular. ■

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Lexington

Binyamin Netanyahu is alienating Israel's best friends

The meaning of Senator Chuck Schumer's landmark speech

Mar 18th 2024

ONE DAY more than 30 years ago, during the administration of President George H.W. Bush, the secretary of state, James Baker, flung a newspaper article at an aide, Daniel Kurtzer, and declared he was going to eject the Israeli ambassador. He was furious about a quotation he had just read from the deputy foreign minister of Israel, Binyamin Netanyahu.

Mr Kurtzer pleaded for 24 hours to check that the quotation was accurate. He learned that Mr Netanyahu's wording was slightly different from what had been reported, but still shocking: America, Mr Netanyahu had said, "is building its policy on a foundation of distortions and lies". The ambassador got a reprieve, but Mr Baker declared Mr Netanyahu persona non grata and banned him from the State Department.

A few years later, in 1996, Mr Netanyahu became prime minister, and it was President Bill Clinton's turn to be insulted. "Who the fuck does he think he is?” Mr Clinton vented to aides, after receiving a lecture on how to deal with Arabs during his first meeting with Mr Netanyahu. “Who’s the fucking superpower here?”

Even Donald Trump, who as president delivered item after item on Mr Netanyahu’s wish-list, found himself blindsided by a classic Netanyahu manoeuvre to box America in. When the two men appeared in the East Room of the White House to announce a peace plan they had arrived at without Palestinian participation—the plan went nowhere—Mr Netanyahu declared it meant Israel could now annex parts of the occupied West Bank. “This was not what we had negotiated,” a flabbergasted Jared Kushner, Mr Trump’s son-in-law and lead negotiator, would later write in his memoir, “Breaking History”. “I grabbed my chair so intensely that my knuckles turned white, as if my grip could make Bibi stop.”

Far more than the unpractised Mr Kushner, President Joe Biden had reason to hope that his grip would be enough to restrain the prime minister, whom he had alternately jousted and joked with for decades, since back before Mr Baker imposed his ban. But since Hamas’s rampage into Israel on October 7th, Mr Netanyahu has repeatedly rejected Mr Biden’s counsel about the war and scorned his vision for its aftermath. That is what provoked Chuck Schumer, the Senate majority leader, to give an extraordinary, anguished speech on March 14th naming Mr Netanyahu along with Hamas as an obstacle to peace and calling for an Israeli election to oust him. Mr Netanyahu, he said, “has lost his way”.

Mr Netanyahu and other Israelis would be making a mistake to interpret the speech as just another bump in the often rocky road the allies have travelled since the founding of Israel. “This is very different,” says Mr Kurtzer, who went on to serve as the American ambassador in Cairo and then Tel Aviv. “The Israelis will need to understand that this is a wake-up call, if nothing else has persuaded them that they’re running into a problem with us.”

Mr Schumer, the highest-ranking elected Jewish official in American history, is no fair-weather friend of Israel. Back when Mr Netanyahu outraged Barack Obama’s White House by attacking Mr Obama’s proposed nuclear deal with Iran in a speech to a joint session of Congress, Mr Schumer was one of only four Senate Democrats to vote against the deal. Mr

Schumer is also no progressive. Now aged 73, he was at pains in his speech to point out that "unlike some younger Americans" he was of a generation "within living memory of the Holocaust". He described pressing a transistor radio to his ear at high school as he fearfully tracked news of the Six Day War.

Mr Schumer is a political animal, as alert to danger in his surroundings as they come, but it is doubtful that he was worrying about Mr Biden's chances of winning Michigan. Mr Netanyahu should worry instead that, given Mr Schumer's political sophistication, he was correct in saying he spoke for "a silent majority" of Jewish Americans, people, he said, "who love Israel to our bones" yet take a nuanced view of the war in Gaza. Mr Schumer repeatedly condemned Hamas and a double standard in the news media that put all the blame for Palestinian suffering on Israel. But, he said, both Israel and the United States had a "moral obligation" to do more to protect Palestinian civilians: "We must be better than our enemies, lest we become them."

Mr Netanyahu responded on March 17th by saying that calling for elections in Israel now would be like having called for elections in America in the wake of the attacks of September 11th 2001. "You don't do that to a sister democracy, to an ally," he told CNN. But Mr Biden has made clear that he approved of Mr Schumer's message. "He made a good speech," he told reporters.

Moving America

Mr Netanyahu was partly brought up and educated in America, and he prides himself on understanding how to manage its politics. "I know what America is," he remarked once, apparently unaware he was being recorded. "America is a thing you can move very easily." Maybe not this time. Given the polarisation of foreign policy, he can count on Republican backing, but bipartisan support of Israel has always been a bulwark of its security and, having lost Mr Schumer, Mr Netanyahu has all but lost the Democrats.

Even before Mr Schumer spoke, Mr Biden had boxed himself in, saying if Israeli forces conducted a major operation in Rafah in the southern Gaza Strip they would be crossing "a red line". He has required "credible and reliable" assurances from Israel that it is using military aid in compliance with international humanitarian law. The Americans will soon decide whether they are satisfied with those assurances. Mr Schumer has dramatically strengthened Mr Biden's hand, should he choose to find Israel is misusing American weapons. The anger of America's leaders is directed at Mr Netanyahu, but Israel may wind up paying the price. ■

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Vladimir Putin hardly needs to interfere in American democracy (Feb 29th)

Also: How the Lexington column got its name

Middle East & Africa

Israel and America

Deposing Israel’s king

America wants Binyamin Netanyahu out. But his exit is fraught with dangers

Mar 17th 2024 | JERUSALEM

AFTER WEEKS of Israel flouting America’s advice on making greater provision for civilians in Gaza, on March 14th something snapped. Chuck Schumer, the Senate majority leader and one of Israel’s staunchest supporters in the Democratic Party, accused the country’s prime minister, Binyamin Netanyahu, of having “lost his way” and being “too willing to tolerate the civilian toll in Gaza, which is pushing support for Israel worldwide to historic lows”. Crucially, Mr Schumer, who is Jewish, called for early elections in Israel. Shortly after, Joe Biden endorsed this message, calling the remarks “a good speech”.

American presidents have had blazing rows with Israeli prime ministers before (see Lexington column). But it is hard to think of a time when the occupant of the Oval Office has come so close to publicly endorsing the deposing of Israel’s elected leader. On March 17th Mr Netanyahu struck back, saying Mr Schumer's comments were "totally inappropriate" and that an election would "paralyse the country for at least six months".

At first glance the objective of deposing Mr Netanyahu might seem straightforward. According to one recent survey, over 70% of Israelis want elections brought forward from their scheduled date in late 2026. Rivals to Mr Netanyahu, including Benny Gantz, a member of his war cabinet, are on active manoeuvres, notably by talking directly to America's government.

But the mechanics of a change of leadership in Israel are fraught. In the most likely scenario they open up the danger of a three-month transitional period when Mr Netanyahu would still be in charge and even less constrained by coalition partners and pragmatic members of the current war cabinet. Given that this three-month window would coincide with anarchy in Gaza, a possible invasion of Rafah in southern Gaza, and perhaps also an upsurge of violence with Hizbullah in the north and with Palestinians in the West Bank, it should give pause for thought.

There are three main ways for an Israeli government to be replaced. First, by the prime minister's resignation. Despite having led Israel into one of its most dismal episodes, Mr Netanyahu has no intention of resigning and no inclination to call an early election either. Second, the Knesset, or parliament, can replace the prime minister through a "constructive" no-confidence motion. It would not be enough for a majority of Knesset members to vote against the prime minister; they would also have to vote in favour of his replacement. At the last election, in November 2022, the bloc of parties now supporting Mr Netanyahu won 64 seats in the 120-member chamber. There may be five potential rebels who would vote to depose Mr Netanyahu but the chance that they, along with the entire opposition, would coalesce around an agreed candidate is nil.

The most likely option is that a number of defectors from the coalition join the opposition in a vote to dissolve the Knesset and hold early elections. The catch is that Mr Netanyahu would still be a caretaker prime minister for perhaps three more months, the shortest time the law allows for an election campaign.

With that in mind, what is likely to happen next? One threat to Mr Netanyahu, paradoxically, comes from the more extreme elements of his coalition. Ultra-Orthodox parties are a pillar of his government and are anxious to perpetuate the exemption from conscription for students of religious seminaries, which is under threat. Unless the Knesset can come up with legislation, unlikely at a time of war, the students will be liable for the draft and their government funding will be cut off by a court order. Their representatives may well then leave the coalition. Meanwhile, Mr Netanyahu's far-right nationalist partners have warned that a hostage-release deal which included a long truce with Hamas in Gaza, or a scenario in which Israel handed control of parts of Gaza to a security force aligned with the Palestinian Authority (PA), would cross "red lines" for them.

The other threat comes from the centrists, who insist on prioritising the hostages' release. Along with the security establishment, they favour more provision for civilians in Gaza and exploring PA participation there. Mr Gantz and his small party, National Unity, rushed to join an emergency government under Mr Netanyahu immediately after the Hamas attack on October 7th that triggered the war in Gaza. Now he is openly flouting Mr Netanyahu's authority. He recently flew to Washington and London for high-level meetings, against Mr Netanyahu's express wishes. Yoav Gallant, the defence minister and a member of the centre-right Likud Party (which Mr Netanyahu leads), has recently convened meetings of the security chiefs to formulate an independent position on a possible truce and hostage deal in Gaza.

The risks for both men—and for Israel—are high. Mr Gantz, according to most polls, would, after an election, be the leader of the largest party in the Knesset and in a position to form a new governing coalition. Yet if he pushed for an early election, he and his colleagues would almost certainly be fired by Mr Netanyahu. Were the prime minister able to evict his powerful centrist rivals, including Mr Gantz, from the government just before any Knesset vote, the result could be a cabinet entirely dominated by Mr Netanyahu backed by right-wing parties. In other words, before any redeeming change of government Israel could take a temporary lurch even further to the hard right.

During one of Israel's biggest crises since the country's creation, three months of exclusive rule by a hard-right government without Mr Gantz and other pragmatists would be alarming. In the worst case it could lead to an even more reckless approach to aid reaching Gaza; further clampdowns in the West Bank; escalation on the northern front with Hizbullah and a full-throttle invasion of Rafah with another round of civilian deaths. That might break Israel's relationship with America and strain the country's constitution if members of the more centrist security establishment refused to co-operate.

As a result, the opposition to Mr Netanyahu is divided over the best timing for a strike against him; and since the Knesset's winter session is set to end on April 7th, no serious movement on the matter can be expected until it reconvenes in late May. "This is the most awful government Israel has ever had," says a senior member of Mr Gantz's party. "But it would be even worse if we left now." ■

A new prime minister for Palestine

A new leader offers little hope for Palestinians

They fear Mohammad Mustafa will serve the president, not the people

Mar 21st 2024 | RAMALLAH

THE REVITALISATION of the Palestinian Authority (PA) is one of the watchwords of the plans—insofar as any exist—for a post-war Gaza. After Mohammed Shtayyeh, the prime minister, resigned in February, America and others urged the Palestinians to pick a replacement who could unite Gaza and the West Bank and rescue them from the sclerotic leadership of President Mahmoud Abbas, who is 19 years into a four-year term and whom 88% Palestinians think should resign. Instead, Mr Abbas and his cronies, worried about losing power, appointed one of their own.

For years Mohammad Mustafa has been Mr Abbas's economic adviser, head of the sovereign-wealth Palestinian Investment Fund (PIF) and sometime minister of national economy. He has said he wants "justice, freedom, security, peace and prosperity". "He'll keep money and power with the president," counters a businessman in Ramallah, the Palestinian seat of government. Mr Mustafa has the support neither of what remains of Hamas in Gaza nor of the PA's civil service, run by Fatah, the nationalist party in the West Bank.

He has faced allegations of corruption. WikiLeaks revealed that in 2006 America's consul in Jerusalem said that his appointment to the PIF was designed to put the fund "more securely in the hands of President Abbas". The Panama Papers, a trove of documents leaked in 2016, revealed that the PIF had put millions of dollars into a firm, the Arab Palestinian Investment Company (APIC), which has invested in businesses in which Tareq Abbas, one of the president's sons, has an interest. Until 2022 he also sat on APIC's board. Tareq and his brother, Yasser, have insisted that their businesses receive no preferential treatment and deny allegations of corruption. And a PIF official says that APIC is just one of more than 70 firms in which the fund has invested. Still, fear of contagion has led several Palestinians to decline Mr Mustafa's offer of government posts. They include Jihad al-Wazir, a Gazan now at the IMF who is also a respected former head of the PA's quasi-central bank.

Donors are wary, too. Their support is vital to rebuild Gaza and keep the Palestinian economy afloat. Western diplomats are hesitant. Mr Mustafa, says one, has "a lot of connections to Yasser and Tareq". Direct American aid to the PA has tumbled from nearly $1bn annually to zero since 2009.

Still, Mr Mustafa has won the respect of Palestinians who work with him. They highlight his record at both the World Bank and the PIF. "He's a good manager," says a former colleague. They point out that under him the PIF maintained its assets of almost $1bn while also paying more than $1bn into state coffers. He also increased its share of assets held locally from 15% to over 90%, according to a PIF official. And if he seems like a technocrat, that may be no bad thing. "After Hamas, I need boring," says a political analyst.

If he actually begins fixing the Palestinians' myriad problems, he might yet win some support. But legitimacy and revitalisation will come from the ballot box. Mr Mustafa has promised to prepare for elections. He has, however, notably shied away from setting a date. ■

Game on

Jacob Zuma's new party could swing South Africa's election

If it stays on the ballot it will make a coalition government much more likely

Mar 21st 2024 | CAPE TOWN


Reuters

JACOB ZUMA once said that the African National Congress (ANC) would rule South Africa "until Jesus comes back". But it is the second coming of the former president that could have a pivotal impact on the country's election on May 29th. Should it survive a legal challenge to keep it off the ballot, his new party, uMkhonto we Sizwe (MK), will help make the vote the most consequential since the end of apartheid.

By taking away support from the ANC it would probably ensure the ruling party needs a coalition to stay in power. Cyril Ramaphosa, South Africa's president, may be faced with a crucial choice for himself and the country. Does he try to build a coalition of pragmatists? Or does he turn to ex-ANC figures, like Mr Zuma, and take South Africa in an even more populist and anti-Western direction?

At the end of apartheid in 1994, the ANC won power after promising voters "a better life for all", a slogan it has again trotted out ahead of the poll in May. The ANC's electoral peak came in 2004, when it won 69.7% of the national vote under Thabo Mbeki as president. Since then its share of the vote has fallen in every general election; in 2019 it won 57.5%.

But until a month or so ago many analysts expected the ANC to still win around 50% of the national vote. For all its faults, voters give it credit for its role in fighting apartheid and for building a welfare state, albeit a minimal one. Over the years the party has had to deal with more offshoots than an arborist, but most have fared poorly. The only exception is the Economic Freedom Fighters (EFF), a hard-left outfit founded by Julius Malema that generally polls at around 10-12%.

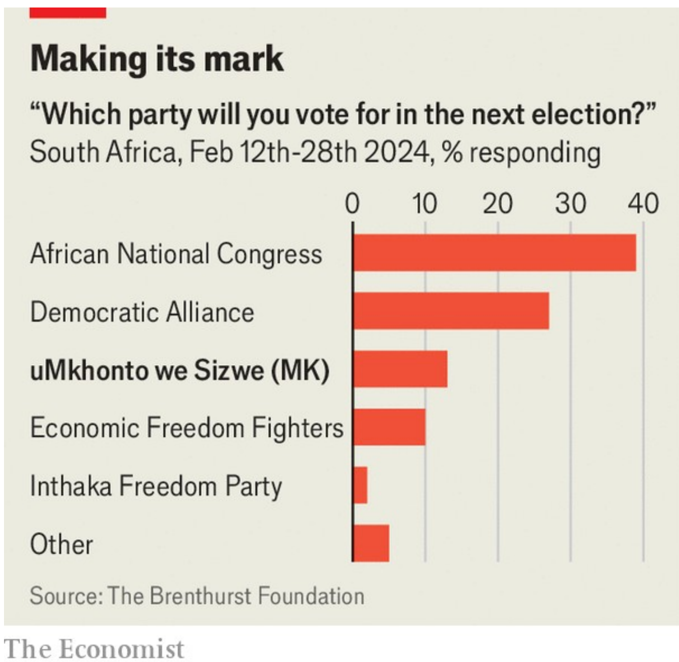
Then came the *diabolus ex machina*. In September the MK party was registered, to little fanfare. That changed in December when Mr Zuma (pictured) announced he would campaign for it, rather than the ANC. The move was the culmination of six years of plotting against Mr Ramaphosa, who replaced Mr Zuma as president in 2018, having defeated his predecessor's ex-wife for the leadership of the party. In 2021, after Mr Zuma was sent to prison for contempt of court, his supporters encouraged the worst riots since apartheid.

The new party is a vehicle for Mr Zuma's grievances. But it can pull on two powerful strands of public sentiment. The first is the idea that the ANC has lost its way and must regain its "revolutionary" purpose—a notion also promoted by the EFF. MK takes its name (meaning "spear of the nation") from the armed wing of the ANC during apartheid. It calls itself a "true liberation movement". Yet, as an extensive judge-led commission of inquiry into "state capture" during Mr Zuma's presidency found, the only thing that was liberated in that period was public funds. Mr Zuma has denied any wrongdoing.

The second is ethno-nationalism. Zulus are South Africa's largest ethnic group. Many retain an affiliation with traditional institutions, such as the Zulu monarchy and its political allies, the Inkatha Freedom Party (IFP). But under Mr Zuma, who lives like a chief in a homestead in the province of KwaZulu-Natal, the ANC won hundreds of thousands of Zulu supporters.

His conservative views appeal to those who feel that modern South Africa has eroded traditional culture. In campaign stops for MK he has questioned liberal tenets such as gay marriage: “Who made the law that a man can date another man? Who will women be left with?”

His allies in the party have threatened violence should the ANC win a case, brought on March 19th before an electoral court, in which it claims that MK did not follow the rules in registering with the electoral commission. (The court said it would give its verdict at an unspecified date.) “If they stop MK, there will be anarchy in this country,” said a senior member of the party. “There will be riots like you have never seen.”



The ANC’s court case is a sign of its concern. In a poll last month the Social Research Foundation, a think-tank, found that MK could win more than 20% of the vote in KwaZulu-Natal. That might give it about 5% nationally. Two other polls since then have recorded support for MK at over 10% of the national vote (see chart) which would drag the ANC down to around 40%.

South Africa has a complex formula to work out who takes up the 400 seats in its national assembly. But the key feature of its proportional-representation system is that there is no pre-set minimum threshold; parties can win a seat with a fraction of 1% of the vote. This is an incentive for political entrepreneurs to set up small parties. Until MK came along, the ANC assumed that if it won just under 50% it could get the majority it needed in parliament by giving out a few junior ministerial jobs.

That approach is much harder if it gets around 40%. To stay in power Mr Ramaphosa may need to do a deal with at least one of the larger parties: the Democratic Alliance, the liberal official opposition that polls at around 20-25%; the IFP; EFF or even MK. Some in his party want to "bring home" the EFF and MK, which both want Soviet-style economic policies, such as land expropriation without compensation, and admire Vladimir Putin. Mr Ramaphosa's supporters suggest he would prefer a government of national unity, which could be an echo of the one Nelson Mandela formed in 1994. Three decades on from the end of apartheid, the government could once again look like a political version of a South African *braai* ("barbecue"), where everyone is invited. ■

Africa unplugged

Damage to undersea cables is disrupting internet access across Africa

The continent is wedged between two cable-hazard hotspots

Mar 21st 2024

ACROSS LARGE parts of Africa people have been staring at blank screens and cursing their computers of late. On March 14th Ghana's stock exchange closed an hour later than usual, after internet problems disrupted trading. Connection issues forced a Nigerian cement company to cancel an earnings call. Data connectivity in Liberia and Benin fell below 20% of ordinary levels, according to NetBlocks, a digital-research firm. In Ivory Coast it plunged to 3%. Though some traffic has been restored, Wi-Fi remains dodgy in perhaps a dozen countries.

The reason for all the trouble is that four of the major undersea data cables serving Africa, including the West African Cable System (WACS), were badly damaged somewhere near Ivory Coast just weeks after another was severed near Yemen. MainOne, which operates one of the west African cables, says it has ruled out human causes (such as fishing) and thinks the damage was from seismic activity on the seabed. Ghana's National

Communications Authority reckons the problem will take at least five weeks to fix.

The Economist

Submarine cables carry 99% of the world's intercontinental internet traffic, a flow of data as vital to economies as coal or steel once were. Yet Africa is particularly vulnerable to having these vital digital global links severed. In many other parts of the world the network has a comfortable level of redundancy. If, for instance, a cable connecting North America with Europe suffers damage, traffic can easily be rerouted among about two dozen others. African countries "have less room for error", says Paul Brodsky of TeleGeography, an American research firm. Just five submarine cables (including one under construction) run up Africa's west coast between South Africa and Nigeria. Three of these were knocked offline on March 14th.

Africa also depends more heavily on its few submarine cables than might otherwise be the case. That is partly because it has fewer data centres than it needs, which means that local websites are often hosted on distant servers. There is also a dearth of cables criss-crossing the continent, so lots more traffic must be zipped around it under the ocean instead.

Africa's precious subsea cables are also unusually vulnerable. Many of the cables along the Atlantic coastline have to pass through the Congo canyon, one of the world’s largest submarine trenches. Major floods in Congo over the past few years have sent a series of enormous underwater avalanches tumbling down the canyon. These avalanches have broken submarine cables on seven separate occasions since 2020, according to Peter Talling, a geologist at Durham University, who is leading a research project in the region.

The most recent damage to the four cables in west Africa appears to have taken place farther north, within a different subsea trough near Ivory Coast. Though the exact cause is not clear, Mr Talling suspects it may be related to an underwater landslide in the Trou sans Fond submarine canyon, near Ivory Coast.

The Atlantic coastline, however, is not the only source of Africa’s internet woes. In late February the Houthis, a rebel group in Yemen, fired missiles at a cargo ship in the Red Sea. An anchor dropped by the ship is thought to have broken three submarine cables there. These included the Seacom cable that connects east Africa to Europe and India. This was not an immediate crisis as some of the traffic that would usually have been handled by Seacom was rerouted via WACS. That is, until WACS was itself damaged off Ivory Coast. ■

When the wells run dry

Nigeria’s high-cost oil industry is in decline

That will leave a gaping hole in exports and public finances

Mar 21st 2024

A CHIEF ECONOMIST at Shell once described Nigeria as the “jewel in the crown” of the oil major’s empire. Yet in recent years the jewel has lost its lustre. Early this year Shell, which has been pumping oil in Nigeria for nearly seven decades, agreed to sell its onshore subsidiary to a consortium of mostly local companies.

Other oil firms are packing up too. In February TotalEnergies, a French group, said it also planned to offload its own stake in Shell’s Nigerian subsidiary. It joined a long list of firms, including Chevron, ExxonMobil, Eni and Equinor that have shed Nigerian assets in the past couple of years (Exxon’s deal is yet to receive regulatory approval). If Shell’s divestment is finalised, domestic companies will own more oil licences than foreign groups for the first time in Nigeria’s history.

This wave of divestments is giving rise to anxiety in Nigeria that its most vital industry is in terminal decline. For decades Nigeria has been Africa’s biggest oil exporter. Yet production has slumped by nearly 50% from its peak in 2005 because of insecurity onshore and higher costs offshore. It will face further troubles when the green transition reduces global demand for oil. Despite efforts to diversify Nigeria's economy, oil still accounts for over 80% of exports and roughly 50% of the government budget. What happens if, in the coming decades, that crutch is removed?

The oil majors say such talk is overblown, and stress that they are not abandoning Nigeria as a whole. Most are pulling out only from the Niger Delta, the southern swamplands that harbour most of Nigeria's onshore and shallow-water oil rigs. For years the Delta has been plagued by kidnappers, thieves, saboteurs and collapsing infrastructure. Operating there, the majors argue, is simply not worth the risk. Most of Nigeria's oil production has moved offshore in recent years, where the majors still have large operations. Shell and Total could soon add to their existing investments there. Chevron took a stake in a new deepwater project in January.

In theory, getting a barrel of Nigerian oil out of the ground should cost about $15 on average, according to Rystad Energy, a consultancy. But that is not the case. Insecurity in the Delta has driven up costs and pushed investment into offshore waters, where production costs are higher. As a result, it costs $25-40 to pump a barrel of oil in Nigeria. That will make it hard to keep up with producers such as Saudi Arabia, where costs are below $5 a barrel, when global demand and prices fall.

The pace of Nigeria's decline will depend partly on how rapidly the world moves away from oil. If it does so quickly with the aim of limiting global warming to 1.9°C, Nigeria's oil production could fall by a further 70% by 2040, reckons Pranav Joshi, an analyst at Rystad.

The prospect of such a massive shock makes adaptation essential. Nigeria is trying to expand other areas of its economy, like farming and manufacturing, which struggled to compete with cheap imports during the many years when Nigeria's currency was buoyed up by oil revenues. But this sort of diversification will probably take time. In the shorter term, some think Nigeria can pivot from oil to natural gas, which accounts for just 10% of Nigeria's exports. Not only does the country have Africa's largest reserves of gas, global demand for the fuel is booming.

Much of the gas that is traded internationally is transported as liquefied natural gas (LNG), global demand for which is likely to rise by 50% by 2040, Shell reckons. Bumping up Nigeria's exports would require a big expansion of the facilities needed to cool and liquefy gas. Nigeria LNG—a joint venture between Shell, Total, Eni and the Nigerian government—is expanding its capacity by one-third to around 41.3bn cubic metres a year, or the equivalent of about 8% of internationally traded LNG last year. That sounds impressive, but the facility is working at less than half its existing capacity and LNG exports have plunged by 35% since 2020 because of supply disruptions and Nigeria's habit of flaring (or burning) vast quantities of gas that is a by-product of oil extraction.

In the longer run Nigeria will also have to grapple with the environmental damage wrought by the oil industry. The Niger Delta is among the most polluted places on Earth and is littered with derelict pipelines and abandoned wellheads. Much needs to be done if Nigeria is to avoid becoming a fossil-fuel mausoleum. ■

Trouble on the high seas

Somali pirates are staging a comeback

But attacks are still far from their peak

Mar 21st 2024 | ADDIS ABABA

EVEN AS HOUTHI forces in Yemen continue to target ships in the Red Sea and Gulf of Aden, another threat is again emerging in the Indian Ocean. Somali pirates are back in action. On March 12th around 20 armed men hijacked the *MV Abdullah*, a Bangladesh-flagged vessel carrying coal from Mozambique to the United Arab Emirates (UAE), while it was sailing more than 1,000km east of Somalia. Its crew of 23 is still being held hostage.

The incident was the latest in a string of attacks that are unsettling mariners plying the seas around the Horn of Africa. Many recall the situation just over a decade ago, when the waters around Somalia were the most dangerous in the world. It also coincides with the crisis in the Red Sea, a short chug around the Horn of Africa, which is taking the attention of Western navies. “Somali pirates are trying to make hay while the sun shines,” says Cyrus Mody of the International Maritime Bureau, a non-profit group that monitors piracy.

The Economist

The EU's naval force in the Horn of Africa, which has been fighting piracy since 2008, has recorded a "notable surge" of pirate activity since November. That includes three attacks on merchant ships and the hijacking of up to 18 dhows, smaller boats that can be used as floating bases from which to stage assaults on bigger ships. The Indian Ocean Commission, a grouping of five island states, and Safe Seas, a research network registered in Denmark, have warned that pirates "might no longer be successfully suppressed".

Until a few months ago, the threat of Somali piracy seemed to have been crushed by armed guards, naval patrols, and prison sentences for captured pirates. In 2022 the UN Security Council let lapse a resolution allowing international anti-piracy operations in Somalia's territorial waters. Later that year six shipping-industry bodies said they would no longer designate the seas off the Somali coast a high-risk area. An attack on the Maltese-flagged *MV Ruen* last December was the first successful hijacking of a merchant vessel by Somali pirates since 2017, according to Ambrey, a British maritime-security firm.

Although Western navies have been distracted by the Houthis, some of the slack is being taken up by India, which has at least a dozen warships in the region (the EU operation has two). Its navy is "making a statement" that it can respond to crises and provide security in the western Indian Ocean, says Abhijit Singh, a former naval officer now at the Observer Research Foundation, a think-tank in New Delhi. In January Indian commandos thwarted an attempted hijacking of a merchant ship. This month they stormed the *Ruen*, rescuing its crew after three months of captivity.

The deeper causes of piracy lie in Somalia itself. “Piracy never stopped, it was overpowered,” says Abdinasir Yusuf of the Puntland Development and Research Centre, a think-tank in the semi-autonomous Somali state from which many of the pirates hail. He thinks that one factor behind the recent attacks was political strife before the state elections in January, which distracted local security forces. Another may be illegal fishing by foreign vessels, from Iran and other Asian countries, which is undermining the livelihoods of Somali fisherfolk and providing criminal gangs with ready recruits.

The recent attacks are barely a ripple compared with the wave of piracy that peaked in 2011, when there were 212 attempted attacks off the Somali coast and more than 1,200 seafarers were held hostage, of whom 35 died. In their heyday Somali pirates were raking in $53m of ransom payments and imposing $18bn of trade costs on the world economy every year, reckons the World Bank.

A return of piracy on that scale seems unlikely. The window of opportunity opened by the Houthis will close in time. In any case, says Mr Yusuf, most people in Puntland do not want to go back to the troubles of old. But while it lasts, the rise in attacks is giving navies and shipping companies yet another headache. Because of the Houthis, large numbers of oil tankers and cargo ships are avoiding the Suez canal and taking the long route around Africa. This has pushed up the cost of shipping containers between Asia and Europe by almost 300% since October. With pirates now attacking far out in the Indian Ocean, shipping companies will need to give Somalia a wide berth, too. ■

The Americas

The chainsaw and the blender

After 100 brutal days, Javier Milei has markets believing

Argentines have not given up on him either

Mar 19th 2024

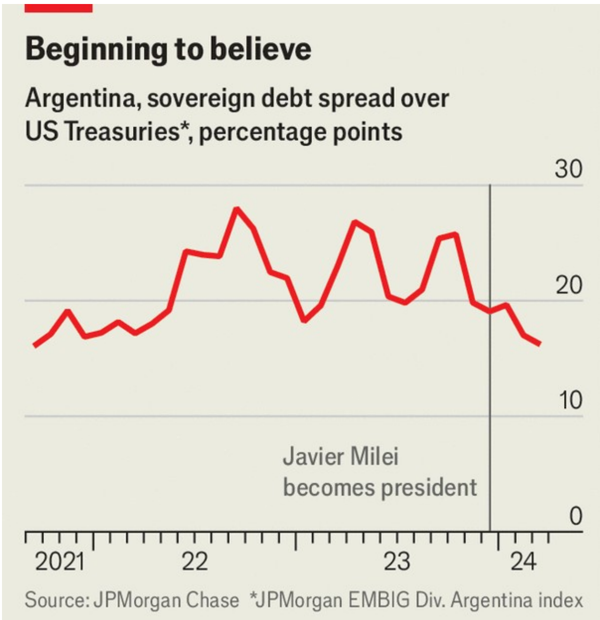
"WE ARE GENUINELY very satisfied," declared President Javier Milei of Argentina on local radio, after inflation in February fell by more than expected, to 13%. That, however, is the monthly figure. Over the past year it has amounted to 276%—the highest in the world. Inflation of just 8% annually has rattled politics in richer countries. That Mr Milei had cause to celebrate 13% monthly inflation shows the scale of the economic mess he inherited, and how much he has left to do to fix it.

Mr Milei, an irascible outsider and a self-described "anarcho-capitalist", campaigned while brandishing a chainsaw and promising to slash spending. On December 10th he took over a bloated state running vast budget deficits financed by printing money. Inflation was rampant, the peso's value in the drain. The government owed $263bn to foreign creditors, including $43bn to the IMF, but had no dollars at all. Like many Argentine governments, the previous one spent far beyond its means trying to buy popularity, while inventing increasingly absurd temporary macroeconomic fixes (such as heavy price controls) to keep the economy wobbling along.

Mr Milei is trying to steer the country down a dangerously narrow path, discarding those dodgy fixes as he goes. His basic political problem is that stridently attacking the establishment and regular politicians, a group he calls “the caste”, is crucial to his popularity. However, he needs some support from it to enact deep reform, as its members dominate Congress. But if he makes too many deals, he risks losing his outsider status and thus some popular backing—his only solid political asset.

After 100 days he can boast of real economic successes. His popularity is holding up, even though he lacks support in Congress. If he can keep the public onside until midterm elections late next year, he could bolster his influence and thereby his ability to remake the economy. But Argentines are already suffering deeply. They could abandon him long before then. That would be a blow to radical reformers worldwide.

Start with his economic successes. To show there will be no more money-printing, Mr Milei is obsessed with achieving a budget surplus, meaning the government taxes more than it spends. He says he will achieve a surplus (before interest payments) this year of 2% of GDP, a huge change from a 3% deficit last year. In both January and February the government achieved monthly surpluses, the first in over a decade. It did so partly by using Mr Milei’s chainsaw, chopping down energy and transport subsidies, transfers to the provinces and capital expenditure. It also relied on another tool: *la licuadora*, the blender. Raising spending by less than inflation is a reduction in real terms, known in Argentina as *licuación*. Spending on contributory pensions, the single biggest budget item, fell by almost 40% in real terms compared with the first two months of last year.



The Economist

The government made two other big moves. In December it devalued the peso by over 50% to partially close the chasm between the official exchange rate and the black-market one. Yet that pushed up inflation. So did interest-rate cuts in December. Normally central banks raise rates to fight inflation. The bank's rationale was that cutting rates would reduce interest payments on its own bonds, shrinking the amount of money circulating. Inflation initially shot up to a monthly rate of 26% in December. That hurt Argentines, but supercharged Mr Milei's blender.

The government says its results vindicate its tough choices. On top of monthly fiscal surpluses and falling inflation, the gap between the official and black-market exchange rates is now only about 20%. Foreign reserves have grown by over $7bn. And the government successfully extended the maturity of stacks of peso debt, reducing pressure on the treasury. The IMF is pleased; markets are starting to believe. Argentina's country-risk index, a measure of the chance of default, has dropped reassuringly (see chart). On the economy, Mr Milei deserves an eight or nine out of ten, enthuses Andrés Borenstein of Econviews, a consultancy in Buenos Aires, the capital.

Means matter

The costs, however, are brutal. Battered by inflation, an estimated 50% of Argentines are in poverty, up from 38% in September. In real terms salaries have been set back 20 years, calculates Invecq, another consultancy. Purchases of prescription medicines have fallen by 7%. Total pharmacy sales are down by 46%. Sales volumes at small and mid-sized firms fell by almost 30% in January, year on year. The economy will shrink by 4% this year, reckons Barclays, a bank.

Such hardship can become dangerous for presidents, literally. In 2001 one fled the Casa Rosada, the presidential workplace, in a helicopter for fear of violent protesters. Yet Mr Milei's approval ratings remain remarkably high, at around 50%, despite the economic pain. This is mostly because he has succeeded in blaming the caste for putting Argentina in this mess.

Still, Mr Milei's first 100 days have revealed serious problems. Beyond the pain, the economic plan is riddled with uncertainties. One risk is the exchange rate. Trying to slow inflation, the government is devaluing the peso by 2% each month. Yet with monthly inflation much higher than 2% that is probably less than is necessary. Alas, a faster crawl or sudden sharp devaluation would cause more inflation.

Argentina will inevitably soon have to switch to a new monetary and foreign-exchange regime. The question is when—and to what regime. Mr Milei's plan is to eliminate capital controls and unify the exchange rates. But will the government introduce an orthodox peso monetary programme or will it try to dollarise the economy? Mr Milei's campaign promise to dollarise has become vague since he took office. The government now talks more about "currency competition" (allowing transactions in either dollars or pesos). Yet when asked if dollarisation is off the table, Pablo Quirno, the secretary of finance, equivocates. Dollarisation is "one way to basically bury the [money] printing machine", he says. It is "more a moral discussion". The uncertainty is already causing jitters among investors. The government has also hinted that it will seek a new IMF programme, perhaps worth $15bn, but that too may be difficult without clearer plans.

Reducing inflation by forcing a recession will cause other problems. "It's not attractive to invest in a country where the recession is a key ingredient of its monetary policy," says Eduardo Levy Yeyati of Torcuato Di Tella University in Buenos Aires. What's more, he adds, when growth returns inflation could accelerate.

Last, these fiscal surpluses may prove hard to sustain. February's surplus was already smaller than January's and the recession is hitting tax revenues hard. One big saving was on energy subsidies, but much of that was only deferred, not cancelled. Provincial governors protested angrily, including in the courts, at the cuts to their transfers. Although the current pension formula is helping the government reduce spending, as inflation falls it will eventually have the opposite effect.

The politics have been rocky. Mr Milei is still popular, but his coalition has no governors and just 15% of seats in the lower house. A gargantuan omnibus bill with 664 articles that he sent to Congress in late December was picked apart. Eventually he withdrew it, a striking defeat. Lack of prioritisation also hurt. Deregulating fishing permits and closing the national theatre institute are irrelevant next to pension reform. Yet all these and more were bundled together, slowing the bill down and providing countless reasons to vote against it.

An earlier, sprawling presidential decree had the same problem. It stretched from the important (labour-market deregulation) to the minor (allowing banks to charge more interest on credit-card debt). On March 14th the decree was voted down in the Senate. That deepened worries that Mr Milei is politically vulnerable, though the decree will remain in force unless the lower chamber also votes against it. His labour reforms and attempts to defang unions are also tied up in the courts.

Mr Milei has made simple errors, too. This month the opposition highlighted a decree, bearing Mr Milei's signature, that among other things gave him a 48% pay rise—a terrible look for the wielder of a fiscal chainsaw. He said the pay rise was the result of a past president's decree, rapidly reversed it and fired his labour secretary.

In the next 100 days the politics and economics will entwine. The government wants at least one percentage point of fiscal consolidation to come from reinstating income taxes and other tax reforms. The pension formula also urgently needs updating. All this requires congressional approval. Mr Milei also needs successes in Congress to reassure investors that he has enough allies to subdue, or at least survive, future protests and political chaos. He is far from impeachment-proof. “There are so many bombs ticking,” says Sebastián Mazzuca of Johns Hopkins University.

Mr Milei seems to understand this. On March 1st he opened a window for negotiations on a “May Pact”, a set of free-market principles. His interior minister then met the powerful provincial governors, who influence Congress. Many of them seemed mollified. A deal might involve restoring some transfers to the provinces, and reinstating income taxes (which both parties want, but neither wants to be responsible for). In exchange, the president would get some emergency economic powers, pension reform, and mining and energy deregulation. Much else will be parked.

Aesthetics of obstinance

Yet it is unclear if that will be enough for Mr Milei, who still boasts he “will not cede a millimetre” on fiscal plans, and who called the senators who voted against his decree “enemies of society”. The government will reach its fiscal target “no matter what”, claims Mr Quirno. If tax reforms are blocked in Congress, the government could continue to withhold transfers to the provinces to make up the difference, he threatens. That would be explosive.

Mr Milei’s fate depends on two unknowns. How much economic pain can Argentines take before they turn on him? And can he garner the political support needed to make economic progress quickly enough to stop the whole thing falling apart? For now the signs are moderately positive. Success could see him dominate next year’s midterm elections. Yet if his poll numbers fall first, his rivals will surely wield their own chainsaw against his plans. Then they will try to throw his whole presidency into the blender.■

Fiddling the figures

AMLO is trying to bury the tragedy of Mexico’s missing people

Relatives say the president is disappearing the disappeared

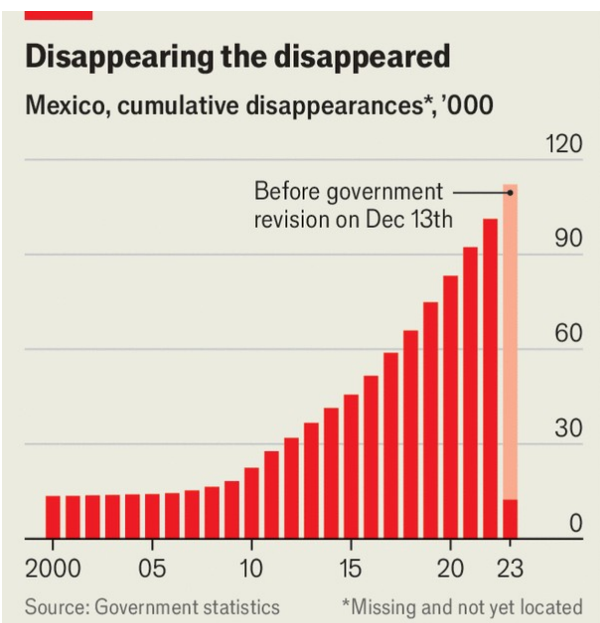
Mar 21st 2024 | CULIACÁN

THE BODY was found in scrubland next to a fancy golf club outside Culiacán, the capital of the north-western state of Sinaloa. It was discovered by a local “collective” of mothers, wives and sisters, who band together to search for their missing family members. In theory, the authorities will identify the body and search Mexico’s register of disappeared people for a match. In practice, says María Isabel Cruz, who has been searching for her son since 2017, that is unlikely.

As elections loom, President Andrés Manuel López Obrador seems to be burying the issue of Mexico’s missing people. In June last year he announced a new “census” of the disappeared, so as to be “completely certain of how many missing people there really are”. In December the government declared that just 12,377 of the 110,964 people in the register are definitely missing. “We expected the number to go down, but not by this much," says Ms Cruz, wearing a T-shirt emblazoned with *Hasta encontrarlos* (Until we find them). "They are disappearing the disappeared."

The census is not the only disappointment that relatives of the missing have suffered recently (sadly, few other Mexicans pay attention to the problem). The National Search Commission (NSC), a government agency, has been embattled since Karla Quintana, its former boss, resigned in protest at the census. Its staff have been fired and its budget, already measly, kept flat. The new boss is widely thought to be unqualified. The government has gutted the National Centre for Human Identification (NCHI), which is tasked with identifying bodies, including more than 52,000 already in its records. Of a total of 59 forensics specialists, 40 have been laid off.

The tragedy of Mexico's missing people did not start with Mr López Obrador's government, but it has worsened during his time in office. The register's oldest entry is from 1962, but the vast majority of records are since 2006. Disappearances (and murders) shot up after Felipe Calderón's government launched a so-called war on drugs. Gangs splintered and fought among themselves, resulting in horrific violence. During Mr Calderón's six-year term an average of eight people went missing every day. Since Mr López Obrador took power in 2018, that has risen to one an hour.



The Economist

Some of the increase may be down to an improved reporting system. The most recent version of the register was set up only in 2019. But security has definitely deteriorated under Mr López Obrador, whose passive approach has empowered gangs. They are probably responsible for most missing people, through kidnapping members of rival gangs and press-ganging recruits. Fully 96% of all criminal cases reported to the authorities go unsolved. Most of the missing are probably dead, weakening Mr López Obrador's claim that murders have fallen during his presidency. Since 2018 at least 2,710 clandestine graves have been found in Mexico.

Mr López Obrador's softening stance on missing people represents a change in both rhetoric and policy. On the campaign trail he promised a "truth commission" that would solve the emblematic Ayotzinapa case, in which 43 trainee teachers were abducted from a town close to Mexico City in 2014 with the involvement of state security forces. His government set up the NCHI and started a database to match DNA from the bodies of missing people with that of their relatives. He increased the budget for the NSC by more than 40% between 2022 and 2023.

But the president was irked when it became clear that the number of people disappearing on his watch outstripped that of his predecessors, says Marcela Turati, a journalist who runs a website dedicated to missing people. In July international experts working on the Ayotzinapa case left Mexico, condemning the government's secrecy. Mr López Obrador's fondness for the army has obstructed investigations. Lately he has refused to meet relatives of the disappeared. On March 6th a protest took place at the National Palace against Mr López Obrador's lack of response to the Ayotzinapa case.

Neither analysts nor family members objected to updating the register (which previous governments did too). But Mr López Obrador's methods were "so crude, so stupid, with so many errors that it has caused more damage and more pain," says Ms Turati. The methodology has been opaque, notes Francisco Rivas of the National Citizen Observatory, an NGO, with some details announced only after the process had started. Presidential loyalists known as "servants of the nation", who are not specially trained, were recruited to visit people and make calls.

Counting with Kafka

The new figure is unlikely to be more accurate than the previous one. There were certainly instances of duplicated records, says Eduardo Guerrero, a security analyst. A relative of his was a case in point. But under-reporting, not over-reporting, is the likely scenario, says Mr Rivas. Many missing persons are not recorded at all. Authorities often refuse to accept reports of disappearances. Some relatives fail to report missing relatives out of fear, or so they can continue claiming their social-security payments. As one leader of a collective points out, the number of unidentified bodies on the NCHI's books is much higher than the new official figure for missing persons.

Numerical quibbles risk drawing attention away from the main issue: tens of thousands of people are missing and the authorities are not looking for them. It falls to the collectives to search. Mr López Obrador is undoing what little progress he made. He is right that accurate information is needed, but he is bending that goal to suit political ends.■

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Europe

From high to low

Drug decriminalisation in Europe may be slowing down

An increase in gang violence and open-air drug use is changing politicians' minds

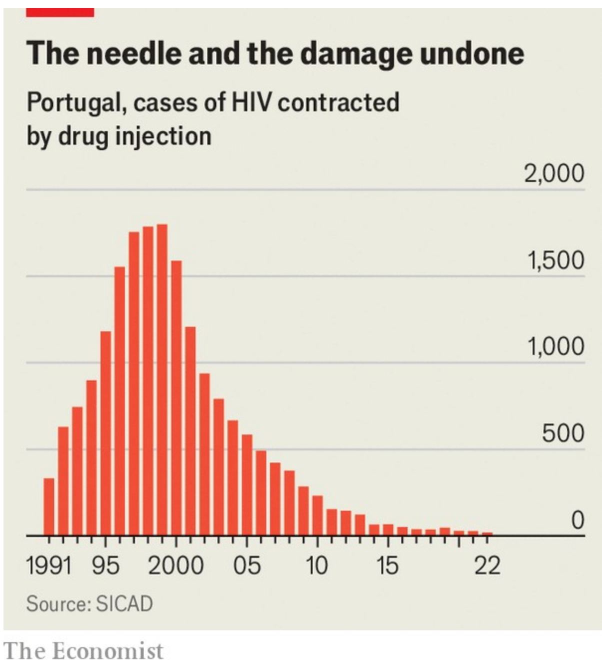
Mar 21st 2024 | AMSTERDAM and LISBON

"HASH? WEED? Cocaine?" In central Lisbon, even your grey-haired correspondent gets the pitch. The Vale de Alcântara, a valley housing a main road alongside a park, is strewn with garbage and drug paraphernalia. Dealers and users huddle in a strip of dilapidated buildings. Nearby is a government-run facility where they can get high safely. But it is often full, and some like it better outside.

Portugal is held up as a model of drug liberalisation. In 2001 it decriminalised possession of all drugs for personal use. Selling remains illegal, but the government's "harm-reduction" strategy softens the role of the police. Instead it offers therapy to those who want to quit and "dissuasion commissions" with a range of interventions, from fines to travel bans, to shove them in that direction. It also helps provide clean needles and tests for drug purity.

Such policies, and similar ones in the Netherlands, are credited with reversing epidemics of addiction in the 1980s and 1990s, limiting drug-related crime and disease. Despite political resistance, many European countries have gradually followed this trend towards harm reduction.

But second thoughts are rising. In some countries open-air use of hard drugs is more visible; in others, such as Sweden and the Netherlands, gang violence is up. This has led some politicians to go back to advocating tougher law enforcement.



Portugal’s reforms are still seen as successful. In the 1990s, notes João Goulão, head of the country’s drug-policy unit, perhaps 1% of the population used heroin. Since the switch from criminalisation to harm reduction, needle-borne HIV infections have fallen from around 1,800 in 1999 to 20 in 2022 (see chart); deaths from overdoses by four-fifths.

But the financial crisis and the pandemic have led to drug relapses. Poor immigrant populations have become heavily represented among addicts, stirring discontent in Porto, Portugal’s second city, where open-air use had spread to richer neighbourhoods. The city council and mayor called for penalties for taking drugs in public places, especially near hospitals and schools. Discontent over drugs is also rising in the Netherlands, once known for its liberal drug policies. When an apartment thought to house a drug lab blew up in Rotterdam on January 29th, killing three people, the mayor, Ahmed Aboutaleb, was, coincidentally, in Colombia to learn about combating drug cartels. Femke Halsema, Amsterdam's mayor, said the Netherlands risked becoming a "narco-state".

That is an exaggeration, but reflects growing concerns. In the 1970s the government wanted to legalise cannabis altogether, but settled for decriminalising possession. Police began tolerating cafés where joints could be smoked on the premises or bought in small amounts to take away. In 1995 a new law began registering such "coffee shops". Tourists streamed into them.

Heroin was the more dangerous problem. In the 1980s authorities promoted harm reduction, the world's first needle-exchange programme, substitution therapy with drugs such as methadone, drug-testing centres and safe-injection rooms. In the early 2000s a few hundred addicts who repeatedly failed substitution therapy were even given free heroin at government facilities. This seemed to work: by 2010 the heroin-addict cohort was small and ageing.

Decriminalising marijuana possession, too, came to be seen as a success, with scant violence around small sales and usage little higher than in countries nearby. Others have eventually not only decriminalised but legalised cannabis: Malta, Luxembourg and, on February 23rd, Germany.

But in the Netherlands many do now see drug tourism as a plague. Amsterdam has banned smoking marijuana on the street in its red-light district and cut the number of coffee shops by two-fifths. Other cities have restricted access to Dutch citizens only—but illegal dealers have returned as a result.

And although heroin use has declined, party drugs are on the rise. The number of Dutch adults who said they had used cocaine in the past year rose from 1.6% in 2015 to 2.4% in 2022. The rise of cocaine has led to a rise in violent trading. On February 28th a Dutch court ended the country's biggest ever drug-gang trial, sentencing Ridouan Taghi, a syndicate boss, to life in prison for ordering a string of killings.

Gang activity is not led mainly by Dutch demand: consumption has been rising across Europe, and the Netherlands is ideal for distribution, thanks to the huge ports at Rotterdam and Amsterdam and to Schipol airport. In 2023 police seized 60 tonnes of cocaine at Dutch ports, up from 51 the year before. But as the police at the biggest ports have become tougher, the traffic has shifted to smaller ones.

The flaws in both the war on drugs and the ceasefire strategy have made other countries pursue half-measures. Norway considered Portuguese-style decriminalisation in 2021, only for the coalition of support to crumble at the last minute; it is pursuing piecemeal changes instead. Denmark, where hash has been tolerated in Christiania, a commune-like neighbourhood in Copenhagen, is going through one of its occasional crackdowns, after a gang murder last summer. And though Germany has just legalised possession of cannabis, it stopped short of making it available for sale in shops or chemists.

Paul Griffiths, the science director at the European Union's drug-monitoring agency, says that too much focus is put on criminal policy alone. Global factors play a big role; for example the Taliban's supression of opium-poppy production could lead European heroin supplies to dry up. His agency fears the rise of ultra-potent synthetic opioids called nitazenes, which have caused a surge of deaths in Estonia and Latvia. Fentanyl, which has ravaged America, has not yet reached Europe in great quantities, but it may only be a matter of time before it surges in.

In any case, says Mr Griffiths, drug policy cannot be applied in isolation. It must be joined with health care, housing, public education and other services. Europe features strong welfare states, which is one big reason 6,000-7,000 die of overdoses there each year, compared with around 100,000 in America with a similar population. But that does not make the traffic or use of drugs cost-free. Harm reduction, after all, does still imply harm. ■

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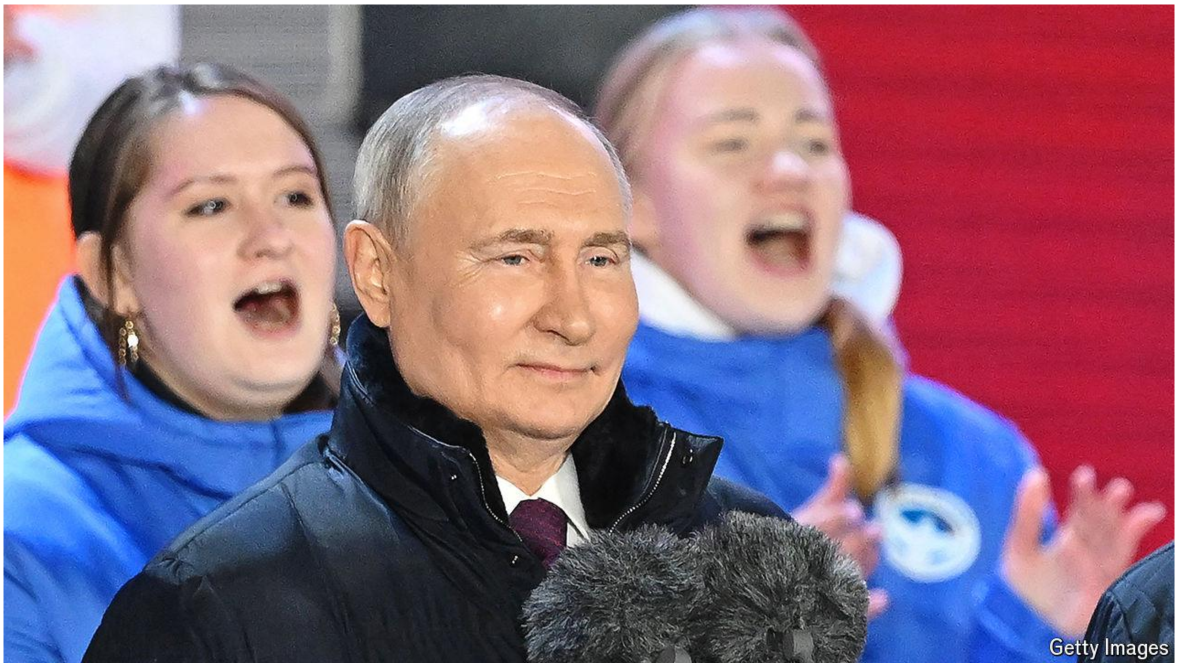
After the show

Vladimir Putin celebrates his fake election win

He claims he secured 87% of the vote

Mar 17th 2024



VLADIMIR PUTIN looked smirkingly triumphant as he strode onto a Red Square that had been filled with thousands of flag-waving extras, herded in to demonstrate unity and support. This spectacle, on March 18th, a day after the election that gave him yet another presidential term, was designed to give legitimacy to a dictator whose power rests on violence, lies and corruption; and it cleverly doubled up with the celebration of the annexation of Crimea exactly ten years earlier. "Glory to Russia," he shouted, clutching a microphone and cueing up the Stalin-era Soviet national anthem, which he brought back to Russia in 2000 after he first became the country's president.

But neither the election, which was spread over three days with no proper scrutiny and no true opposition candidates, nor Mr Putin's victory with a whopping 87% of the vote, are real. Not only had the exercise excluded the very possibility of choice, but up to 30m votes, which would be nearly half of the total, appear to have been fabricated, according to a statistical analysis of electoral anomalies by Sergei Shpilkin, a reputable Russian data analyst.

Yet the result is meaningful in another way. As Kirill Rogov, a Russian political analyst, explains, it marks Russia's transition from a merely authoritarian regime enjoying wide popular support, which it inflated through manipulation, rigging and propaganda. The election shows it has now turned into a Central Asian-style personal, unconstrained dictatorship. The regime "lacks sufficient support for its policies 'from below', and has to resort to violent and systemic repression, ideological indoctrination and control over the public sphere," writes Mr Rogov.

This transition began with the subversion of Russia's constitution in 2020 through a phony referendum. That year was also when Alexei Navalny, Mr Putin's most prominent rival, was first poisoned. The crushing of his movement, the elimination of opposition and, most important, the war against Ukraine allowed Mr Putin to impose a level of repression that he could not have managed in peacetime.

The biggest and most symbolic pre-election move by Mr Putin was Navalny's murder. It was a clear demonstration to the country's elite and to the world that for Mr Putin there are no more red lines. This is perhaps why, in his first public appearance after claiming his victory, Mr Putin spoke of Navalny, whose name he had until then always avoided uttering. "Yes, he passed away. This is always a sad event," he sneered, barely able to hide his joy.

However, the sham election has also revealed a degree of pent-up resentment against Mr Putin and his usurping of power that is hard to quantify. Across Russia tens of thousands of people heeded Navalny's call to turn up at midday on the last day of the vote and spoil their ballots or vote against Mr Putin as a form of protest. Several participants in the "Noon against Putin" protests in Moscow said they felt the same mood of solidarity as at Navalny's funeral on March 1st.

Photos posted on social media showed queues stretching for hundreds of metres, with helmeted police and prison vans waiting nearby. Protesters disseminated photos of their ballot papers marked "No to war" and "Putin is a thief and murderer". Many crossed out Mr Putin's name and replaced it with "Navalny". Some voters in Moscow held on to their ballots, took them to the cemetery where Navalny is buried and placed them at his grave. Both

Navalny's funeral and "Noon against Putin" show that people will protest when they are not faced with guaranteed imprisonment and physical abuse.

The repression is only likely to increase as the war puts ever more strain on the economy and funding it gets harder. One of the main sources of future instability, according to Alexandra Prokopenko of the Carnegie Russia Eurasia Centre in Berlin, could be the enforced redistribution of private assets, which has already begun and will need to speed up. As Mr Putin said in a pre-election speech, the old "elite" which gained money and status on the back of privatisation and the market reforms of the 1990s "has lost its credibility". He wants it replaced by "military, reliable and trustworthy people who have proved their loyalty to Russia"—and to him personally and his war aims. Mr Putin may hope this will make his war policy and his legacy irreversible. But that may be harder to achieve than awarding himself 87% of the vote in his special electoral operation. ■

Editor's note (March 18th, 2024): *This story has been updated.*

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On shaky ground

Earthquake fears loom large in Istanbul’s mayoral race

The money involved is staggering

Mar 18th 2024 | ISTANBUL


Getty Images

MELIH OZUNAL and his neighbours had reason to worry about the state of their apartment block in Goztepe, on Istanbul’s Asian shore. They had long known that the cement used in their building, which dates back to the late 1980s, had been made from corrosive sand dredged from the bottom of the Marmara Sea. But last year, after he discovered that the contractor had used 16-millimetre iron rebars instead of the 18mm ones mentioned in the original plans, Mr Ozunal, an architect, asked the local authorities to check the building’s earthquake resilience. “Everyone here is anxious,” he says, as inspectors use a hammer to test the concrete in one of the columns. “We may need to have the building torn down and replaced.”

Concerns over the state of Istanbul’s ageing housing stock have mounted since last year, when a violent quake killed more than 53,000 people in southern Turkey. The city of 16m people is bracing for a similar disaster. Leading seismologists put the probability of a 7.0-magnitude earthquake striking the region before 2030 at over 60%. Europe's biggest city is not ready. Istanbul's infrastructure is in reasonably good shape, but its buildings are not; the majority are not up to the required code.

The mayor, Ekrem Imamoglu of the opposition Republican People's Party, says about 200,000 (out of 1.2m) are at risk of collapsing or suffering irreparable damage once the ground starts to shake. Earthquake preparedness is sure to be on the minds of many *Istanbullus*, as well as voters across Turkey, when they elect mayors and council members on March 31st. Mr Imamoglu's own job will be on the line.

An economic malaise, accompanied by a severe housing crisis, is holding up progress. For many Istanbul residents, the costs of building back better, even with some help from the state or the city, are too high to bear. Inflation in Turkey, which in February topped 67% in annual terms, has warped the property market. The cost of construction materials, as well as a tendency to hedge against inflation by investing in real estate, have propelled rents and property prices. Over the past two years, property prices in Istanbul and Ankara, the capital, have soared by a dizzying 272% and 332%, respectively.

Earthquake-proofing has turned into one of the main themes of Istanbul's mayoral campaign. Murat Kurum, the ruling Justice and Development party's candidate, has promised to deliver 650,000 new housing units in five years if elected. Past experience suggests this is a pipe dream. The project's price tag could easily top $50bn, roughly the size of the country's entire construction sector and 5% of GDP.

Mr Imamoglu has made a more modest pledge, to cover most of the construction costs of 50,000 new buildings, but even that may be optimistic. Since 2019, when he was elected, the municipality's construction company has completed work on only 10,000 housing units. No more than 2,000 buildings have been demolished. On its own, the mayor's office does not have the resources needed to overhaul Istanbul's housing stock. Turkey's president, Recep Tayyip Erdogan, recently suggested his government might be able to help, assuming the city votes for the right candidate, meaning his own. "Who runs the country today?" he told a crowd of supporters, while stumping for Mr Kurum. “We do. Does the person in charge of Istanbul have our resources? He does not.” ■

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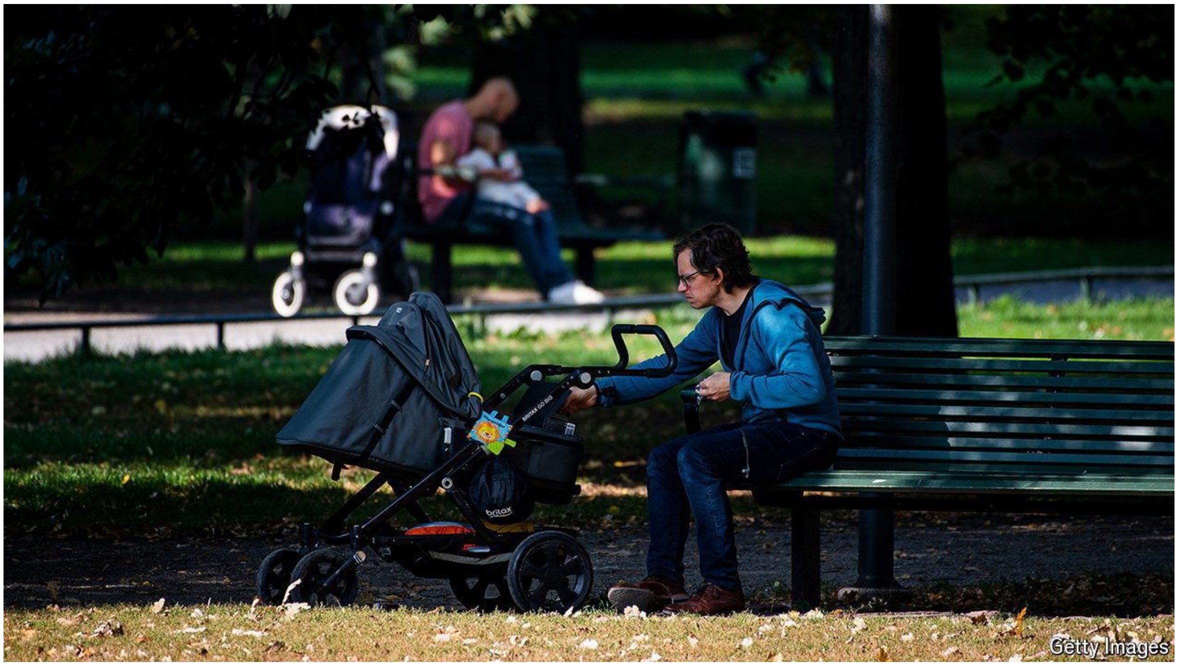
Bringing up baby

Europe is giving more parental leave to its workers

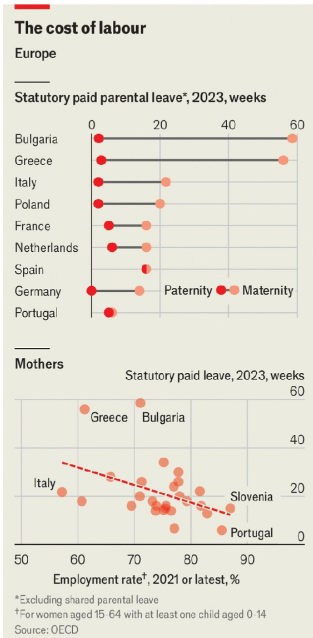
And fathers are getting more

Mar 21st 2024



PARENTS OFTEN feel they can do nothing right. Whether they are too cautious or too relaxed, someone will think they are doing it wrong. And the conundrums begin before childbirth: how much time to take off work afterwards? Too little and they will miss out on valuable time with the offspring; too long, and their boss may write them off as slackers. It is not just parents who worry about this. Policymakers have mulled the question for decades.

Most European countries have been making parental leave more generous since the 1980s. The EU sets a statutory minimum of 14 weeks leave for mothers and, since 2022, two weeks for fathers. But many member states offer leave that is much longer: the average across the EU is 21 weeks for women and three weeks for men, but lengths vary wildly (see top chart).



The Economist

Paternity leave has been changing the most. Nordic countries were the first to introduce it by statute. Sweden had in 1974 introduced shared paid leave that could be taken by either parent; it now amounts to 69 weeks. In the 1990s Norway became the first country to reserve four weeks of the paid parental leave for fathers, and Sweden followed two years later. Every EU country has done the same since then.

Germany will soon become the last member state to introduce it, offering two weeks in order to comply with the recent EU rule. Some countries are now making maternity leave less generous in order to fund more shareable leave, in the hope that fathers will take more. But in systems where leave can be shared, 90% still ends up being taken by the mother. In 2021 Spain became the only country to equalise the length of maternity and paternity leave: 16 weeks for both parents. If parents took equal amounts of leave, that could reduce the incentive for employers to pass over women when hiring.

Emmanuel Macron, France’s president, has announced, in an effort to improve female labour-force participation, that he would like to change parental leave to six months for each parent; at present, including shared leave, women can get up to 42 weeks paid time with their babies. There is a rough inverse correlation between the generosity of maternity leave and a mother’s propensity to work (see bottom chart). But many factors are in play: tradition, for example, might dictate that women remain at home, particularly if they have few career opportunities.

Even the most generous system may fall short. "If leave is not paid, it remains a benefit for rich people who can afford to take it," says Emily Oster, an economics professor at Brown University. Mr Macron has promised more funds: "Better-paid parental leave will allow both parents to be with their children for six months," he said in January. It may also encourage them to have more babies: a study published in 2022 found that well-paid leave can indeed boost fertility a bit.■

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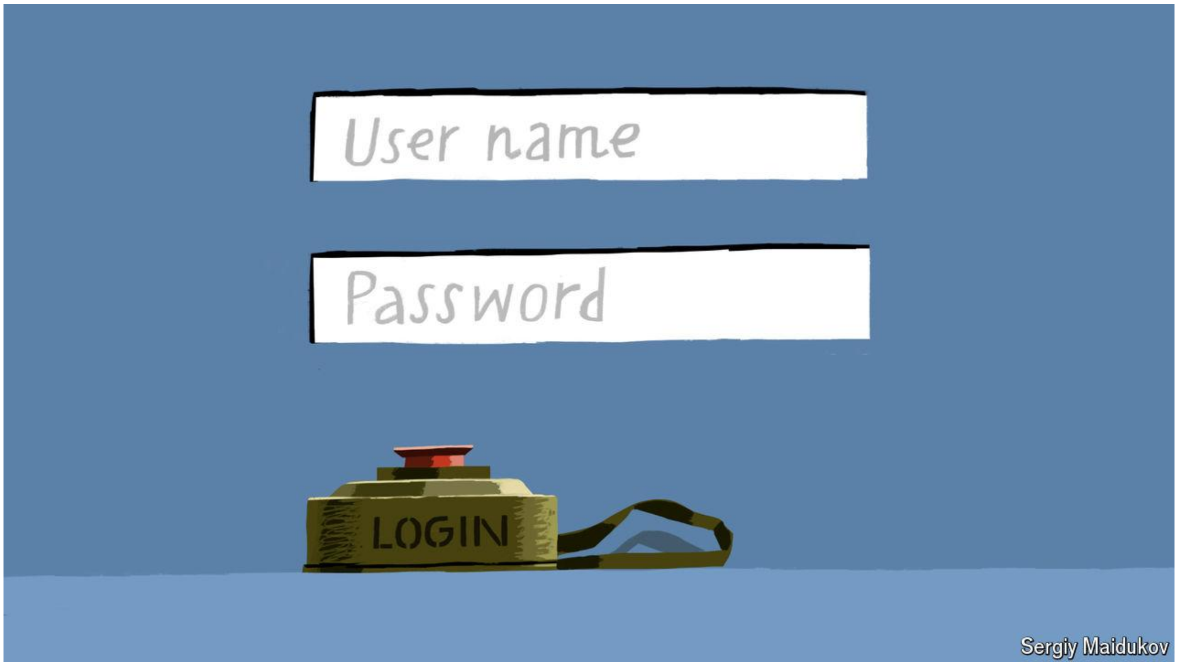
Stealth bombers

The cyberwar in Ukraine is as crucial as the battle in the trenches

So far, no one is winning

Mar 20th 2024 | Kyiv



THERE IS NOTHING to identify who is inside the office building in Kyiv, but the Russians do not need a nameplate to tell them. Windows on its higher floors are still smashed from a drone attack last summer on the nerve centre of Ukraine's cyber-defence operations. Both sides are locked in combat to steal intelligence and sow panic by attacking telecommunications, critical infrastructure, military computers and whatever else they can hack into.

This war is being fought in the shadows, says a Ukrainian intelligence official. Last June, he says, "big strikes" shut down petrol stations and internet providers in Russia's Belgorod and Rostov regions; but few outsiders noticed and the Russian authorities said nothing about it. Tim Karpinsky, head of the Ukrainian Cyber Alliance, a "hacktivist community", says that many Ukrainians and Russians, including vast criminal networks, once worked together in IT and cyber. When the two countries went to war, this meant the Ukrainians had "the skills, tools, knowledge and abilities to fight back effectively". The cyber warriors see themselves battling on a new front line that is as crucial as the war in the trenches.

Big Russian attacks a decade ago were wake-up calls. In 2015 hackers infiltrated power-station systems and turned off the electricity for several hours in parts of western Ukraine. Kyiv's grid was attacked a year later. In June 2017 banks, energy companies and government computers were clobbered, writes an analyst, David Kirichenko, in a new report. Data from 10% of computers across Ukraine were erased, he says, causing widespread disruption.

One result, says Dmytro Osyka of Modus X, the cyber-security arm of DTEK, which produced about a quarter of Ukraine's energy before the invasion of 2022, is that no one can now break into the controls of their power stations, because they have been taken offline and quarantined from the rest of the company's cyber infrastructure. Since the invasion, the cyber-defence team within DTEK has quadrupled to 40 people.

Hide and seek in the ether

Volodymyr Korniichuk heads security at Diia, an app used by 20m Ukrainians that contains their ID card and other documents and lets them pay taxes, get social-security payments and so on. "There hasn't been a week when we have not been under attack," he says. Behind one Russian operation a company was discovered that had been incorporated two weeks before the invasion. It was traced to an address of a company registered in London.

In December, in the biggest single successful strike of the war, Russian hackers took down Kyivstar, Ukraine's largest mobile and internet provider, shutting down services for several days. Standing in front of a large screen, Major Yurii Myronenko, head of the State Service of Special Communications and Information Protection of Ukraine (SSSCIP), points at graphs detailing who was responsible. SSSCIP comes under the security services, so he is in uniform. It is also at the centre of a galaxy of state, military and private cyber-defence outfits and helps co-ordinate them all. There were 2,194 "cyber incidents" in 2022, he says, of which 1,048 were “major or critical”. In 2023 there were 2,554, of which only 367 were serious. So Ukraine’s cyber defenders have drastically reduced the rate of serious attacks. But in the first two months of this year the Russians stepped it up, and he expects 2024 to be “even harder in terms of cyber warfare”.

He says the SSSCIP has learned that 10% of attacks come from cyber units of the Russian security services, while the rest come from affiliated criminal hacker groups and others. The single most effective Russian cyber unit is called Armageddon, which belongs to the FSB security service. Some of its personnel are said to be ex-members of the Ukrainian security services in Crimea who defected to Russia when the peninsula was annexed in 2014.

Mr Kirichenko says that when the invasion of 2022 began, experts feared a “digital Pearl Harbour”; but Ukraine’s defences remarkably “stood firm”. Now, he warns, “the Russia-Ukraine cyber war is becoming more aggressive than ever and will continue to expand in the future to potentially more devastating critical…targets.” ■

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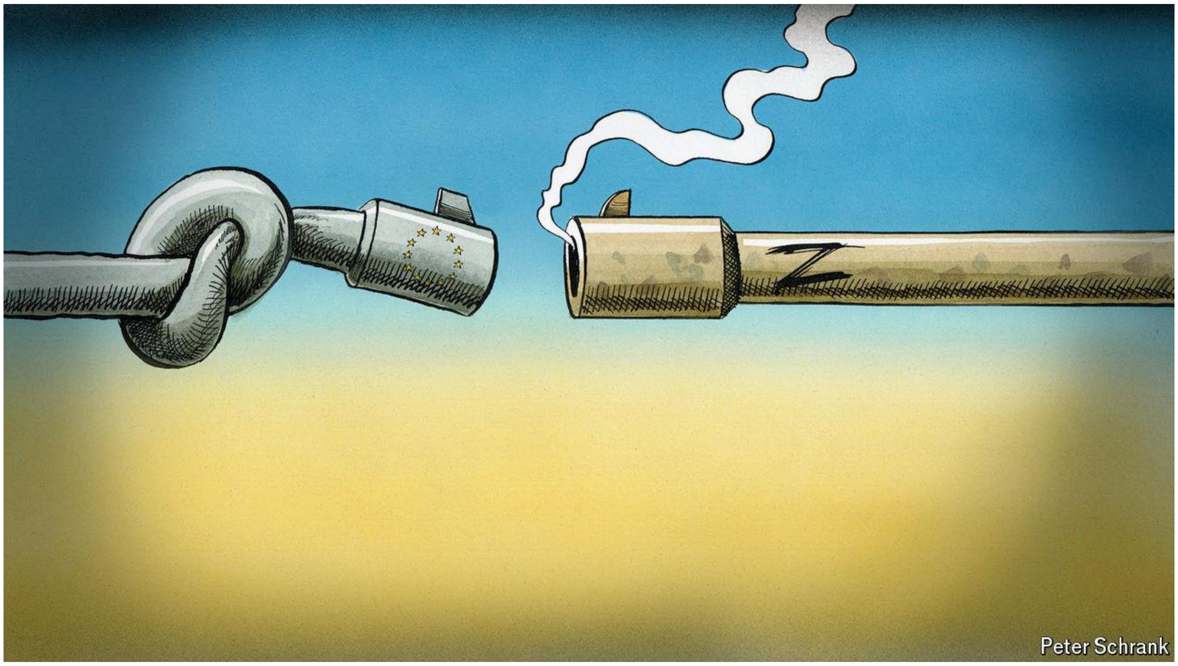
Charlemagne

Ukraine’s European allies are either broke, small or irresolute

In search of the perfect partner to derail Russian aggression

Mar 21st 2024



THE PERFECT European, or so the sarcastic quip goes, should drive like a Frenchman, cook like the Dutch, be as organised as the Greeks and as humorous as a German. A variant of the joke might haunt those trying to devise the perfect ally for Ukraine as it fends off Russian aggression. Imagine a country the size of Latvia, with the budget problems of the hard-up Italians, the willingness to pitch in of Kremlin-loving Hungarians and the arms industry of neutral Ireland. Alas, that is close to the reality of Europe today. Ukraine needs allies that are hefty, big military spenders and decisively on its side. As things stand, countries are either too small to matter, too broke to help or too hesitant to use their power—if not all three. A new approach to meld the 27 countries of the EU into one sizeable and decisive ally is necessary yet elusive.

Statesmanship has been woefully lacking. A summit of EU leaders starting on March 21st will feature plenty of sound-bites on Europe’s unwavering support, but little else. The mood ahead of the confab has been gloomy. What has become a war of attrition seems to favour Russia, whose economy has proved resilient to Western sanctions. Support from Europe and America has helped keep the Ukrainian state solvent and its soldiers in the battle. But now a dearth of artillery shells, supplies of which Europe has promised but is struggling to deliver, means holding the front line is the pressing aim for Ukraine, not counter-attacking in a way that might force Russia to sue for peace. Worse, if Donald Trump wins the American election in November, Europe could be left with the prospect of fending off Russia alone. In a bid to galvanise Europe, France's President Emmanuel Macron has gone so far as to suggest some NATO countries might send troops to Ukraine, prompting simultaneous howls of enthusiasm, panic and derision.

On paper, Europeans should be in a position to deliver more than enough support to Ukraine. The 30 European countries that belong to NATO have, taken together, the world's second-biggest military budget (exceeded only by America's), vastly outspending Russia. Their economy is bigger than America's. And across the continent the desire for Ukraine to prevail is strong. The realisation that Vladimir Putin would be unlikely to be satisfied with invading just one neighbour is chilling.

The problem is that the attributes needed in a good ally are unevenly spread. Most of Ukraine's most vocal backers are also the bloc's smallest countries, whether Baltic or Nordic. Take Estonia, which is among the EU's biggest defence spenders as a share of GDP. Its healthy public finances mean it can act on its word: Estonia has the highest bilateral aid to Ukraine per head of any EU country. But that only goes so far given there are just 1.4m Estonians. Kaja Kallas, the prime minister, wants all of Ukraine's allies to spend an extra 0.25% of GDP on fending off Russia. The money coming from Estonia would on its own finance enough rounds for Ukraine to match a mere two days' worth of Russian artillery fire. One EU member, the Czech Republic, has dazzled with its agility. In recent weeks it has managed to source 800,000 rounds of artillery from far and wide—enough to match Russia for three months.

Some countries are bigger—but lack Estonia's sound public finances. Total defence spending by European members of NATO in 2023 was about $65bn below what it would be if all members met the alliance's minimum target of

2% of GDP. Over half of that deficit stems from a handful of countries with a debt-to-GDP ratio of over 100%. Italy, Spain and France are among the biggest EU countries, but have had little fiscal leeway to invest in military capacity in recent years. Their contributions to Ukraine have been underwhelming. For all Mr Macron's Baltic-style rhetoric, the amount of military aid France has sent to Ukraine remains paltry (but is more than made up for by the quality of what is sent, officials in Paris argue, stressing its supply of howitzers and cruise missiles).

One EU country is big, rich and thus able to spend lots. Alas, Germany falls into the hesitant camp. Its chancellor, Olaf Scholz, is ramping up defence spending and has pledged lots of cash and military equipment to Ukraine—often belatedly. Having dithered over sending weapons of any sort, then delayed the delivery of tanks, he is now opposed to the delivery of Taurus missiles that Ukraine thinks could help. Some in his party seem comfortable with the idea of a "frozen conflict", or running on a doveish platform in next year's elections. Poland, perhaps the only big, solvent country hawkishly worried about Russia, has led a successful charge to throttle imports of Ukrainian agricultural goods, thus hobbling its ally's economy to placate its own farmers.

With friends like these

If some countries are short on size and others on either money or ambition, why not join forces? EU schemes abound, some better than others. A boost to the "European Peace Facility" agreed on March 18th was meant to deliver military kit worth €5bn ($5.4bn) to Ukraine—but turns out to be in part recycled past commitments. A better idea, floated by Estonia and now backed by Mr Macron, might be for the EU to jointly borrow €100bn that would go towards bolstering the bloc's defence. This would be a repeat of the pandemic-busting Next Generation EU fund worth €750bn.

Such a scheme could turn the EU into, in effect, a single large, solvent and potentially ambitious ally for Ukraine. For now it is being resisted by richer countries, mainly in the north of Europe, which end up repaying most of the money borrowed by the EU (and which agreed to the pandemic fund only as a one-off). Sceptics worry that a large defence fund would be hostage to a familiar type of sclerosis that befalls joint EU projects, often involving

Hungarian vetoes. They may be right. But Ukraine might well prefer one big yet imperfect ally to lots of smaller ones that all fall short in their own different ways. ■

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Europe's economy is a cause for concern, not panic (Mar 14th)
Fifty shades of brown: how splits in Europe's hard right sap its power (Mar 7th)
Is Europe's stubby skyline a sign of low ambition? (Feb 28th)

Also: How the Charlemagne column got its name

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Britain

- Without realising it, Britain has become a nation of immigrants
- Parents in Britain are getting more government-funded child care
- Next, Britain’s retail superstar
- Britain’s dimmed love affair with motorways
- The Conservative Party’s Oppenheimer syndrome

Migration and society

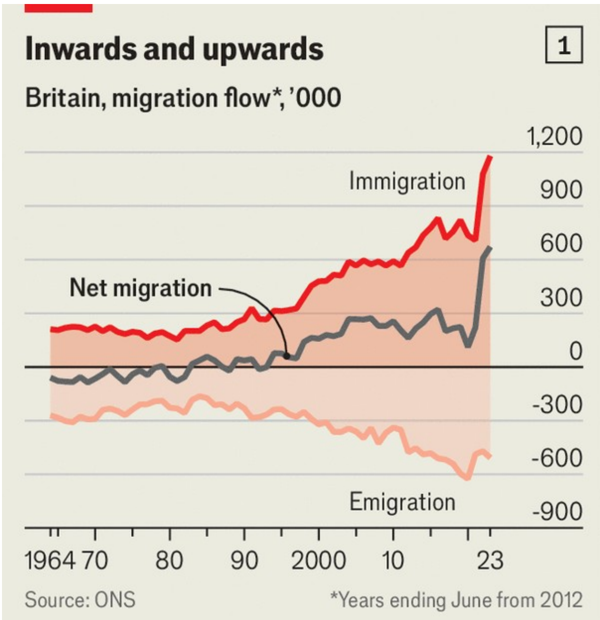
Without realising it, Britain has become a nation of immigrants

Another surprise: it’s very good at assimilating people

Mar 18th 2024 | READING

IN 2013 LIFESPRING CHURCH moved from the suburbs into a former cinema near the centre of Reading. At the time, its congregation was small and not varied. “We moved in as a white middle-class church,” says Neville Hollands, a senior pastor. These days Lifespring has members born in more than 40 countries. The diversity of its congregation is reflected in the thicket of flags on both sides of the stage during Sunday services, where 300-odd people praise Jesus to the accompaniment of drums and power chords.

Immigration has transformed Lifespring Church, Reading and Britain itself. The 2021 census of England and Wales showed that 10m people, one-sixth of the population, were born outside the United Kingdom. That was a higher share than in America or any large European country except Germany. The proportion is almost certainly higher still today. The census took place near the beginning of a huge increase in net migration—immigration minus emigration—which quickly reached a record level (see chart 1).

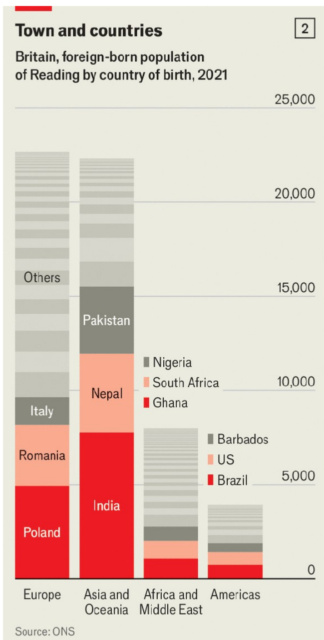


The Economist

This is a neuralgic political issue, particularly on the right. Polls by YouGov show that Conservative voters cite immigration and asylum as an important issue more often than they mention anything else, including the economy. Politicians and the public alike fret about asylum-seekers—a small but highly visible, and visibly uncontrolled, part of the overall flow. Though he is the successful son of immigrants, the prime minister, Rishi Sunak, issues warnings about its effect on society. To his right, would-be successors like Suella Braverman, a former home secretary, say that multiculturalism has failed.

But the fact is that, asylum excepted, Britain handles immigration very well. The country manages to attract people from a large and ever-growing range of countries. Although the popular image of a migrant is a desperate young man floating across the English Channel, Britain's foreign-born residents are frequently middle-class and slightly more female than male. They quickly get up to speed economically, and their children do strikingly well in school. The government makes no effort to disperse immigrants from ghettos, as, say, the Danish government does. Yet they disperse themselves anyway.

When fretting about immigration and integration, Britons often have places like Rochdale in mind. That poor town near Manchester contains just one sizeable foreign-born group, from Pakistan, which has not always rubbed along well with the white British majority. Last month George Galloway, a fedora-sporting firebrand, won a by-election there after mobilising Muslim anger over the war in Gaza; an anxious speech from Mr Sunak followed. But Rochdale is atypical. To understand Britain's present—and future—as a nation of immigrants, it is better to look elsewhere.



The Economist

Somewhere like Reading, a town of 174,000 inhabitants about 60km (38 miles) west of central London. It has a hugely diverse foreign-born population, amounting to one-third of the total (see chart 2). Of more than 330 local authorities in England and Wales, only six saw larger percentage-point increases in their foreign-born populations in the decade to 2021. Like many other places in Britain, Reading has experienced three major waves of settlement since the second world war. Immigrants have transformed the town, but they have barely troubled it.

People move to Reading partly because of where it is: close enough to the capital to allow for quick commuting, when the trains are running properly at least, but distant enough to make it cheaper and more relaxed. "People here don't walk as fast, and they're not afraid to make eye contact," says Belén Ballesteros, a Spanish-born receptionist who moved to Reading from London. She found that she could rent half of a four-bedroom house, with a garden, for the price of a room in the big city. Another draw is the local economy. Reading has a large hospital (the Royal Berkshire), a growing university and a clutch of IT firms, which benefit from the town's proximity to Heathrow airport and the M4 motorway.

Wave machine

"There was always work here," says Cyrilene Small-Tollafield, who arrived in Reading from Barbados in 1965, aged 11. Her family was part of the first great post-war migration, from Ireland and the Commonwealth. They were not always welcome. Looking for a room to rent as a young woman, Ms Small-Tollafield knocked on many houses with signs in the windows, only to be told that nothing was available. "You ended up renting from other black people," she says.

But Reading never suffered racist violence of the kind seen in London, which marked large areas as unsafe for Commonwealth immigrants. In July 1967 Courtney Tulloch, a Jamaica-born civic activist, investigated race relations in the town. He reported that most parts contained "at least one immigrant house", yet few streets contained lots. Schools were fairly integrated and there were no "twilight areas". Prejudice in Reading was stealthy rather than overt and violent. Compared with Notting Hill, the west London neighbourhood that Tulloch knew well, "it is heaven".

The tendency of migrants to scatter has only increased over the years. "It's not like, if you want to meet Kenyans, go over there. They're dispersed," says Alice Mpofu-Coles, who arrived in Britain as an asylum-seeker from Zimbabwe and now works at the University of Reading. The town is unusual in having many Nepalis, who were drawn there partly because of its proximity to military bases that trained Gurkhas, a regiment of the British army for Nepali recruits. At first many settled in a neighbourhood of terraced houses called Newtown. But Bharat Paudyal, a software engineer, says they are leaving in search of larger houses, better schools and easier parking for their cars.

Too little research has been done on where foreign-born people live in Britain and how the pattern is changing. But much work has been done on ethnic-minority groups, and the results are striking. Gemma Catney, a geographer at Queen's University in Belfast, has shown that every ethnic group in England and Wales became less segregated in the decade before the 2021 census (and also in the decades before the 2011 and 2001 censuses). Some places, such as the London boroughs of Brent and Newham, contain few white Britons. But they do not contain huge populations of one other group. Rather, they are diverse. In Newham no ethnic group accounts for more than one-sixth of the population.

The second big wave of post-war migration to Britain was of continental Europeans. This picked up in 2004, when the residents of eight Baltic and eastern European countries joined the EU, and jumped again in 2014 when restrictions on Bulgarians and Romanians were lifted. Poles are now the second-biggest foreign-born group in England and Wales (after Indians), Romanians are the fourth-biggest and Italians are the sixth-biggest.

Like those who came before, eastern Europeans are rapidly being absorbed into British life. Magdalena Rucinska, who teaches at Akademia Motyli, a Polish-language Saturday school in Reading, says that many of her pupils have one Polish and one British parent, and they speak English at home. "They go to Poland, and the child doesn't understand grandma," she says. At that point the embarrassed parents bring them to her school.

After Britain left the EU in 2020, its immigration rules changed. Continental Europeans, who had been able to move and work freely, were henceforth treated like everyone else. Salary thresholds for work visas were lowered, making it easier for non-Europeans to get them. The result has been a rise in overall immigration and a big shift in direction. If the first wave of post-war immigration came from the Commonwealth and the second from Europe, the current wave is from everywhere.

New groups are growing, some of them familiar to the natives, others not. In 2023 Filipinos were issued with 27,800 work visas (three times higher than the number ten years earlier), Zimbabweans with 46,200 and Indians with 163,500. Poles, who once accounted for a large share of economic migrants to Britain, obtained just 1,500. The number of international students enrolling in British universities has tripled since the turn of the century, reaching 380,000 in the 2021-22 academic year. More than half come from China, India and Nigeria.

One magnet can be seen in the centre of Reading, in the jumble of buildings that make up the Royal Berkshire hospital. The hospital and its associated NHS trust employ 1,800 non-Britons, with Filipinos, Indians, Nigerians, Kenyans and Portuguese the largest groups. It relies heavily on foreign-born nurses, because Britain does not produce enough. "Where are our nurses coming from if they're not coming from abroad?" asks Arran Rogers, who works on non-medical recruitment. Half of the people who joined the English nurses' register in the year to April 2023 were trained outside Britain.

Mr Rogers says that hospitals in America and elsewhere can offer much higher wages than the NHS. What employers like the Royal Berkshire can offer is a cosmopolitan town and an opportunity to build a family life in Britain. Spooked by soaring net migration, the government has recently made it harder for many immigrant workers to bring their families with them. But NHS workers are exempt from the new restrictions—a case of the state creating one set of rules for business and another, more liberal set of rules for itself.

Foreign-born men have a slightly higher employment rate than British-born ones, foreign-born women a slightly lower one. Jonathan Portes, an economist at King's College London, has shown that workers from outside the EU earn about 5% less than natives a year after arriving, but overtake them in the next year. They seem to start on a higher rung of the earnings ladder every year. EU migrants also catch up, albeit more slowly.

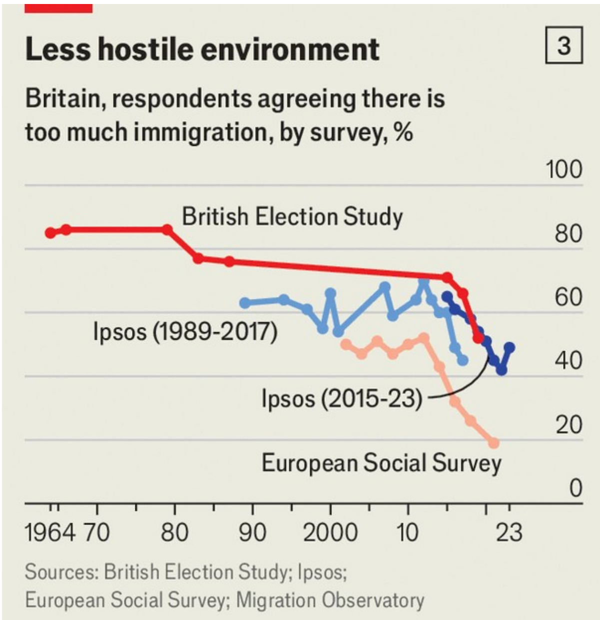
Meanwhile their children outdo the natives at school. In Reading pupils whose first language is not English are about as likely to obtain at least a grade 5 in English and Maths at GCSE (exams normally taken at 16) as pupils who speak English first. In England as a whole, English-learners do even better. The PISA tests run by the OECD, a club of mostly rich countries, show that in many European countries the children of immigrants score far worse than natives; the gaps in Germany and Sweden are huge. In Britain, immigrants' children are a shade behind in reading and a shade ahead in maths.

Part of the explanation is that immigrants' children are less poor in Britain than elsewhere in Europe. Another possibility is that many people migrate to

Britain from countries like India, where university is essential for obtaining middle-class jobs, and have passed that assumption to their progeny. In Britain 77% of children from immigrant backgrounds expect to go to university, compared with 62% of other children; in France and Germany the natives are more confident.

Reading's population continues to grow more diverse as new groups arrive, including Ukrainians and Hong Kongers, who benefit from special visas. It can be discombobulating. Aisha Malik of the Reading Community Learning Centre, a charity for ethnic-minority women, says that her clientele has become far more varied over the past decade. Staff at the centre speak six languages, which is not nearly enough. They get by with "a lot of smiles, a lot of body language" and Google Translate. Some shops on Oxford Road, Reading's traditional immigrant thoroughfare, seem to have capitulated in the face of overwhelming diversity. One, Amazing Grace, advertises "Afro-Caribbean, Asian, European groceries".

Britons as a whole are cool, verging on unenthusiastic, about all this. Polls tend to show that substantially more people would prefer to see less immigration than more of it. In September 2023 Ipsos put the proportions at 48% and 22%, while another 22% thought the level should stay as it is. The population divides more or less evenly on the question of whether immigration has been good or bad for Britain.



The Economist

The long-term trend is towards greater acceptance, though. Between the 1960s and the 1980s, when immigration was low by modern standards, huge majorities felt it was too high (see chart 3). Attitudes softened gradually, then more rapidly after the Brexit vote in 2016. And although Britons are sceptical of immigration in general, they are keen on some common types of migrant, such as nurses and care-home workers.

People seem to grow calmer about immigrants (and whites grow calmer about ethnic minorities) the more they bump into them, although some studies find that people in homogeneous places go through an anxious phase when newcomers first arrive. The young are relaxed partly because they went to mixed schools and universities. The University of Reading is certainly diverse. One-fifth of the students are international; among British students more than one-third of those admitted in 2023 are black, Asian or mixed-race.

Given this nonchalant drift, it might seem odd that conservative politicians so often strive to appear more restrictive than their rivals. They do it because they know something of voters' passions. Alexander Kustov, who studies the politics of immigration at the University of North Carolina, has shown that voters who are relaxed about immigration do not care much about the issue. People who loathe immigration, by contrast, are highly motivated by it. A tough line can sway these voters while leaving liberals unmoved.

Banging on about immigration can hurt conservatives, however. Over the past few years Ms Braverman and Mr Sunak have shown exactly how. The Conservative government has focused on asylum, the bit of the immigration system that is least susceptible to policy changes. And ministers have promised not to exert more control over Channel crossings or to reduce their number, but to "stop the boats" altogether by shipping asylum-seekers to Rwanda.

As a result, the government has been unable to take credit for some useful changes, such as a deal struck with Albania in 2023 that makes it easier to return asylum claimants from that country. Nor does it get much credit for tightening the requirements for work and family visas, which will probably lead to an overall drop in net migration over the next few years. Stopping the boats was the promise. By that measure, the result has been failure.

But failing to keep an unrealistic promise to terminate a kind of migration that is especially hard to control is not the same as failing on immigration in general. Conservative MPs seem determined to argue that Britain cannot cope with its foreign-born residents; Robert Jenrick, formerly the immigration minister, wrote on March 2nd of “the age of careless and naive mass immigration to the UK”, which he said had led to “people living parallel lives in segregated neighbourhoods”. He should come to Reading. If the town is a failure, it would be nice to know what success looks like.■

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Totting it up

Parents in Britain are getting more government-funded child care

The biggest expansion of the welfare state in many years

Mar 21st 2024

WHEN JEREMY HUNT set out his first budget as chancellor a year ago, the rabbit he pulled from the hat was not a tax cut but an expansion of the welfare state. Mr Hunt announced last March that the government would spend an extra £1bn ($1.3bn; 0.1% of GDP) per year on child-care subsidies in the years up to 2027-28. The introduction of that support is imminent.

Currently the government pays for up to 30 hours of child care a week for most three- and four-year-olds. From April 1st parents of most two-year-olds will be offered 15 hours per week; in time the full 30 hours will be extended to tots as young as nine months. The child-care budget will roughly double, in the biggest extension of welfare provision in many years. The change reflects shifting attitudes. Parents have grown keener on state support. Politicians fuss less about traditional family roles and more about labour supply.

The new system will be an odd hybrid. Most child care will still be delivered privately: almost half of the 30,000 child-care providers in England (elsewhere, child-care policy is the responsibility of devolved governments) are profitmaking. But ministers in Whitehall will set the price of some 80% of pre-school care by hours. The government’s hope, according to Christine Farquharson of the Institute for Fiscal Studies (IFS), a think-tank, is that by setting the rate at the right level it can drive less efficient providers out of the market. Set it too low, however, and the whole sector could shrink, leaving parents unable to claim their free hours.

The government’s initial salvo looks fairly generous. The education department has decided to offer well above the current market rate for two-year-olds and (from later this year) under-twos, partly to make up for the fact that nurseries say the subsidy for three- to four-year-olds does not cover their costs. In his latest budget, on March 6th, Mr Hunt also guaranteed that these rates will rise in line with costs for the next two years in order to give providers a degree of certainty. That commitment is likely to require another £350m per year by 2025-26.

The new system is complex. As well as varying subsidies by age, the government’s offer covers only 38 weeks of the year; most working parents want more. The level of support also depends on whether parents are in work or on a low income; it is abruptly removed for top earners. Little of this is well understood by parents. Nurseries, for their part, have had to come up with creative ways of topping up the subsidy for older children. At Tadpoles in Chelsea, a well-heeled part of west London, parents seem happy enough to pay more for things like singing, swimming and baby yoga.

Some nurseries have found it impossible to get parents to pay extra or to make savings of their own. There were around 650 net closures in England in the year to March 2023. The new system may drive more smaller providers out of business, particularly in poorer areas; big chains like Busy Bees and Bright Horizons may expand further. It is partly a case of wait and see, says Ms Farquharson, since the system is so new. Like its young charges, the child-care sector is bound to see big changes. ■

Wolfson prized

Next, Britain’s retail superstar

You might yawn at its clothing, but not at its results

Mar 19th 2024

NEXT IS A boring brand and an exciting business. Launched in 1982 to plug a gap in the market between lines for younger shoppers and items for richer, older folk, the British clothing retailer has since stuck to its briefs. On high streets and in retail parks, and increasingly online, it sells garments that are unlikely to grace the runway or go viral on TikTok. Lord Wolfson, Next’s unassuming boss, eschews mega-yachts and parties in favour of gardening and economics; he sponsors the £250,000 ($320,000) Wolfson prize, the most valuable economics award after the Nobel.

Middle-of-the-road retailers can yield high-end results. Next is the country’s largest clothing retailer (see chart), patronised by around one in four British households. Its shares have risen by more than a quarter in the past year; on March 21st it announced record pre-tax profits for 2023. It has continued to thrive as others have languished. Debenhams, House of Fraser and Topshop have collapsed. John Lewis has been struggling. Shares in Boohoo and ASOS, two online fast-fashion retailers, are down by over 90% from their peaks. On March 19th the American owner of Ted Baker said that the chain would be going into administration.

The Economist

Next's success rests partly on investment. The company has invested heavily in logistics, shelling out £310m over the past five years on its existing warehouses and another £170m on a new automated facility, Elmsall 3, in Yorkshire. Overall spending on technology has grown, too. Next is pumping £53m into upgrading its systems this year, up from £8m in 2020. Rather than outsourcing software for its website, stock allocation and other core operations, most of its coding takes place in-house. It employs more people in technology than it does in its products teams.

Sales on Next's website have increased from £1.5bn in 2017 to just over £3bn in 2023; more than half of its purchases now take place online. Greater use of automation has pushed the cut-off time for next-day delivery from 6pm to 11pm. Delivery times are speedier, too. The number of items delivered late fell from 11% in June 2022 to 6% a year later; the proportion of sale items which took longer than a fortnight to deliver fell from 24% to 3% over the same period.

This kind of expertise is valued by others. The firm offers smaller retailers its proprietary software for warehousing, delivery, returns and other back-end operations, tasks that Lord Wolfson recently called the "less interesting side" of the business. This has echoes of other retailers. Ocado, a British online supermarket, provides fulfilment services to other online grocers such as Morrisons in Britain, Kroger in America and Sobey's in Canada. Walmart, an American retailer, is pushing into services such as delivery software. Amazon's cloud-computing arm, AWS, has long been a cash cow for the business.

Next has branched out in other ways, too. It offers an array of third-party brands like Nike and Birkenstock, as well as furniture, beauty products, food and flowers. A streak of acquisitions in the past few years includes rescues from administration of retailers such as Cath Kidston, Joules and Made.com. It has snapped up stakes in JoJo Maman Bébé, a baby-clothing brand, and the ailing British arms of Victoria's Secret, a lingerie brand, and Gap, a fashion retailer. Last year it raised its stake in Reiss, an upmarket fashion chain, to 72%, and bought FatFace, a clothing firm. A growing stable of brands, products and services means that Next is transforming itself from a retailer into a conglomerate.

The retail graveyard is full of failed conglomerates. Sears, once America's largest retail chain, declared bankruptcy in 2018; Arcadia, Sir Philip Green's empire, collapsed into administration in 2020. New business lines and multiple acquisitions tend to add complexity; Next has already admitted it paid too much for Joules. Britain's slow-growing economy is another worry. Around 60% of Next's customer base is made up of 25- to 54-year-olds, a group that is heavily exposed to the lagged impact of higher mortgage rates, according to RBC Capital Markets, an investment bank. A growing number of foreign customers, who account for roughly a quarter of all sales, offers some protection.

Questions about succession also persist. Lord Wolfson, the longest-serving CEO of a FTSE 100 business, has been in charge since 2001; in that time the firm's market value has climbed by around 250% and its share price (helped by buy-backs) by 800%. But he is also still a stripling, at just 56. And perhaps the biggest threat faced by clothing retailers—losing their lustre among trendsetters—is less of a risk for a middle-of-the-road brand. Next's lines may elicit yawns among the fashionistas. For shareholders, boring is best. ■

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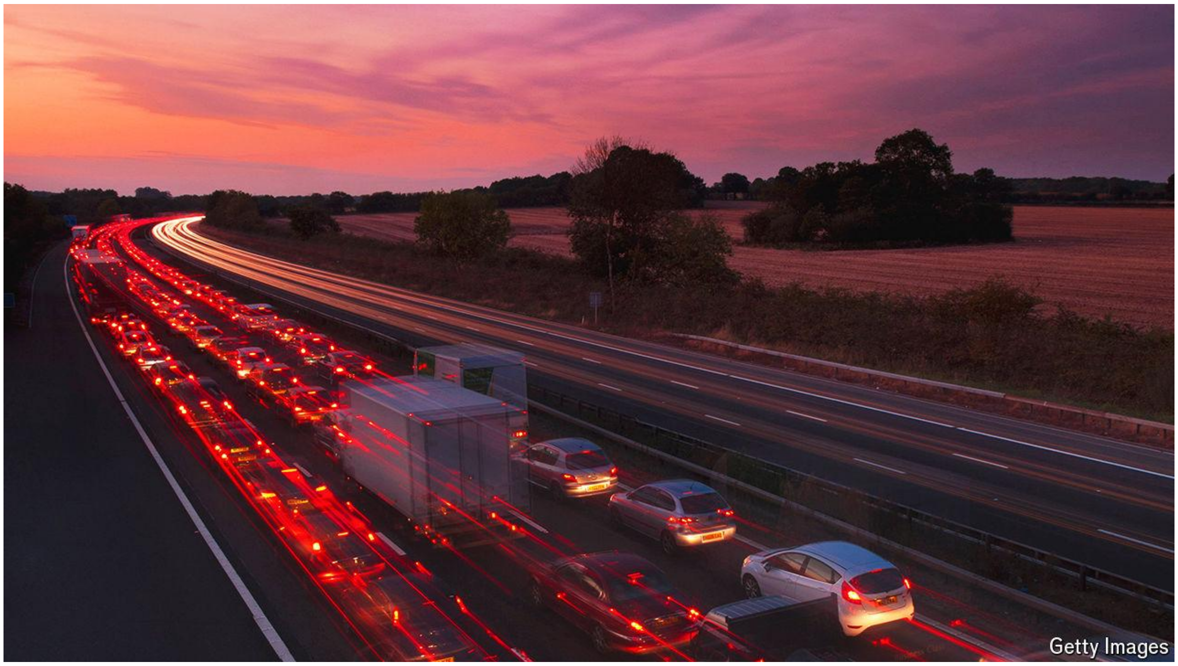
Road to hell

Britain’s dimmed love affair with motorways

Britons found the M25 even more irritating shut than open

Mar 21st 2024 | Junction 11, the M25



BY 9PM ON March 15th, atop a boring-looking bridge above the M25, a small crowd has gathered. Junction 11 is rarely a popular choice for a Friday night out. Indeed the M25 is rarely popular at all. The road—which encircles London and is Britain’s busiest—is also one of its most loathed. Chris Rea, a musician, wrote a song called “Road to Hell” about it; Terry Pratchett, an author, argued that its mere existence was evidence of Satan’s own. The news that it was—for the first time ever—going to close during the daytime so that a bridge could be demolished was received by many as just the sort of irritating thing that the M25 would do.

The M25 annoys because it is too big (its 117 miles received thousands of planning objections before it opened in 1986) and because it is too small (it promptly became known as “Britain’s biggest car park”). It irritates because it is too prominent (embankments were dug and 2m trees were planted to try to screen it) and because it is too recessed (drivers cannot relish the rolling English countryside but snake through an endless cutting). The phrase "within the M25" is used to denote smug metropolitans; smug metropolitans, in turn, say "beyond the M25" to signify "there be monsters" (or at least no decent flat whites). It is not, in short, a particularly well-liked road.

It is, though, an important one. For its construction helps mark the moment when Britain fell out of love with motorways. As multi-lane roads started to unspool across the country, Britons were initially delighted. When the M1, Britain's first intercity motorway, opened in 1959 Britons took day trips on it. Postcards were sold of such appealing bits of tarmac as "The M1 near Newport Pagnell", "A40 Traffic" and "The Underpass, Croydon".

There were some sceptics. One transport minister warned, to later smirking, that by travelling at such speed "senses may be numbed and judgment warped" (anyone who has ever wondered who pays to sit in the massage chairs at Thurrock services might agree with him). But mostly Britons were thrilled.

By the 1970s Britain had 1,000 miles of modern motorways. Or modernish. In his book "On Roads", Joe Moran points out that Britain's roads are part transport system, part palimpsest. The runway on which Neville Chamberlain landed when returning from Munich was incorporated into a strikingly straight section of the M4; a map of Britain's motorways is an uncanny echo of the Antonine Itinerary, a third-century road book.

By the time work on the M25 began, the ardour had not gone but it was dimming: at its opening Margaret Thatcher complained at those who "carp and criticise". "The Hitchhiker's Guide to the Galaxy", first broadcast as a radio play in 1978, opens as the hero, Arthur Dent, learns that Earth is to be demolished for a hyperspace bypass. He lies in front of a digger, refuses to move and tells the builders to "Go away, and take your bloody bypass with you." Thanks in part to such objections Britain's too-narrow roads often don't see much movement either.

Which is why the M25, always too small, is being closed several times this year to allow bridges to be demolished and lanes to be widened. Among the gaggle watching this month's first closure at Junction 11 there is carping and criticism aplenty: the closure is later and duller than expected, the temperature colder. By the time the last cone is in place and the massive motorway emptied, it is almost 11pm. A spectator turns to head home. That, he says, was "rather underwhelming". ■

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Bagehot

The Conservative Party's Oppenheimer syndrome

You weaken the checks on the British state. Then your opponents take power

Mar 20th 2024

"OPPENHEIMER", WHICH won seven Oscars at the Academy Awards on March 10th, is a film about hubris and regret. Cillian Murphy plays the titular American scientist who builds the atom bomb that will end the second world war. Then the Soviets get its secrets. An arms race begins; he is tortured by visions of missiles streaking through the sky. "He talks about putting the nuclear genie back in the bottle," scoffs a rival. The prospect of Armageddon can make you question your career decisions.

In recent years Tory ministers have been conducting their own experiment with the nuclear physics of the British constitution. The cognoscenti call it a restorationist agenda that asserts the primacy of a sovereign Parliament over subordinate institutions, and of elected politicians over unelected officialdom. To less sophisticated folk it has looked more like ministers hoovering up powers they don't know how to use and sidelining any practices that inconvenienced them. Either way, Conservatives have put surprisingly little thought into the consequence of this unshackled state falling into the hands of their opponents. A Labour Party that is inimical to much of what the Tories hold dear is on course for a parliamentary majority in a system where the institutional and cultural checks on executive power have been weakened.

Sir Keir Starmer, Labour's leader, is an institutionalist, who loathed Boris Johnson's disregard for norms and promises to put officials back on their pedestals. Yet he is also an instrumentalist, who has employed every clause of the Labour rule book and every chapter of parliamentary procedure to bring his party to the brink of power. He wants to do things by the book, but the book is also there to be used. Sir Keir thinks the state is siloed and drifting; he wants to get it moving to revive the economy and restore public services. As his chief of staff, he has hired Sue Gray, a former mandarin who is temperamentally averse to constraining Whitehall.

In the government's hands a statement of the constitutionally obvious—that Parliament is sovereign to legislate as it wishes—has been used as a pretext to do whatever is politically convenient. Should Labour secure a large majority, as its poll lead suggests it might, that stance will look less smart. Sir Keir's office has vetted its candidates far more rigorously than Sir Tony Blair's did before his landslide win in 1997, so that they can be relied on to pass his legislative programme. Sir Keir does not have much appetite to end the Commons' dominance: a proposal for an elected second chamber, which would act as a stronger check than the House of Lords, has been kicked into the long grass.

Not that MPs will always be needed to get things done. Sir Keir told business leaders recently that he would crack on with planning reform without legislation: "I don't want to get bogged down. We've got to get on with it from day one." Handily, over the past decade the statute book has been laced with powers that allow ministers to devise regulatory codes or amend existing legislation with little parliamentary oversight. Take the Retained EU Law Act, which allows sweeping amendments to old EU law on the strikingly broad grounds of "changes in technology" or "developments in scientific understanding". Rishi Sunak, the prime minister, warns that Angela Rayner, the deputy Labour leader, wants to heap red tape on enterprise; doing so has never been easier.

Free-market Eurosceptics have little to show for breaking off the EU's legal girdle. But Brexit has enabled Sir Keir to make one of his most popular policy proposals: levying value-added tax on private schools, which many Tories regard as vandalism and which was impossible under the bloc's tax rules. If Rachel Reeves, the shadow chancellor, can find the money for her *dirigiste* vision, she will have greater freedom to spend it; that is because Mr Johnson loosened the old EU subsidy-control rules, which had been pushed for by Margaret Thatcher to make Europe more competitive. (Some on the Conservative right also now question the wisdom of a new ministerial definition of "extremist", since Labour's idea of "extreme" may differ from their own.)

When a government has a strong majority and interventionist instincts, the courts become a more important check. But the senior judiciary has given the executive more leeway since clashes between the government and the Supreme Court during the years of Brexit fighting. Analysis by Lewis Graham of the University of Oxford finds that the Supreme Court has ruled in favour of public bodies more often since the presidency of Lord Reed began in 2020. Sir Keir will further this trend: he promises to reduce the grounds for time-sapping judicial reviews that hold up big infrastructure projects. Rural Tory MPs who like executive power in theory will not welcome this.

Now I am become death, destroyer of the green belt

The Tories tend to rediscover the case for limited government in opposition. Indeed, a Labour government can produce hysterics. Winston Churchill claimed that Clement Attlee, his wartime coalition partner, would create a Gestapo. The tenure of James Callaghan, the mild-mannered head of a weak government, prompted Lord Hailsham to declare that British democracy was nothing more than an "elective dictatorship", checked only by the consciences of its members and Commons procedure.

The principal check on the Tory government has been its own dysfunction: it has been too divided to put the powers it accumulated to effective use. For a new Labour government, the main restraint would be ministers' willingness not to abuse the system they inherit. But these are politicians, not monks. At the end of the film, Oppenheimer is asked when he got moral qualms about his project. "When it became clear to me that we would tend to use any weapon we had." In politics, as in physics, self-restraint is rarely enough. A spell in opposition may remind the Tories of that. ■

Read more from Bagehot, our columnist on British politics:
How Britain's Tories came to resemble the trade unions (Mar 13th)
What the softening of the Sun says about Britain (Mar 6th)
Speaker Hoyle and the strange politics of human resources (Feb 26th)

Also: How the Bagehot column got its name

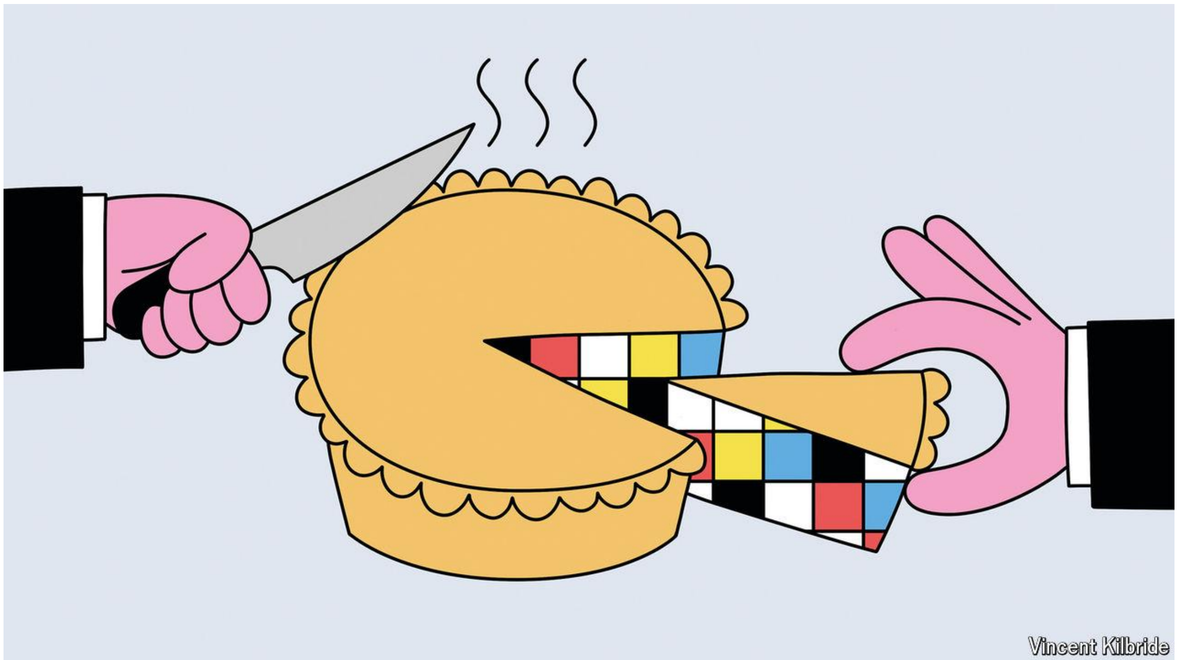
Business

The AI pie

Just how rich are businesses getting in the AI gold rush?

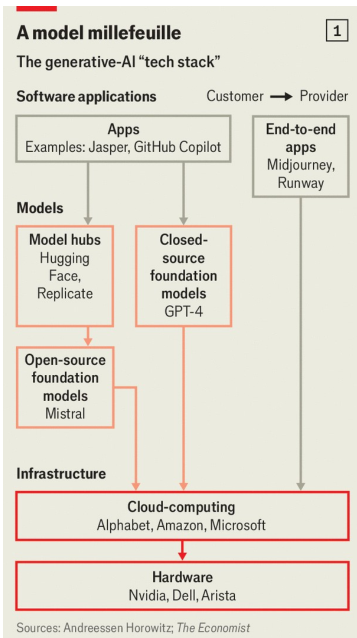
Nvidia and Microsoft are not the only winners

Mar 17th 2024 | SAN FRANCISCO



BARELY A DAY goes by without excitement over artificial intelligence (AI) sending another company's market value through the roof. This month the share price of Dell, a hardware-maker, jumped by over 30% in a day because of hopes that AI will boost sales. Days later Together AI, a cloud-computing startup, raised new funding at a valuation of $1.3bn, up from $500m in November. One of its investors is Nvidia, a maker of AI chips that is itself on an extended bull run. Before the launch in November 2022 of ChatGPT, a "generative" AI that responds to queries in uncannily humanlike ways, its market value was about $300bn, similar to that of Home Depot, a home-improvement chain. Today it is $2.3trn, $500bn or so shy of Apple's.

The relentless stream of AI headlines makes it hard to get a sense of which businesses are real winners in the AI boom—and which will win in the longer run. To help answer this question *The Economist* has looked where value has accrued so far and how this tallies with the expected sales of products and services in the AI "stack", as technologists call the various layers of hardware and software on which AI relies to work its magic. On March 18th many companies up and down the stack descended on San Jose for a four-day jamboree hosted by Nvidia. With talks on everything from robotics to drug discovery, the shindig showed off the latest AI innovations. It highlighted furious competition between firms within layers of the stack and, increasingly, between them.



The Economist

We examined four of these layers and the firms that inhabit them: AI-powered applications sold outside the stack; the AI models themselves, such as GPT-4, the brain behind ChatGPT, and repositories of them (for example, Hugging Face); the cloud-computing platforms which host many of these models and some of the applications (Amazon Web Services, Google Cloud Platform, Microsoft Azure); and the hardware, such as semiconductors (made by firms such as AMD, Intel and Nvidia), servers (Dell) and networking gear (Arista), responsible for the clouds' computing power (see chart 1).

Technological breakthroughs tend to elevate new tech giants. The PC boom in the 1980s and 1990s propelled Microsoft, which made the Windows operating system, and Intel, which manufactured the chips needed to run it, to the top of the corporate pecking order. By the 2000s "Wintel" was capturing four-fifths of the operating profits from the PC industry, according to Jefferies, an investment bank. The smartphone era did the same to Apple. A few years after it launched the iPhone in 2007, it was raking in more than half of handset-makers' global operating profits.

The world is still in the early days of the generative-AI epoch. Even so, it has already been immensely lucrative. All told, the 100 or so companies that we examined have together created $8trn in value for their owners since its start—which, for the purposes of this article, we define as October 2022, just before the launch of ChatGPT (see chart 2). Not all these gains are the result of the AI frenzy—stockmarkets have been on a broader tear of late—but many are.

The Economist

At every layer of the stack, value is becoming more concentrated. In hardware, model-making and applications, the biggest three companies have increased their share of overall value created by a median of 14 percentage points in the past year and a half. In the cloud layer Microsoft, which has a partnership with ChatGPT's maker, OpenAI, has pulled ahead of Amazon and Alphabet (Google's parent company). Its market capitalisation now accounts for 46% of the cloud trio's total, up from 41% before the release of ChatGPT.

The spread of value is uneven between layers, too. In absolute terms the most riches have accrued to the hardware-makers. These include semiconductor firms, companies that build servers and those that make networking equipment. In October 2022 the 27 public hardware companies in our sample were worth around $1.5trn. Today that figure is $5trn. This is what you would expect in a technology boom: the underlying physical infrastructure needs to be built first in order for software to be offered. In the late 1990s, as the internet boom was getting going, providers of things like modems and other telecoms gubbins, such as Cisco and WorldCom, were the early winners.

So far the host of the San Jose gabfest is by far the biggest victor. Nvidia accounts for some 57% of the increase in the market capitalisation of our hardware firms. The company makes more than 80% of all AI chips, according to IDC, a research firm. It also enjoys a near-monopoly in the networking equipment used to yoke the chips together inside the AI servers in data centres. Revenues from Nvidia's data-centre business more than tripled in the 12 months to the end of January, compared with the year before. Its gross margins grew from 59% to 74%.

Nivdia's chipmaking rivals want a piece of these riches. Established ones, such as AMD and Intel, are launching rival products. So are startups like Groq, which makes superfast AI chips, and Cerebras, which makes supersized ones. Nvidia's biggest customers, the three cloud giants, are designing their own chips, too—as a way to reduce reliance on one provider and to steal some of Nvidia's juicy margins for themselves. Lisa Su, chief executive of AMD, has forecast that revenues from the sale of AI chips could balloon to $400bn by 2027, from $45bn in 2023. That would be far too much for Nvidia alone to digest.

As AI applications become widespread, a growing share of demand will shift from chips required for training models, which consists of analysing lots of data in order to teach algorithms to predict the next word or pixel in a sequence, to those needed to use them to respond to queries ("inference", in tech-speak). In the past year two-fifths of Nvidia's AI revenues came from customers using its chips for inference. Experts expect some inference to start moving from specialist graphics-processing units (GPUs), which are Nvidia's forte, to general-purpose central processing units (CPUs) like those used in laptops and smartphones, which are AMD’s and Intel’s. Before long even some training may be done on CPUs rather than GPUs.

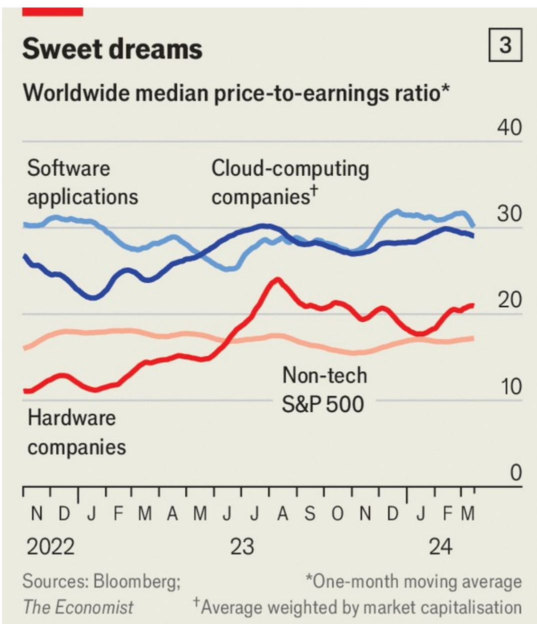
Still, Nvidia’s grip on the hardware market seems secure for the next few years. Startups with no track record will struggle to convince big clients to reconfigure corporate hardware systems for their untested technology. The cloud giants’ deployment of their own chips is still limited. And Nvidia has CUDA, a software platform which allows customers to tailor chips to their needs. It is popular with programmers and makes it hard for customers to switch to rival chips, which CUDA does not support.

Whereas hardware wins the value-accrual race in absolute terms, it is the independent model-makers that have enjoyed the biggest proportional gains. The collective value of 11 such firms has jumped from $29bn to about $138bn in the past 16 months. OpenAI is thought to be worth $100bn, up from $20bn in October 2022. Anthropic’s valuation rose from $3.4bn in April 2022 to $18bn. Mistral, a French startup founded less than a year ago, is worth $2bn or so. Some of that value is tied up in hardware. The startups buy piles of chips, mostly from Nvidia, to train models. Imbue, which like OpenAI and Anthropic is based in San Francisco, has 10,000 such semiconductors. Cohere, a Canadian rival, has 16,000. These chips can sell for tens of thousands of dollars apiece. More sophisticated models need more chips. GPT-4 reportedly cost about $100m to train. Some suspect that training its successor could cost OpenAI ten times as much.

Yet the model-makers’ true worth lies in their intellectual property and the profits it may generate. The extent of those profits will depend on just how fierce competition among model providers will get—and how long it will last. Right now the rivalry is white-hot, which may explain why the layer has not gained as much dollar value.

OpenAI seized an early lead, but challengers have been catching up. They are able to tap the same data as the maker of ChatGPT (which is to say text and images on the internet) and, also like it, free of charge. Anthropic’s Claude 3 is snapping at GPT-4’s heels. Four months after the release of GPT-4, Meta, Facebook’s parent, released Llama 2, a powerful rival that, in contrast to OpenAI’s and Anthropic’s proprietary models, is open and can be tinkered with at will. In February Mistral, which has fewer than 40 staff, wowed the industry with an open model that almost rivals GPT-4, despite requiring much less computing power to train and run.

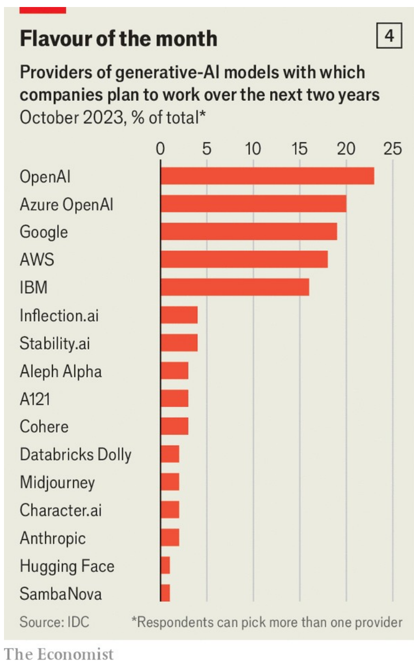
Even smaller models now offer good performance at a low price, says Stephanie Zhan of Sequoia, a venture-capital (VC) firm. Some are designed for specific tasks. A startup called Nixtla developed TimeGPT, a model for financial forecasting. Another, Hippocratic AI, has trained its model on data from exams to enter medical school, to give accurate medical advice.



The Economist

The abundance of models has spurred the growth of the application layer. The value of the 19 listed software firms in our application group has jumped by $1.1trn, or 35%, since October 2022. This includes big software providers that are adding generative AI to their services. Zoom uses it to summarise video calls. ServiceNow, which provides tech and human-resources support to companies, has introduced chatbots to help resolve customers' IT queries. Adobe, maker of Photoshop, has an app called Firefly, which uses AI to edit pictures. Newcomers are adding more variety. "There's An AI For That", a website, counts over 12,000 applications, up from fewer than 1,000 in 2022. DeepScribe helps transcribe doctors' notes. Harvey AI assists lawyers. Thirty-two chatbots promise "sarcastic conversation" and 20 generate tattoo designs. But fierce competition and low barriers to entry mean that many apps may struggle to capture value.

Then there is the cloud layer. The combined market value of Alphabet, Amazon and Microsoft has jumped by $2.5trn during the AI boom. Counted in dollars, that is less than three-quarters of the growth of the hardware layer, and barely a quarter in percentage terms. Yet compared with actual revenues that AI is expected to generate for the big-tech trio in the near term, this value creation far exceeds that in the other layers. It is 120 times the $20bn in revenue that generative AI is forecast to add to the cloud giants' sales in 2024. The comparable ratio is about 40 for the hardware firms and around 30 for the model-makers.



This implies that investors believe that the cloud giants will be the biggest winners in the long run. The companies' ratio of share price to earnings, another gauge of expected future profits, tells a similar story. The big three cloud firms average 29. That is about 50% higher than for the typical non-tech firm in the S&P 500 index of large American companies—and up from 21 in early 2023 (see chart 3).

Investors' cloud bullishness can be explained by three factors. First, the tech titans possess all the ingredients to develop world-beating AI systems: troves of data, armies of researchers, oodles of computing power and plenty of spare cash. Second, the buyers of AI services, such as big corporations, prefer to do business with established commercial parters than with untested upstarts (see chart 4).

Third, and most important, big tech has the greatest potential to control every layer of the stack, from chips to applications. Besides designing some of their own chips, Amazon, Google and Microsoft are investing in models and apps. Of the 11 model-makers in our sample, nine have the support of at least one of the giants. That includes the Microsoft-backed OpenAI, Anthropic (Google and Amazon) and Mistral (Microsoft again). On March 19th Microsoft announced that it had hired Mustafa Suleyman, founder of Inflection AI, another model-maker, to head a new consumer-AI division—and with him many of Inflection's staff. (Mr Suleyman sits on the board of *The Economist*'s parent company.)

The promise of profits from controlling more layers is leading hitherto layer-specific firms to branch out. OpenAI's VC arm has invested in 14 companies since its launch in January 2021, including Harvey AI and Ambience Healthcare, a medical startup. Sam Altman, boss of OpenAI, is reportedly seeking investors to bankroll a pharaonic $7trn chipmaking venture. Nvidia is becoming more ambitious, too. It has taken stakes in seven of the model-makers, and now offers its own AI models. It has invested in Together AI and CoreWeave, both of which compete with its big cloud customers. In San Jose it unveiled a new superchip and tools from other layers of the stack. The AI boom's biggest single value-creator is in no mood to cede its crown. ■

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Supersize me

Europe wants startups to do AI with supercomputers

The idea is appealing on paper but fraught in practice

Mar 21st 2024 | JÜLICH AND SEATTLE

Forschungszentrum Jülich/Sascha Kreklau

IT IS NOT just technology firms that are fighting over the AI pie. Countries, too, want a bigger slice. As with companies, national spoils are unevenly distributed. If America is big tech, Europe looks more like an early-stage startup. Whereas America boasts many computing clusters of more than 20,000 top-end AI chips, in Europe a 1,000-processor facility counts as big. The EU hopes to give its AI startups a boost by tapping its growing fleet of supercomputers. This idea was one of the themes of the EuroHPC Summit, which drew Europe's supercomputing experts to Antwerp on March 18th-21st. The gathering drew less attention than the concomitant "Woodstock of AI" hosted in Silicon Valley by Nvidia, the unstoppable maker of AI chips. But for Europe's AI ambitions, the meeting in Belgium may end up playing an important role.

After falling behind America and China in supercomputing, in 2018 the EU launched EuroHPC, a bloc-wide project to expand number-crunching capacity. The outfit is set to spend nearly €8bn ($8.7bn) between 2018 and 2027 on a dozen or so new supercomputers. Of the nine already built, three rank among the world's ten most powerful machines. They have lifted Europe's share of global supercomputing power from 15% in 2020 to 22%. In September Ursula von der Leyen, president of the European Commission, declared that this oomph would be made available to European AI startups free of charge.

Supercomputers used to be the preserve of scientists who were simulating complex things like the climate or chemical reactions. A typical machine was a collection of tens of thousands of general-purpose central processing units (CPUs) similar to those that power personal computers, but souped up and connected via ultrafast networks. Nowadays some supercomputers also contain thousands of graphics-processing units (GPUs). These specialist chips, whose production is dominated by Nvidia, were originally designed with video games in mind. By mathematical happenstance, they also turn out to be just the thing for building AI models.

AI firms regularly spend a big chunk of the money they raise from venture capitalists to buy such processors or rent them from cloud-computing providers. And American startups, with their deeper pockets, find it easier than European ones to secure the necessary computing resources. The EU wants EuroHPC's machines to help level the playing field. It plans to equip these with additional GPUs. And it intends to build data centres close to the supercomputers, which would enable firms to harness their computing power.

One of the first such "AI factories", as the EU calls them, is likely to emerge in Jülich, a town in western Germany. A nearby research centre, where Germany once tested nuclear reactors, is already home to two powerful supercomputers. If all goes well, this autumn it will add a €500m machine that will be Europe's zippiest. Thanks in part to nearly 24,000 advanced Nvidia GPUs, it will be able to perform a mind-bending billion calculations every billionth of a second. The total amount of GPU power in Jülich is comparable to what OpenAI, America's leading AI startup, used to train GPT-4, its best model so far. For a European startup, that is real muscle.

Can this approach work at scale? Thomas Lippert, who heads the centre in Jülich, got lucky by ordering Nvidia GPUs a couple of years ago, before demand for them (and their price) exploded. Mr Lippert's counterparts at the other supercomputers may now find it harder get their hands on such chips. Alternatives to Nvidia exist, but most model-makers prefer to work with the company's popular software platform. Silo AI, a Finnish firm, had to develop a lot of code before it could train its AI on Lumi, a supercomputer in Finland that runs on GPUs from AMD, Nvidia's main competitor. What is more, the EU's efforts to shore up local chip manufacturing will take years to materialise.

Even if EuroHPC can somehow secure the necessary hardware, other challenges remain. Supercomputers are "alien" to machine-learning boffins used to data-centre servers, says Anders Dam Jensen, who heads EuroHPC. Although each AI factory is meant to include resources to help firms adapt their projects for supercomputers, Europe's most promising AI firms may prefer to avoid the hassle.

And whereas in the commercial cloud getting computing power is largely a question of money, the free access to European supercomputers is subject to peer review, which means that winners are picked by committee (scientists, for one, aren't too happy about sharing the machines with startups). It also comes with the obligation to make the results of users' work public, something that many commercial endeavours will probably balk at. This may be why Mistral, a hot French model-maker, used an Italian supercomputer for some experiments but actually trained its latest model with the help of CoreWeave, an American cloud provider of GPU power. ■

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Corporate A&E

Demand is soaring for capitalism's emergency surgeons

As corporate defaults rise, advisers on restructuring are raking it in

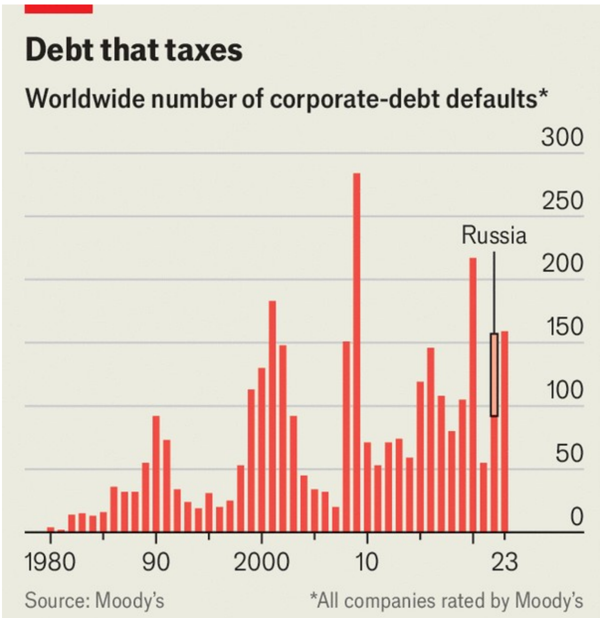
Mar 21st 2024

Getty Images

WITH STOCKMARKETS on a tear and the global economy surprisingly buoyant, plenty of pundits are regretting gloomy warnings of tough times ahead for businesses and investors. They may have been wrong about the economy. But in one respect their gloom looks spot on. Last year 159 companies covered by Moody's, a ratings agency, defaulted on their debts, up from 92 the year before (excluding Russian firms). Since 1980 that figure has been exceeded only in 2001, 2009 and 2020 (see chart). In America the number of defaults almost tripled last year, compared with 2022—and businesses faced no dotcom crash, financial crisis or pandemic.

Once-robust companies from Instant Brands, a maker of kitchen gadgets, to Yellow, a trucking firm, have collapsed under the weight of falling sales and rising interest rates. And the situation is getting worse: in the first two months of the year 23 firms around the world defaulted on their debts, according to Moody's, up from 19 in the same period last year. Creditors of

Spirit Airlines, a budget carrier that is bleeding cash, are reportedly weighing their options after a proposed tie-up with JetBlue Airways, a rival, was quashed by a court on antitrust grounds in January. On March 18th Joann, a chain of some 850 craft stores, filed for bankruptcy.



The Economist

The vindicated gloomsters are not the only ones quietly pleased by the rising number of corporate failures. So too are the advisers who specialise in restructuring distressed businesses. When a company is on the edge of a precipice, investment bankers are enlisted to negotiate with shareholders and creditors as well as, if needed, to help sell off assets. Consultants are drafted in to slash costs and rewrite business plans. Lawyers pore over the paperwork. For this lot, 2023 was one of the busiest years on record—and 2024 is shaping up to be equally lucrative.

Most advisory business is carved up between Wall Street powerhouses and big-name consultants. But not restructuring work. Having hawked loans to investors, large investment banks such as Goldman Sachs and Morgan Stanley find it awkward to then plead for leniency on behalf of borrowers. The "big four" professional-services giants—Deloitte, EY, KPMG and PwC—are tied up in conflicts from their auditing work. McKinsey, a strategy consultancy whose advice is held in high regard (especially by its own consultants), has tried but failed to cut in—last year the firm wound down its bankruptcy practice.

Instead businesses facing bankruptcy enlist boutique banks, such as Houlihan Lokey and PJT Partners, and specialist restructuring consultants, like AlixPartners and Alvarez & Marsal. (Law firms are the exception, with top dogs such as Kirkland & Ellis and Latham & Watkins also triumphing in the restructuring market.) Their fees can be eye-watering. Revlon, a maker of cosmetics that emerged from a ten-month bankruptcy last May, shelled out some $250m to advisers during the process. According to Reorg, a data provider, American courts signed off $2.1bn of such payments by bankrupt companies in 2023, equivalent to 1.5% of the failed firms' debts, up from $1.7bn the year before.

Even that vastly understates the amount of work up for grabs, given that restructuring efforts typically begin well before a company ends up in court. "We've never met a management team that can't wait to go into bankruptcy," says William Derrough of Moelis & Company, another investment bank that advises on restructurings. Indeed, advisers are called upon in part because most executives have limited experience with restructurings, notes Joff Mitchell of AlixPartners.

Managing such processes has become trickier as capital structures have grown more elaborate and the range of parties involved has expanded, says Kevin Kaiser of the Wharton School of the University of Pennsylvania. Private-equity owners and a motley crew of credit investors, including some who specialise in buying dicey debts on the cheap, now go head-to-head in fiery negotiations. "Unsurprisingly, not everyone agrees on who should get what," says Joseph Swanson of Houlihan Lokey.

In recent years the balance of power in those negotiations has shifted towards the borrowers. Companies were able to issue debt that was not just inexpensive, but also came with fewer strings attached, notes Andrew Merrett of Rothschild & Co, one more investment bank with a busy restructuring practice. "Covenants" that, for example, forced borrowers to maintain a minimum ratio of profits to debts on pain of having their business seized by creditors, common before the global financial crisis of 2007-09, have become rare.

That has left borrowers room for clever workarounds. In one popular move, known as a “drop-down”, a company shifts valuable assets into a new subsidiary beyond the reach of creditors, and then issues fresh debt against those assets, using the proceeds to top up cash reserves or even repurchase old debts at a discount. In 2022 Envision, a health-care company then owned by KKR, a private-equity giant, pulled off such a manoeuvre. AMSURG, a business unit managing same-day surgery centres, was hived off and used as collateral for a new loan, enraging Envision’s existing creditors. Such “lender-on-lender violence” is becoming more common, says a veteran restructuring lawyer.

Schemes like these can buy a borrower time—but not indefinitely. In May last year Envision finally collapsed into bankruptcy, and KKR lost its $3.5bn equity investment. After shedding $7bn of debt, the company emerged from the process in October as two separate organisations: AMSURG was amputated from its other main business unit, which provides doctors to hospitals.

With central banks still leery of inflation and reluctant to lower interest rates, more shareholders may soon be forced to throw in the towel. Eventually, all companies that gorged on cheap debt will have to refinance, almost certainly at higher rates. That suggests many more restructurings to come. As Steve Zelin of PJT Partners sums up, “We see a long and steady period of opportunity ahead.” ■

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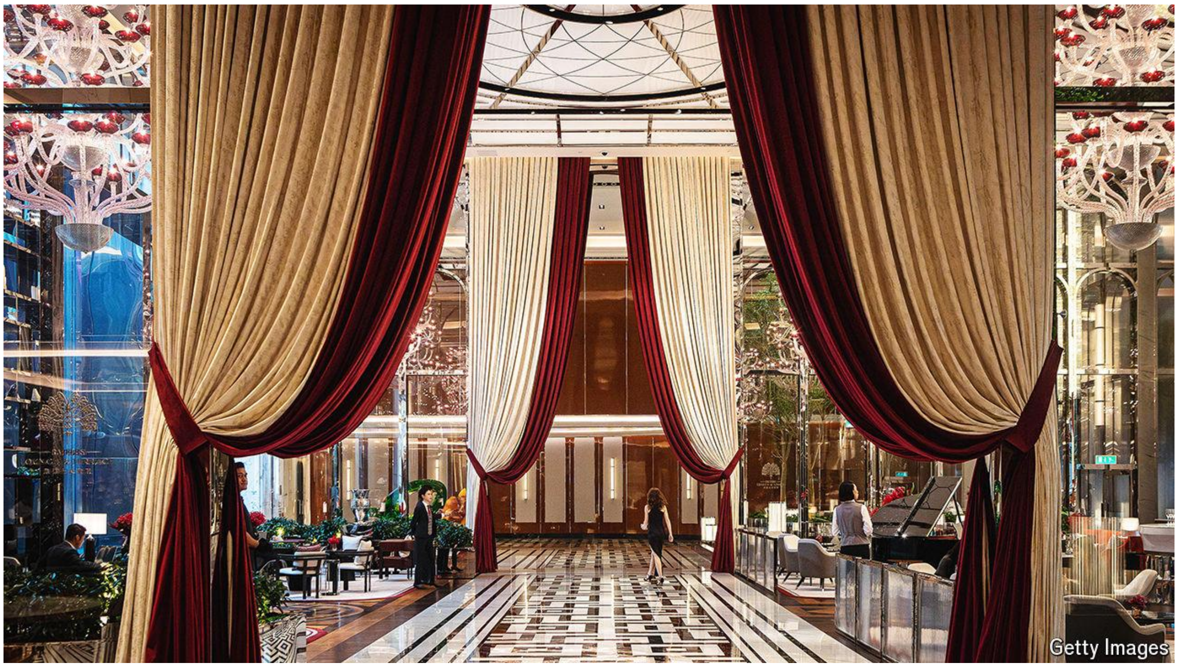
Posh space

Luxury hotels are having a glorious moment

Rich travellers mean rich returns for investors

Mar 21st 2024 | DUBAI AND LONDON


Getty Images

IN DONCASTER, A town in northern England, $100,000 will buy you a four-bedroom house. In Dubai, it will get you a four-bedroom penthouse—for a night. The Royal Mansion, the nightly rate for which makes it the world's priciest suite, sits on the 18th and 19th floors of the Atlantis The Royal hotel. It comes with 1,100 square metres (12,000 square feet) of marble floors, a terrace with an infinity pool, a steam room, Hermès shampoo, $500 bathrobes, a not-so-mini bar and, naturally, a butler.

The Royal Mansion's opulence—and price—are hard to rival. But only a bit less posh properties are popping up from the Okavango Delta in Botswana to Kangaroo Island in southern Australia. Saudi Arabia is building eco-resorts on the Red Sea with a collective 8,000 rooms, which one executive calls the "new Maldives". London's BT Tower is being converted into a high-end hotel. For well-heeled globetrotters, all these cannot come up fast enough.

The Economist

In contrast to mid-range hotels, luxury ones are in the midst of a boom. The precise definition of what counts as luxury varies, but you know it when you see it. Grand View Research, a firm of analysts, expects travellers to splurge $1.5trn on what it calls luxury trips this year, nearly back to pre-pandemic levels. By 2030 they may be pampering themselves to the tune of $2.3trn (see chart 1). A big slug of that will go on accommodation—the fancier, the better. The number of available luxury rooms could reach 1.9m, up from 1.6m last year, reckons CoStar, an analytics firm (see chart 2). Even so, hoteliers are having trouble keeping up with demand.

One reason is that there are more big spenders, and they are getting richer. In 2012 the world had 29m dollar millionaires, according to UBS, a bank. By 2022 that figure more than doubled to nearly 60m. The collective fortune of these silver-spooned individuals exceeded $200trn. Many more now hail from what are otherwise middle-income or even poor places. The number of millionaires in Brazil is forecast nearly to double by 2027, to almost 800,000. By 2028 India is expected to mint another 7,000 people with a net worth of $30m or more, on top of the 13,000 it had last year.

The Economist

The filthy rich are not the only ones partaking in pricey peregrinations. The merely well-to-do are increasingly forking out more of their disposable income on exclusive experiences. Corporate road-warriors are tacking a few days of leisure on top of business jaunts. Bosses are splurging on plush retreats as a way to boost esprit de corps in a hybridised workforce; in America bookings of ten or more luxury rooms rose by 9% in January, year on year.

All these splendour-seekers are competing for scarce rooms. Although construction of new hotels has resumed after a pandemic-induced pause, it is slow going, especially for fancy digs in select locations such as historic city centres and nature reserves. In many parts of the world just acquiring the necessary approvals and permits can take between five and seven years. And that is before any cement is poured. Atlantis The Royal took 14 years to build from start to finish. Some brands are explicitly constraining supply to create scarcity. Bulgari Hotels, a joint venture between the eponymous Italian jeweller and Marriott International, an American hotelier, will limit itself to 15 locations.

The Economist

The imbalance between supply and demand is allowing hoteliers to raise nightly rates well above inflation, without worrying too much about putting off patrons. In 2023 revenues at Accor, the French owner of swanky chains like Fairmont and Raffles, rose by 20%, to €5bn ($5.4bn). Its gross operating profit swelled by half, to €1bn. At InterContinental Hotels Group, a British rival, revenues per available luxury room rose twice as fast as those for its less plush accommodations.

This is turning luxury hotels into a lucrative asset class. The annual rate of return on such properties exceeded 6% in 2022, the highest in at least a decade (see chart 3). And that in turn is attracting investors beyond the usual hotel operators, property developers and buy-out barons. Montage International, a Californian owner of a dozen lavish properties such as Montage Cay in the Bahamas, counts Wall Street stalwarts like BlackRock and Goldman Sachs among its backers. The Aman Group of Switzerland has received more than $1bn from investors that include sovereign-wealth funds from the Persian Gulf. The Public Investment Fund, which manages Saudi Arabia's riches, recently paid $1.8bn for a 49% stake in Rocco Forte, a British firm that owns Brown's Hotel in Mayfair and Hotel de Russie in Rome. It isn't just deep-pocketed travellers who can't get enough luxury. ■

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Coming to a strip mall near you

Could Aldi’s supermarkets conquer America?

The European discount chain is the fastest-growing retailer across the Atlantic

Mar 21st 2024 | BERLIN

GERMANS ARE famously stingy when shopping for food. No wonder that it was two German brothers, Theo and Karl Albrecht, who in the 1950s founded Aldi, the world’s first discount grocer. In 1961 they carved up the European market between Aldi Nord, led by Theo, and Aldi Süd, headed by Karl. But despite pioneering the business model, the two Aldis are having their lunch eaten in Europe by Lidl, a younger rival whose sales on the continent exceed their combined total.

Aldi Süd, in particular, thinks it can get its own back across the Atlantic. According to JLL, a property consultancy, it has been opening around 100 shops a year in America, faster than any other retailer—including Lidl and Aldi Nord (which owns Trader Joe’s supermarkets but does not run Aldi shops there).

Last year Aldi Süd announced the takeover of around 400 Winn-Dixie and Harveys supermarkets in Alabama, Florida, Georgia, Louisiana and

Mississippi. Many of them will be remodelled as Aldi markets. And earlier this month Jason Hart, who heads Aldi Süd's American business, promised to pick up the pace. He said the company will invest $9bn over five years to open 800 new Aldis (including the Winn-Dixie and Harvey conversions), on top of the 2,400 it already has.

Mr Hart has succeeded where most rivals have struggled partly thanks to luck. Aldi's rock-bottom prices appeal to Americans irked by food inflation. Although food prices are no longer rocketing, they are 23% higher today than they were four years ago. President Joe Biden rails against punier Snickers bars and fewer crisps per packet in his re-election campaign.

Another piece of good fortune was the decision by trustbusters at the Federal Trade Commission (FTC) to challenge the $25bn takeover of Albertsons, the second-largest supermarket chain by sales, by Kroger, the largest. (Walmart is bigger but in the eyes of regulators it is not a supermarket but a retailer.) That deal would create an efficient rival capable of driving a hard bargain with suppliers.

Still, luck isn't everything. Other discounters, including Lidl, have not grown nearly as fast as Aldi Süd. Mr Hart has pulled it off by focusing on bare but astutely managed essentials. Aldis offer far fewer choices than rival outlets: 1,600 products, on average, compared with 31,000 for a typical American supermarket and 4,000 for the already spare Trader Joe's. That lets it keep shops small, bringing down property and utility costs. Around 90% of its products are its own brand, so it keeps more of the margin for itself. It has no fresh-meat, cheese or bakery counters, and displays products in the cardboard boxes used for delivery, all of which lets it employ fewer people to serve shoppers and stock shelves. It pays its managers good salaries but no bottom-line-hurting bonuses.

If Mr Hart has his way, and if the FTC prevails in court against Kroger and Albertsons, in five years Aldi Süd will have more shops in America than any retailer save Walmart (which today boasts 4,700). The beast of Bentonville may be in a different category on paper, but that may not stop Aldi from trying to take a bite out of its business. ■

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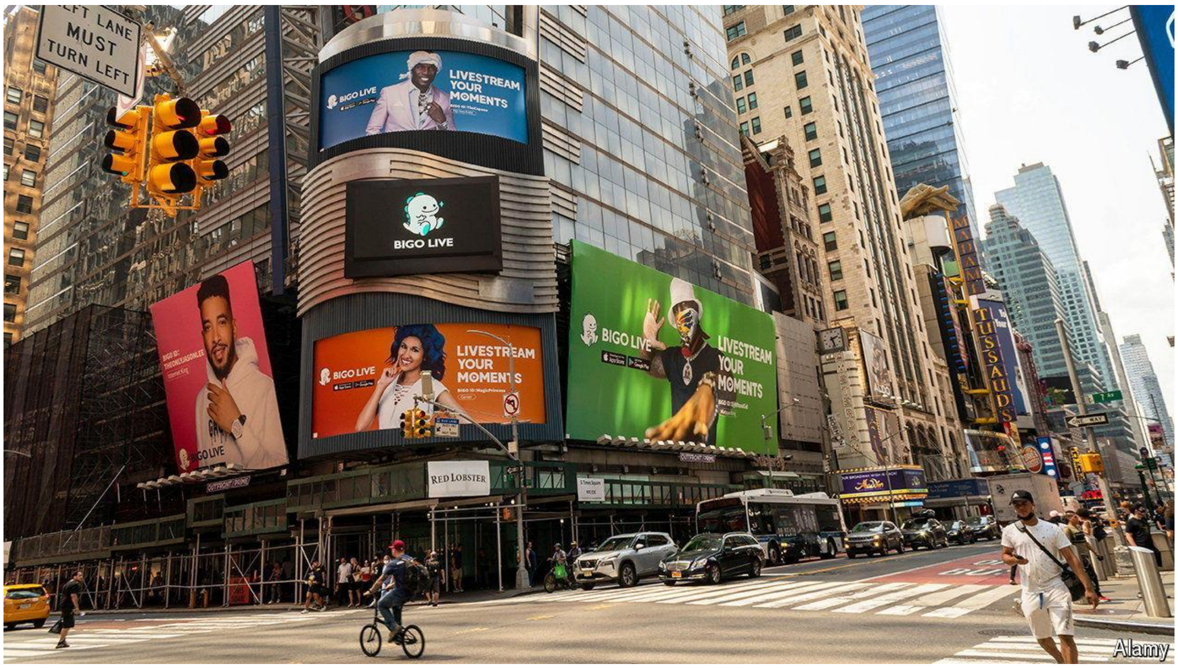
China’s other TikToks

TikTok is not the only Chinese app thriving in America

What happens to them if the short-video sensation is banned?

Mar 21st 2024 | Shanghai



WITH THE prospect of a ban hanging over TikTok, its 170m American users may start looking for an alternative time-sink. They could plump for Bigo Live, popular for TikTokish live-streaming. Or Likee, which offers similar video-editing and sharing options and has more than 100m users around the world. There is also Hago, which blends social media and video games, and which has clocked up some 500m downloads.

The three apps are similar to TikTok in another way, too. The firm that makes them, Joyy, is based in Singapore, just like TikTok. And like ByteDance, TikTok’s parent firm, Joyy’s controlling shareholder, called Huanju, is based in mainland China.

ByteDance and Huanju are among dozens of Chinese firms that are thriving on the free-wheeling Western internet, away from China’s censors. They develop apps for everything from gaming and social media to fitness and photo-editing. Many have set up headquarters outside China, often in Singapore, and do not advertise their Chineseness. Plenty dispute the notion that they are Chinese at all.

According to Sensor Tower, a research firm, a Shanghainese video-gaming firm called MiHoYo last year outperformed even Tencent, a Chinese games powerhouse, when it came to foreign revenues from video games (unlisted MiHoYo does not disclose figures). The 30 biggest Chinese video-game makers account for 18% of the industry's global sales outside China. Chinese-linked e-commerce apps have been similarly successful. Shein, which sells cheap clothing, mainly to Americans, is thought to have sold garments worth tens of billions of dollars last year. Temu, which is based in Boston but owned by a giant Chinese e-merchant, PDD, may have notched up several billion dollars. PDD, which is listed in New York, does not break out Temu's results, but on March 20th it reported that its overall sales more than doubled in the last quarter of 2023, to $12.5bn.

Other Chinese services are also pushing into America. Daily Yoga, an app popular with exercise aficionados, is owned by a company from the Chinese city of Xi'an. Bestie-Portrait, a photo-editor, has Chinese owners. CapCut, one of the world's most popular video-editing apps, is owned by ByteDance. So is Lemon8, a photo- and video-sharing app similar to Instagram. ReelShort, which serves up soap operas to American viewers in micro-episodes, is owned by Crazy Maple Studios, a Californian subsidiary of COL Digital Publishing, whose headquarters are in Beijing.

A ban on TikTok could open the door to many of these apps being consigned to the digital dustbin. They risk being accused, as TikTok has been, of sharing users' data with Chinese authorities, being a vehicle for propaganda, or both. TikTok denies these allegations, points to its efforts to ring-fence its American data and algorithm, and says that the Communist Party holds no sway over it. Other apps with Chinese roots may soon have to start issuing similar denials. ■

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Bartleby

The secret to career success may well be off to the side

The case for being more like a crab

Mar 21st 2024

THE CONVENTIONAL language of career success moves in only one direction: up. You scale the career ladder or climb the greasy pole. If you do well, you have a rapid ascent. And if you really succeed, you reach the top. No one ever rings home to share the news that they have reached a plateau. But there is another type of career trajectory. Sideways moves, to jobs that don't involve a promotion or even necessarily a pay rise, can be a boon to employees and organisations alike.

A study carried out by Donald Sull of the Massachusetts Institute of Technology and his co-authors in 2021 found that the availability of lateral career opportunities has a marked impact on employee retention. Their research found that chances to move sideways were two and a half times more important than pay as a predictor of workers' willingness to stay at a firm. Another paper, by Xin Jin of the University of South Florida and Michael Waldman of Cornell University, concluded that lateral moves did not just benefit organisations: employees who experienced them were more likely to be promoted and to enjoy higher wage growth later in their careers than employees who did not. You can move up by first moving sideways.

Lateral moves and good management seem to go hand in hand. A recent paper by Virginia Minni of the Institute for Fiscal Studies, a British think-tank, looked at job moves within a big multinational over a period of ten years. She found that the arrival of a high-flying boss (who had got the job early in their career) was associated with a jump in intra-company transfers, both horizontal and vertical, among employees. Better bosses seem to be good at sorting people into roles that suit them. This process again results in higher pay over time for employees who move sideways; it is also associated with higher profits.

The crab-like career has other things going for it beyond better matches between people and jobs. One is that it is a good way to learn new things. As hiring processes increasingly emphasise skills, recruiters are likely to put comparatively less emphasis on CVs and comparatively more weight on what you know. Messrs Jin and Waldman reason that the higher echelons of companies tend to be populated by people whose capabilities are broad, not deep; that may explain why lateral moves are good for promotion prospects. Along with skills come contacts: transferring between teams usually means building a bigger internal network.

Lateral moves can also be a wonderful cure for boredom. There is nothing to fear in a bit of tedium, but people will do almost anything to avoid it in large doses. In an experiment by Chantal Nederkoorn of Maastricht University and her co-authors, participants were asked to watch dull, sad and neutral film clips and given the ability to self-administer electric shocks as they did so. Those watching monotonous films shocked themselves more often and at greater intensity. (Films by Wes Anderson were presumably too dangerous to be shown for this reason.)

This need for stimulation pervades the workplace. Surveys consistently show that great chunks of the workforce find their jobs tedious. Stephan Meier of Columbia Business School, who is writing a book on employee-centric organisations, reckons that one big source of motivation for workers is having “just right tasks” that are within their capabilities but stretch them in new ways. Promotions offer fresh challenges but you can also easily get stuck waiting for a vacancy to open up above you. Looking to the side affords more options.

Opening the door to more lateral moves is partly a practical matter. Some bigger employers have "internal talent marketplaces" in which employees can find and apply for jobs elsewhere in the company; smaller firms have fewer such opportunities to offer. But participating in a side-project is another way for workers to shake things up and learn new skills. In a poll of American workers for Colorado State University Global, almost half said that they would feel more motivated if they were part of a new process or project.

Embracing sideways movement also requires the right attitude. Lots of managers like to hoard talent, at the expense of workers and firms. And moving horizontally still has less cachet than moving upwards. It would help if career success had a different vocabulary: across or out, say, or the meteoric scuttle.■

Read more from Bartleby, our columnist on management and work:
Every location has got worse for getting actual work done (Mar 13th)
How can firms pass on tacit knowledge? (Mar 7th)
Why you should lose your temper at work (Feb 29th)

Also: How the Bartleby column got its name

Schumpeter

Can anything stop Nvidia's Jensen Huang?

He has become the generative-AI showman of our time

Mar 20th 2024

Brett Ryder

JENSEN HUANG is a man on a mission—but not so much that he does not have time to tell a good story at his own expense. Last spring, when his semiconductor company, Nvidia, was well on its way to becoming a darling of generative artificial intelligence (AI), he and his wife bought a new home in the Bay Area. Mr Huang was so busy he could not spare much time to visit it before the purchase was completed. Pity, he admitted later, sneezing heavily. It was surrounded by plants that gave him hay fever.

Mr Huang uses such self-deprecating humour often. When he took to the stage on March 18th for Nvidia's annual developers' conference, to be greeted by cheers, camera flashes and rock-star adulation from the 11,000 folk packed into a San Jose ice-hockey stadium, he jokingly reminded them it wasn't a concert. Instead, he promised them a heady mix of science, algorithms, computer architecture and mathematics. Someone whooped.

In advance, Nvidia's fans on Wall Street had dubbed it the "AI Woodstock". It wasn't that. The attendees were mostly middle-aged men wearing lanyards and loafers, not beads and tie-dyes. Yet as a headliner, there was a bit of Jimi Hendrix about Jensen Huang. Wearing his trademark leather jacket, he put on an exhilarating performance. He was a virtuoso at making complex stuff sound easy. In front of the media, he improvised with showmanship. And for all the polished charm, there was something intoxicating about his change-the-world ambition. If anyone is pushing "gen AI" to the limits, with no misgivings, Mr Huang is. This raises a question: what constraints, if any, does he face?

The aim of the conference was to offer a simple answer: none. This is the start of a new industrial revolution and, according to Mr Huang, Nvidia is first in line to build the "AI factories" of the future. Demand for Nvidia's graphics-processing units (GPUs), AI-modellers' favourite type of processor, is so insatiable that they are in short supply. No matter. Nvidia announced the launch later this year of a new generation of superchips, named Blackwell, that are many times more powerful than its existing GPUs, promising bigger and cleverer AIs. Thanks to AI, spending on global data centres was $250bn last year, Mr Huang says, and is growing at 20% a year. His company intends to capture much of that growth. To make it more difficult for rivals to catch up, Nvidia is pricing Blackwell GPUs at $30,000-40,000 apiece, which Wall Street deems conservative.

In order to reap the fruits of this "accelerated-computing", Nvidia wants to vastly expand its customer base. Currently the big users of its GPUs are the cloud-computing giants, such as Alphabet, Amazon and Microsoft, as well as builders of gen-AI models, such as OpenAI, maker of ChatGPT. But Nvidia sees great opportunity in demand from firms across all industries: health care, retail, manufacturing, you name it. It believes that many businesses will soon move on from toying with ChatGPT to deploying their own gen AIs. For that, Nvidia will provide self-contained software packages that can either be acquired off the shelf or tailored to a user's needs. It calls them NIMs, Nvidia Inference Microservices. Crucially, they will rely on (mostly rented) Nvidia GPUs, further tying customers into the firm's hardware-software ecosystem.

So far, so star-spangled. But it is not all peace and love at Woodstock. You need only to recall the supply-chain problems of the pandemic, as well as the subsequent Sino-American chip wars, to see that dangers lurk. Nvidia's current line-up of GPUs already faces upstream bottlenecks. South Korean makers of high-bandwidth memory chips used in Nvidia's products cannot keep up with demand. TSMC, the world's biggest semiconductor manufacturer, which actually churns out Nvidia chips, is struggling to make enough of the advanced packaging that binds GPUs and memory chips together. Moreover, Nvidia's larger integrated systems contain around 600,000 components, many of which come from China. That underscores the geopolitical risks if America's tensions with its strategic rival keep mounting.

Troubles may lie downstream, too. The AIchips are energy-hungry and need plenty of cooling. There are growing fears of power shortages because of the strain that GPU-stuffed data centres will put on the grid. Mr Huang hopes to solve this problem by making GPUs more efficient. He says the mightiest Blackwell system, known pithily as GB200NVL72, can train a model larger than ChatGPT using about a quarter as much electrical power as the best available processors.

But that is still almost 20 times more than pre-AI data-centre servers, notes Chase Lochmiller, boss of Crusoe Energy Systems, which provides low-carbon cloud services and has signed up to buy the GB200NVL72. And however energy-efficient they are, the bigger the GPUs, the better the AIs trained using them are likely to be. This will stoke demand for AIs and, by extension, for GPUs. In that way, as economists pointed out during a previous industrial revolution in the late 19th century, efficiency can raise power consumption rather than reduce it. "You can't grow the supply of power anything like as fast as you can grow the supply of chips," says Pierre Ferragu of New Street Research, a firm of analysts. In a sign of the times Amazon Web Services, the online retailer's cloud division, this month bought a nuclear-powered data centre.

'Scuse me while I kiss AI

Mr Huang is not blind to these risks, even as he dismisses the more typical concerns about gen AI—that it will destroy work or wipe out humanity. In his telling, the technology will end up boosting productivity, generating profits and creating jobs—all to the betterment of humankind. Hendrix famously believed music was the only way to change the world. For Mr Huang, it is a heady mix of science, engineering and maths. ■

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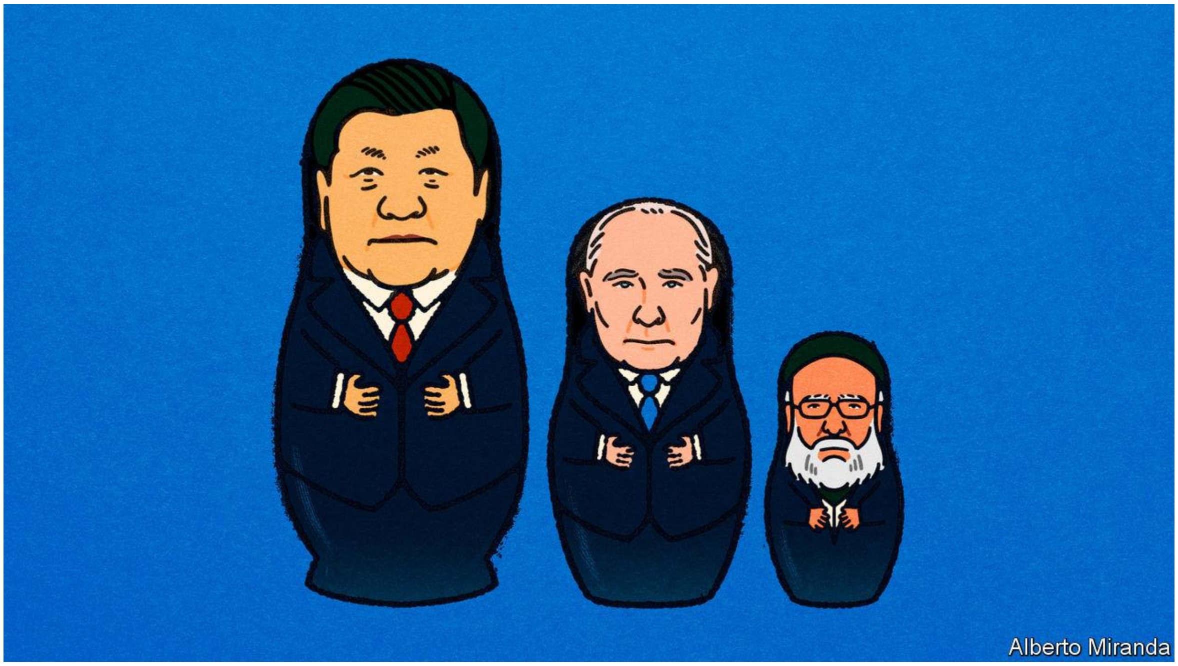
Finance & economics

Oil and beyond

How China, Russia and Iran are forging closer ties

Assessing the economic threat posed by the anti-Western axis

Mar 18th 2024

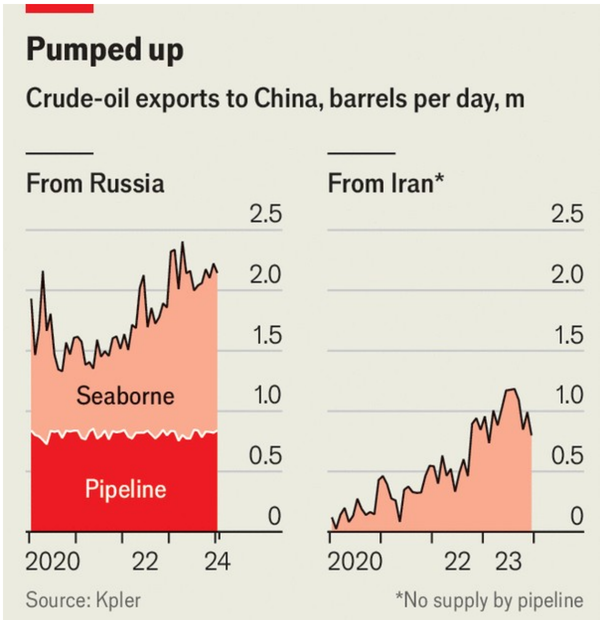


VLADIMIR PUTIN, Russia's president, and Ebrahim Raisi, his Iranian counterpart, have several things in common. Both belong to a tiny group of leaders personally targeted by American sanctions. Even though neither travels much, both have been to China in recent years. And both seem increasingly fond of one another. In December they met in the Kremlin to discuss the war in Gaza. On March 18th Mr Raisi was quick to congratulate Mr Putin on his "decisive" election victory.

For much of history, Russia, Iran and China were less chummy. Imperialists at heart, they often meddled in one another's neighbourhoods and jostled for control of Asia's trade routes. Lately, however, America has changed the dynamic. In 2020, two years after exiting a deal limiting Iran's nuclear programme, it reimposed a trade embargo on the country; more penalties were announced in January, to punish Iran for backing Hamas and Houthi rebels. Russia fell under Western sanctions in 2022, after invading Ukraine, which were recently tightened. Meanwhile, China faces restrictions of its own, which could become much more stringent if Donald Trump is elected president in November. United by a common foe, the trio now vow to advance a common foreign policy: support for a multipolar world no longer dominated by America. All see stronger economic ties as the basis for their alliance.

China has promised a “no limits” partnership with Russia, and signed a 25-year “strategic agreement” with Iran in 2021. All three countries are members of the same multilateral clubs, such as the BRICS. Bilateral trade is growing; plans are being drawn up for tariff-free blocs, new payment systems and trade routes that bypass Western-controlled places. For America and its allies, this is the stuff of nightmares. A thriving anti-Western axis could dodge sanctions, win wars and recruit other malign actors. The entente involves areas where links are already strong, others where collaboration is only partial and some unresolved questions. What might the alliance look like in five to ten years?

Start with booming business. China has long been a big customer of petrostates, including Iran and Russia. But these two also used to sell lots of oil to Europe, which was close to Russia’s fields and easy to reach from the Gulf. Since Europe started snubbing them, China has been buying barrels at bargain prices. Inflows from Russia’s western ports have risen to 500,000 barrels a day (b/d), from less than 100,000 pre-war, reckons Reid l’Anson of Kpler, a data firm. In December imports of Russian crude reached 2.2m b/d, or 19% of China’s total, from 1.5m b/d two years ago. In the second half of last year, Iran’s exports to China averaged 1m b/d, a 150% rise from the same period in 2021.



The Economist

Whereas Western sanctions allow anyone outside the G7 to still import Russian oil, the Iranian energy industry is subject to so-called secondary sanctions, which restrict third countries. Since 2022, however, the Biden administration has relaxed enforcement and is willing to see rules broken if it means lower prices. The result has been a surge in Chinese imports, with the beneficiaries not China's state-owned firms, which could one day be exposed to sanctions, but smaller "teapot refineries" with no presence abroad. China also gets cheap gas from Russia: imports via the Power of Siberia pipeline have doubled since Mr Putin's invasion of Ukraine.

Russia and Iran have little choice but to sell to China. In contrast, China is only subject to restrictions on imports of Western technology—it does not face financial bans or trade embargoes. Therefore it can, and does, buy oil from other countries, which gives it the upper hand in negotiations with its allies. China gets Russian and Iranian supplies at a discount of $15-30 a barrel on the global oil price, and then processes the cheap hydrocarbons, turning them into higher-value products. The production capacity of its petrochemicals industry has grown more in the past two years than that of all other countries combined since 2019. China also cranks out enormous volumes of refined-oil products.

Trade not aid

Boosting commodity trade between the three countries was always going to be the easy bit. Everyone wants oil; once on a ship, it can be sent anywhere. Yet China has an informal policy of limiting dependence on any commodity supplier to 15-20% of its total needs, meaning that it is close to the maximum it will want to import from Russia. Although the trade is still enough to provide Russia and Iran with a lifeline, it is helpful only if they can spend the hard currency earned on importing goods. Hence the ambition to develop other types of trade.

The Economist

China's exports to Russia have duly soared. As covid-19 rules strangled its economy, China sought to compensate by boosting manufacturing exports. Instead of shoes and T-shirts, it tried to sell high-value wares, such as machinery and mechanical devices, for which Russia acted as a test market. Last year the biggest importer of Chinese automobiles was not Europe, a destination for its electric vehicles, but Russia, which purchased three times as many petrol cars it did as before the war.

Purchasing-manager surveys show that Iranian companies are constantly short of "raw materials", a category including both sophisticated wares, like computer chips, and more basic ones, such as plastic parts. This hampers Iran's manufacturing industry, which is as large as its petroleum sector. Yet China exports few parts and just 300-500 cars a month to Iran, compared with 3,000 or so to neighbouring Iraq. Not many of China's manufactured-goods exporters, which sell a lot to the West, are brave enough to risk American retribution.

In theory, more business with Russia could help Iran. The two countries supply each other with useful goods. Since 2022 Iran has sold Russia drones and weapons systems that are causing damage in Ukraine—its first military support for a non-Islamic country since the revolution in 1979. Early this year Iran also sent Russia 1m barrels of crude by tanker, another first. But sanctions make deeper ties tricky. Although Russia stopped releasing detailed statistics in 2023, ship-traffic data in the Caspian Sea show only a modest rise since 2022, when the country's leaders set an ambitious target to boost bilateral trade.

Limited trade between Iran and Russia means they lack common banking channels and payment systems. Despite government pressure, neither SPFS (Russia's alternative to SWIFT, the global interbank messaging system) nor Mir (Russia's answer to American credit-card networks) is widely used by Iranian banks. Efforts to de-dollarise trade led to the creation of a rouble-rial exchange mechanism in August 2022, but transaction volumes remain low.

To resist sanctions in the longer run, Iran and Russia also need investment—the weakest area of co-operation at present. China's stock of foreign direct investment in the Islamic Republic has been flat since 2014, even as it has poured money into other emerging economies, and at roughly \$3bn remains puny for an economy of Iran's size. Deals agreed during the last visit of Iran's president to Beijing, which could be valued at \$10bn at most, are dwarfed by the \$50bn China pledged to Saudi Arabia, Iran's great rival, in 2022.

Although China remains involved in Russian projects such as Arctic LNG, a gas-liquefaction facility in the country's north, it has not snapped up assets dumped by Western firms, notes Rachel Ziemba of CNAS, a think-tank, nor backed new ventures. Russia had been expecting China to bankroll the Power of Siberia 2 pipeline, due to carry 50bn cubic metres of gas to the Middle Kingdom when complete—almost as much as Russia's biggest pipeline used to deliver to Europe. Without China's support, the project is now in limbo.

A little help from your friends

The alliance has already achieved something remarkable: saving its junior members from collapse in the face of Western embargoes. But has it reached its full potential? The answer depends on the ability of its members to surmount external and internal obstacles.

Various forums aim to promote co-operation and cross-border investment. Last July Iran became the ninth member of the Shanghai Co-operation Organisation, a China-led security alliance that also includes Russia. In December it signed a free-trade agreement with the Russia-led Eurasian Economic Union, which covers much of Central Asia. In January it joined the BRICS, an emerging-market group that includes both China and Russia.

These get-togethers give the trio more chances to talk. At recent summits, Iranian and Russian ministers have revived negotiations to extend the International North-South Transport Corridor (INSTC), a 7,200km route connecting Russia to the Indian Ocean via Iran. At present Russian grain must travel to the Middle East through the NATO-controlled Bosporus. The proposal, which includes a mixture of roads, rail and ports, could turn Iran into an export outlet for Russia.

Iran's and Russia's bureaucracies have relatively little experience of working with one another, and the amount of investment required is daunting: the Russia-backed Eurasian Development Bank estimates it to be $26bn in Iran and Russia alone. Mustering such funding, in two countries not known for investor friendliness, would be hard at the best of times, let alone under sanctions. Still, the idea is gaining traction. On February 1st envoys discussed the next steps for the Rasht-Astara railway, a $1.6bn project that could ease freight transport in northern Iran. Last year Russia used part of the INSTC to move goods to Iran by rail for the first time.

The more serious problem is that Iran's and Russia's economies are too similar to be natural trading partners. Of the top 15 categories of goods that each exports, nine are shared; ten of their 15 biggest imports are also the same. Only two of Russia's 15 most-wanted goods count among Iran's top exports. Where Iran does have demand gaps Russia could fill, such as in cars, electronics and machinery, Russia's production capacity is constrained.

With gains from trade curtailed by sanctions, the relationship between the two countries will instead be a competitive one, particularly when it comes to energy. Since the West imposed an embargo on Russia's oil, the country has been vying with Iran to win a bigger share of China's imports, resulting in a price war. It is a battle that Iran is losing. Russia is a bigger oil producer and its energy is not subject to secondary sanctions. Some of its crude can also be piped to China, a cheaper option.

Having the upper hand makes Russia uninterested in collaborating with Iran. Early in the war, Ukraine's supporters feared that Russia and Iran would team up to evade sanctions. Instead, Russia developed its own "shadow" fleet of tankers and gave no access to the Iranians, says Yesar Al-Maleki of MEES, a research outfit. Iran has sought Russian funds and technology to tap its giant gas reserves; Russia has provided little help so far.

In other areas, China has become a competitor to Iran. Until recently, the Islamic Republic's sizeable manufacturing base and home market was a source of resilience. The country could take advantage of a devalued currency to sell things like nuts and toiletries, says Esfandyar Batmanghelidj of Bourse & Bazaar Foundation, another think-tank. Its hope, in time, was to climb the value chain, exporting air-conditioning units and perhaps even cars. China is dashing such dreams. As it shifts towards higher-value exports, it is flooding Iran's target markets with cheaper, better versions of these goods.

The West has little appetite for wholesale secondary sanctions. But existing measures will cause trouble. In December America announced penalties for anyone dealing with Russian firms in industries including manufacturing and technology. These look similar to those it imposed on Iran in 2011, which were suspended in 2015, after the nuclear deal was signed. Before the suspension, the measures caused Iran's imports from China to plummet. There is evidence that some Chinese banks are already dumping Russian business.

Although these new sanctions do not target Russia's energy sector, they could hinder Russia's oil trade with customers other than China if banks react by pausing business with the energy giant. Since October America has also imposed penalties on 50 tankers that it says breach sanctions on Russia;

around half of them have not loaded any of the country's oil since. All this is making exports to China both more necessary and more difficult for Russia, which is bound to increase competition with Iran. America could further fan the flames by leaning on Malaysia to inhibit oil smuggling in its waters, choking off Iranian flows. And China itself is under growing scrutiny. In February the EU announced sanctions on three Chinese firms it reckons are helping Russia.

At this stage, then, the anti-Western entente is worrying but not truly scary. How will it develop over the years to come? The likeliest scenario is that it remains a vehicle that serves China's interests, rather than becoming a true partnership. China will use it for as long as it can reap opportunistic gains, and stop short of giving it full backing. The country's officials will decline to put weight behind alternative trade routes or payment systems, not wanting to put at risk business in the West.

Yet that might change if America, perhaps during a second Trump presidency, attempts to force China out of Western markets. With nothing more to lose, China would then put far greater resources into forming an alternative bloc, and would inevitably attempt to build on existing relationships and broaden its alliances. Junior partners may not be pleased: their manufacturing industries would suffer as China redirected its exports. America would also suffer: its consumers would pay more for their imports, and in time its leaders would see the first serious challenge to their dominance of the global trading system. ■

Clarification (March 21st 2024)*: This article no longer states that China's "strategic agreement" with Iran involves $400bn, owing to uncertainty about the figure.*

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Interesting times

Japan ends the world's greatest monetary-policy experiment

For the first time in 17 years, officials raise interest rates

Mar 19th 2024 | Tokyo

ON MARCH 19TH officials at the Bank of Japan (BoJ) announced that, with sustainable inflation of 2% "in sight", they would scrap a suite of measures instituted to pull the economy out of its deflationary doldrums—marking the end of a radical experiment. The bank raised its interest-rate target on overnight loans for the first time since 2007, from between minus 0.1% and zero to between zero and 0.1%, becoming the last central bank to scrap its negative-interest-rate policy. It will also stop buying exchange-traded funds and abolish its yield-curve-control framework, a tool to cap long-term bond yields. Even so, the BoJ stressed that its stance would remain accommodative: the withdrawal of its most unconventional policies does not augur the beginning of a tightening cycle.

This shift reflects changes in the underlying condition of the Japanese economy. Inflation has been above the bank's 2% target for 22 months. Recent annual negotiations between trade unions and large companies suggest wage growth of more than 5% for the first time in 33 years. "The BoJ has confirmed what many people have been suspecting: the Japanese economy has changed, it has gotten out of deflation," says Hoshi Takeo of the University of Tokyo. That hardly means Japan is booming—consumption is weak and growth is anaemic. But the economy no longer requires an entire armoury of policies designed to raise inflation. When Ueda Kazuo, the BoJ's governor, was asked what he would call his new framework, he said it did not require a special name. It was "normal" monetary policy.

The Economist

Japan's economy slid into deflation in the 1990s, following the bursting of an asset bubble and the failure of several financial institutions. The BoJ began trying new tools, cautiously at first. Although in 1999 the bank cut interest rates to zero, it raised them the next year, only to see prices fall again (one of two board members opposed to the decision at the time was Mr Ueda). The BoJ then went further, becoming the first post-war central bank to implement quantitative easing—the buying of bonds with newly created money—in 2001.

Yet it did not fully embrace the wild side of monetary policy until the arrival of Kuroda Haruhiko as governor in 2013. Backed by then-prime minister Abe Shinzo, Mr Kuroda embarked on a programme of vast monetary easing, vowing to unleash a “bazooka” of stimulus. The bank adopted a 2% inflation target and began “quantitative and qualitative easing”, which saw enormous government-bond purchases coupled with aggressive forward guidance (promises to keep policy loose). In 2016 the bank set its key overnight rate at minus 0.1%, meaning that commercial banks were in effect charged for depositing with it, and then implemented yield-curve control in order to restrain longer-term interest rates, too. Although inflation picked up a bit, it never consistently reached the central bank’s target during Mr Kuroda’s term, which ended nearly a year ago.

Officials are now confident that inflation has at last become embedded. Supply-chain snags and rising import costs pushed up inflation at first, but price rises have since become widespread. GDP growth figures for the last quarter of 2023 were recently revised into positive territory owing to an uptick in capital expenditure.

The Economist

The missing piece of the puzzle had been wages. Last year annual wage negotiations produced gains of 3.8%, the highest in three decades. But wage growth still trailed inflation, leaving real incomes falling. Then came last week’s blockbuster numbers. They included a big boost to the so-called base-up portion of Japanese wages, which is not linked to seniority. A sustained period of rising prices has emboldened unions to push forcefully for higher pay; Japan’s shrinking labour force is also forcing firms to compete for talent. Policymakers “have been very, very patient, deliberately waiting for the right timing”, says Nakaso Hiroshi, a former BoJ deputy governor. “And now the time is right.”

For such a momentous decision, the short-term impact will be limited. The BoJ had hinted at its intentions, meaning markets priced in the move, and had loosened its yield cap last year. The yen depreciated slightly against the dollar following the announcement. Long-term yields have settled at 0.7% to 0.8%, below the scrapped 1% reference point. Although some local investors may bring funds home as a consequence of the policy shift, global capital flows are unlikely to move drastically since rates in Japan will still be low by international standards, notes Kiuchi Takahide of Nomura Research Institute, a research outfit. Nor will the change to the policy rate have a big effect: under the BoJ’s old framework, there were three tiers of accounts, and the share of funds held in those subject to negative rates was minimal.

The question is where the BoJ goes from here. Officials have been careful to signal they are not embarking on a tightening cycle. Last month Uchida Shinichi, a deputy governor, said there would not be a rapid series of rate rises. Mr Ueda offered few clues about where he suspects rates will settle; most economists reckon they will not exceed 0.5%. The BoJ will also continue to buy “broadly the same amount” of government bonds to control long-term rates. Normalisation of its own balance-sheet will be a gradual process. “The BoJ has left a huge footprint on the market,” says Kato Izuru of Totan Research, a think-tank. “They want to reduce that footprint, but it cannot be reduced suddenly.”

As the BoJ enters its new era, several risks loom. One comes from overseas. If there is a slowdown in America or China, Japan’s two biggest trading partners, it would weigh on external demand and drag down the outlook for Japanese firms, making them less likely to invest.

Another comes from within. In the long run, interest payments on Japan’s large government debt will rise, putting pressure on public finances. The financial system looks sound, but Japan’s financial regulator recently stepped up oversight of regional lenders. Many observers are concerned about the impact of rate rises on mortgages and small and medium-sized businesses that do not have large cash buffers.

Most worrying, inflation could drop below target again. Price inflation, while still above 2%, is already falling. Two doveish board members voted against the decision to abolish negative interest rates, arguing that more time was needed to be sure that inflation will stick. For the trend to continue, Japan needs reforms that raise productivity and boost the potential growth rate, Mr Nakaso argues. If there is one lesson from Japan's era of monetary-policy experiments, it is that there are limits to central banks' powers. During Japan's new era, others will have to take the lead. ■

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The last mile

Why America can’t escape inflation worries

The Federal Reserve sticks to its plans, despite an uncertain situation

Mar 20th 2024 | Washington, DC


EPA/Shutterstock

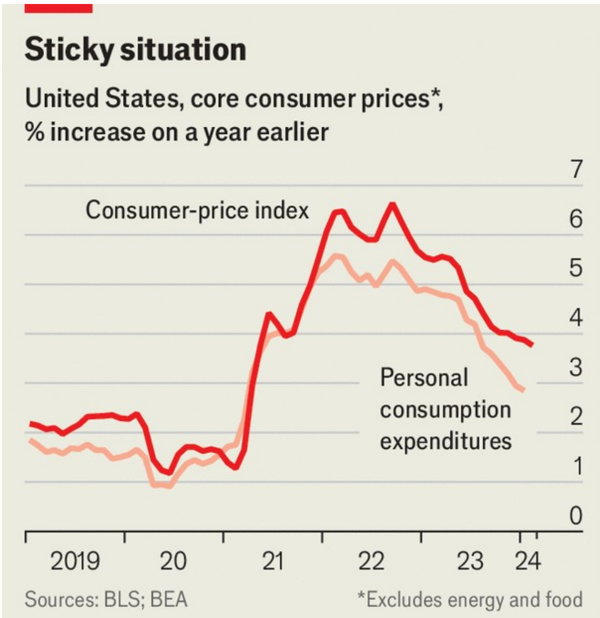
SOME HIKERS believe that the last mile is the hardest: all the blisters and accumulated aches slow progress at the very end. Others swear that it is the easiest because the finishing line is in sight. For the Federal Reserve, the last mile of its trek to bring inflation back to its 2% target has been simultaneously easy and hard. Easy in the sense that the central bank has not budged on interest rates for eight months, instead letting its previous tightening do the work. Hard because the wait for inflation to recede has felt rather long.

The slow easing of price pressures and America’s continued economic vigour have fuelled debate about whether the Fed might chart a more aggressive course for the last mile of its anti-inflation journey. Policymakers had telegraphed that they would make three quarter-point rate cuts this year. But since then some prominent measures of inflation have seemingly got stuck at around 3-4%, while the unemployment rate has remained below 4%. So the big question heading into a monetary-policy meeting that concluded on March 20th was whether the Fed might pare its projection to two cuts. In the end, the central bank (or, to be a little more precise, the median voting member of its rate-setting committee) opted to maintain its outlook for three cuts in 2024, though it lowered its projection for 2025 from four cuts to three.

The Economist

An important gap in inflation measures helps explain the Fed's rationale for sticking with its plan for this year. Much of the concern about the persistence of inflation stems from recent readings of the consumer price index. "Core" CPI, which strips out volatile food and energy costs, decelerated throughout much of 2022 and early 2023, but since last June has picked up speed. In both January and February it rose at a monthly clip of roughly 0.4%, a rate which, if sustained for a full year, would lead to annual inflation of about 5%—far too high for comfort for the Fed. In such a scenario America's central bankers would be fretting not about cutting rates but about whether to resume raising them.

Yet whereas investors and commentators tend to emphasise the CPI, in no small part because it is the first inflation data point each month, the central bank's focus is a separate gauge: the price index for personal consumption expenditures, which comes out several weeks later. Core PCE prices have been better behaved. Although they heated up in January, their annualised pace over the past half-year has been smack in line with the Fed's 2% inflation target. This has helped give central bankers the confidence that they can start trimming rates relatively soon.



The Economist

At a press conference after its meeting Jerome Powell, the Fed's chairman, studiously avoided giving any strong hints about when the central bank will make its first cut. But the market—as implied by the price of rate-hedging contracts—expects that it will get under way in June. And Mr Powell was generally satisfied with price trends. "We continue to make good progress in bringing inflation down," he said.

What accounts for the CPI-PCE divergence? The CPI is more rigid, with its components adjusted annually; the PCE is in effect adjusted every month, reflecting, for example, whether consumers substitute cheaper apples for dearer oranges. Over time that leads to slightly lower PCE price growth. Different weightings have also had a big impact this year. Housing makes up about a third of the CPI basket but just 15% of the PCE one, and stubbornly high rents have kept the CPI elevated. There are other differences, too. For instance, airfares pushed up the CPI in February, based on prices for a fixed set of flight routes. The PCE, which considers distances actually flown, has been lower.

Neutral territory

Once inflation does come down, the Fed's officials face another debate. In an ideal world central bankers would guide a full-employment, stable-inflation economy to what is known as the neutral rate of interest, the level at which monetary policy is neither expansionary nor contractionary. In reality, although there is no way of observing the neutral rate the Fed still tries to aim for it, with its policymakers writing down their estimates every quarter. Since 2019 their median projection has, in real terms, been 0.5% (ie, a Fed-funds rate of 2.5% and a PCE inflation rate of 2%).

That has changed, albeit pretty imperceptibly. Narrowly, the Fed's new median projection for rates in the long run shifted up to 2.6%, implying a real neutral rate of 0.6%. This may sound like a puny, academic difference. But it lies at the core of central-bank thinking about post-pandemic growth, in particular whether officials believe that rates should be higher on an ongoing basis in order to avoid economic overheating, perhaps because of rising productivity or excessive government spending. They appear to be heading towards that view, though Mr Powell demurred on drawing any conclusions based on the upward creep in long-run rates. The Fed still has to travel the last mile in its fight against inflation. Even once the journey comes to an end, though, a difficult interest-rate question will remain. ■

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Hamilton's heir

First Steven Mnuchin bought into NYCB, now he wants TikTok

Is there any limit to his ambitions?

Mar 21st 2024


AP

TIME SERVED on Wall Street has long smoothed the path to the top job at America's Treasury. Before he was the first treasury secretary Alexander Hamilton could boast, among other things, a role in establishing the Bank of New York, which is still in business. More recently, and somewhat less heroically, Robert Rubin and Hank Paulson both ran Goldman Sachs, a bank, before taking office. As its name suggests, the "revolving door" sends people in the other direction, too. Mr Rubin went on to hold senior positions at Citigroup, another bank. Cerberus Capital Management and Warburg Pincus, two investment firms, are chaired by John Snow and Timothy Geithner respectively.

Now Steven Mnuchin, a former partner at Goldman Sachs who served as treasury secretary throughout the presidency of Donald Trump, has leapt back into the limelight. In 2021 he set up Liberty Strategic Capital, an investment firm. That much of the cash raised by Liberty came from sovereign-wealth funds in the Middle East raised some eyebrows. Until recently, the firm's investments did not. But this month Liberty led the capital raise by New York Community Bank (NYCB) after losses relating to the bank's property loans caused its shares to tank. That deal closed on March 11th. Three days later Mr Mnuchin told CNBC that he was trying to buy TikTok after America's House of Representatives passed a bill that would force its Chinese owner, ByteDance, to sell the social-media app or face a ban in America.

Before this flurry of high-profile dealmaking, the firm mainly invested in privately held cyber-security firms. Some of its bets look like duds. In 2021 Liberty invested $200m in Cybereason, valuing the firm at $2.7bn. After plans to list its shares were shelved, Cybereason's next capital raise in 2023 implied a valuation of just $575m, according to PitchBook, a data provider. At the beginning of 2022 Liberty invested $150m in Satellogic when the firm merged with a special-purpose acquisition company to list its shares. Today shares in Satellogic are worth less than a quarter of what Mr Mnuchin's firm paid for them.

Mr Mnuchin has experience of investing in banking. In 2009 he led a group of investors that purchased IndyMac, a casualty of the global financial crisis, before offloading it in 2015. As part of NYCB's $1bn capital raise, Joseph Otting, who served as a senior Treasury official responsible for bank supervision during the Trump administration, has been appointed as the firm's chief executive. Meanwhile, Liberty stumped up $450m of the cash. Although the deal bolsters NYCB's capital, cleaning up its loan portfolio will take longer. The extent to which investors' confidence holds up while this happens remains to be seen—indeed, this week the bank's shares fell by 7% after analysts at Raymond James, yet another bank, expressed doubts about the speed of NYCB's turnaround.

But managing a struggling regional bank is light work compared with engineering a buy-out of TikTok. Mr Mnuchin has not said who would feature in his consortium, only that it would be controlled by American businesses, and that no single investor should own more than 10%. Finding the money would surely be the most straightforward part of executing the deal. Democrats may balk at the involvement of private-equity funds. Any role for technology firms could raise antitrust concerns. Even an intentionally inoffensive squad—perhaps including Walmart, a supermarket, and Oracle, a software firm, which came close to striking a deal in 2020—would probably find the Chinese government standing in the way of a sale.

Mr Mnuchin's background could also become a source of discomfort. As treasury secretary, he chaired the Committee on Foreign Investment in the United States, the country's watchdog screening inbound investment, playing a crucial role in an earlier attempt by Mr Trump to force the divestment of TikTok. To some his acquisition of the social-media app would represent everything wrong with the revolving door. Others, especially those happy to keep using TikTok, would see it as mere swings and roundabouts. ■

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The 6% problem

America's realtor racket is alive and kicking

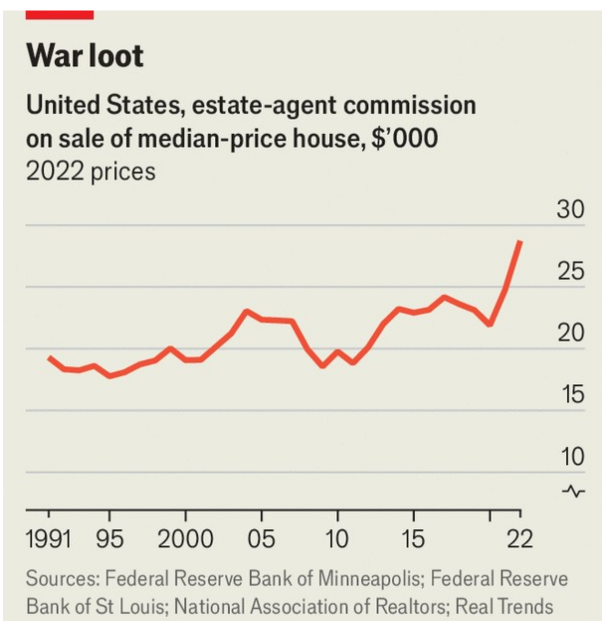
Celebrations over a settlement between agents and homeowners are premature

Mar 21st 2024 | New York

FOR FIVE years homeowners have been waging war. They have railed against the extortionate fees charged by estate agents, known as "realtors" in America, which are enforced by anticompetitive practices. They have filed lawsuits against brokers; fought cases against the National Association of Realtors (NAR), an industry body; and sued the keepers of databases of homes for sale, known as "multiple-listing services". Juries and judges across the country have found merit in their claims, deciding that homeowners have been ripped off, manipulated and duped into overpaying. In recent months they have awarded billions of dollars to plaintiffs and sent the two sides into negotiations over the rules that control realtors' practices.

How wonderful it would be to believe that a settlement reached on March 15th, between the plaintiffs in several class-action lawsuits and the NAR, was about to usher in a fairer, cheaper era. That is how the agreement was described by the *New York Times*, which plastered the headline "Powerful realtor group agrees to slash commissions to settle lawsuits" across its scoop revealing that the agreement had been reached. CNN wrote that the settlement would "effectively destroy" the industry's anticompetitive rules. The notion that victory is now assured has even been seized upon by the White House, which is desperate for any kernel of good news about housing affordability ahead of the presidential election in November. On March 19th President Joe Biden declared that the settlement was "an important step toward boosting competition in the housing market", adding that it could reduce transaction costs by "as much as $10,000 on the median home sale."

It is not at all clear, however, that this settlement will actually bring about a Utopia of greater competition and lower commissions. And the stakes are too high to accept such a settlement, which also protects brokers and agents from future lawsuits that might seek more reform. Under the existing system Americans pay 5-6% commission on almost every sale, triple the level in other rich countries. Since they trade homes collectively worth $2.8trn each year, if commissions fell to just 2% Americans would save $110bn in fees annually.



The Economist

The problem boils down to a tactic called "steering". In America it is both legal and expected that a home seller will make a blanket offer of compensation to any realtor who brings them a buyer. Often this is a proposal to split commission equally: if the total compensation is 6%, the seller's agent and the agent of the buyer will each receive 3%. The problem is that although sellers can negotiate with their own agent and drive down that side of the bargain, if they attempt to offer a low commission to a buyer's agent they will be told—correctly—that their home will get less interest and no decent offers.

It is not necessary to believe that realtors are morally bankrupt in order to see how this system perpetuates itself. The risk that even, say, 10% of agents might steer buyers away from a low-commission listing is enough to ensure that all the honourable ones benefit, since sellers offer 3% to ensure they do not lose out. This enforces a floor in total commissions.

Keep fighting

The settlement, which needs to be approved by a judge before being implemented in July, does little to tackle this underlying problem. One of its main provisions is that offers of buyer-agent compensation can no longer be published on a multiple-listing service, the databases used in the industry. But they can still be made, and can be published on websites or explained via text or a phone call. In Facebook groups and Reddit threads, realtors are already discussing such workarounds.

Another provision is that, before employing an agent's services, buyers must sign an agreement outlining how the agent will be paid. At present buyers almost never discuss, and often do not even know, how much money their agent is making. They just know it is not their problem, since the fee is covered by the seller.

It is just about possible to see how this provision could erode the floor in buyer-agent compensation. If agents are required to tell buyers they intend to collect 3% of the sale price, and that—in the unlikely event a seller is not offering compensation—the buyer will be on the hook for it, cash-strapped buyers might seek a cheaper option instead. They might also reject the idea that their agent is worth 3%, and could argue for any compensation above a certain level, perhaps 1%, to be kicked back to them after the purchase.

Yet this probably assumes too much savvy on the behalf of buyers, and too little ingenuity from agents. Realtors might simply agree to add a clause to any contract reassuring buyers that they will not go after them for cash in the event a seller offers low commission, before steering them away from such properties, notes Rob Hahn, an industry analyst.

The Department of Justice (DoJ) could intervene. It did so in a case in Massachusetts, arguing that the agreement would not fix the problem of steering and was therefore insufficient. Officials appointed by the Biden administration have been constrained by a letter sent by those in the Trump one, which agreed to close a probe into the industry. When the current DoJ attempted to reopen it, the department was sued by the NAR, which argued it should not renege on the earlier promise. But an appeals court in the District of Columbia hearing this case sounded sceptical of the NAR's arguments. That could pave the way for the DoJ to make a move.

Whether by killing the current settlement or opening its own probe, the DoJ would be wise to act. Homebuyers and sellers in America do not stand a chance of paying a fair price for commissions under the current approach. And the settlement as agreed offers no guarantee that they will have such a chance in the future. ■

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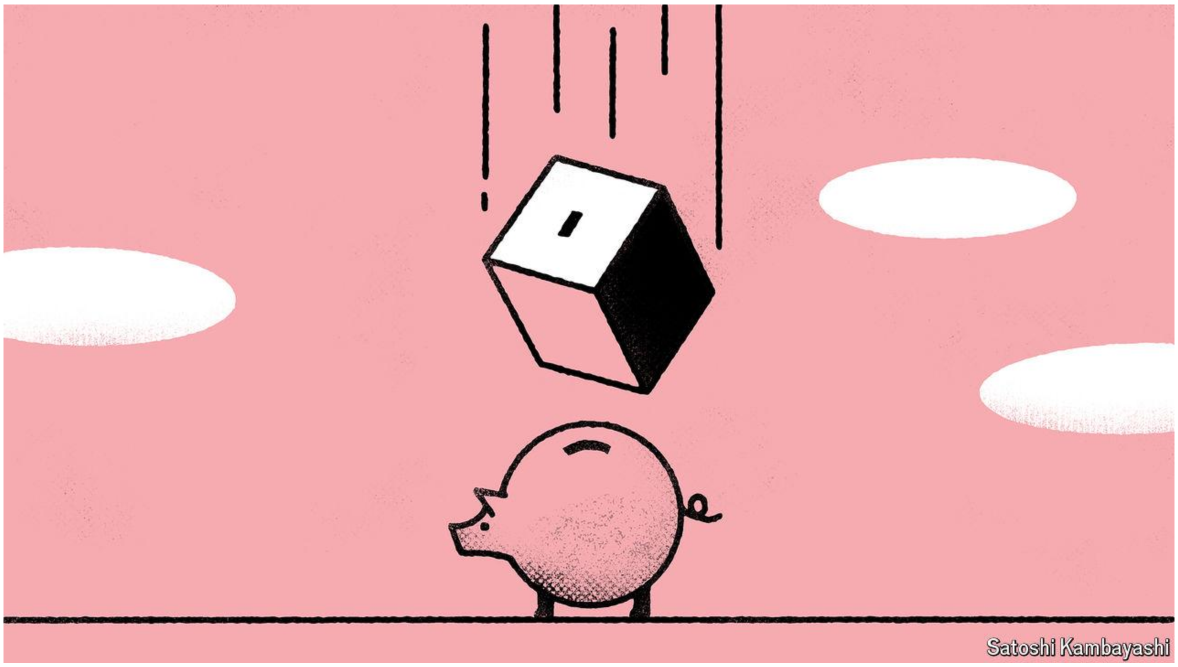
Buttonwood

How to trade an election

It is becoming harder for investors to ignore politics

Mar 21st 2024



INVESTORS DIFFER in their approach to elections. Some see politics as an edge to exploit; others as noise to block out. Even for those without a financial interest, markets offer a brutally frank perspective on the economic stakes. As elections approach in America and Britain, as well as plenty of other countries, that is especially valuable.

Take what happened before and after America's presidential election in 2020. Green-energy and cannabis stocks briefly became market darlings as the odds of a victory for Joe Biden rose, since investors expected his administration to enact policies favourable to both. Exchange-traded funds covering the sectors rallied by over 100% from two months before the election to Mr Biden's inauguration, before later dropping as investors scaled back their optimism.

What are markets saying about the current race for the White House? The candidates' agendas are similar in places. Both tilt protectionist (though Mr Trump's plans are more radical); both would oversee hefty deficits (though with different beneficiaries). But there are also big differences. Mr Trump has vowed to end Europe's freeriding on America's defence budget; Mr Biden is unlikely to renew tax cuts from Mr Trump's first term that expire in 2025. Mr Trump would gut Mr Biden's Inflation Reduction Act (IRA), redirecting green spending to fossil fuels. Mr Biden sees Mexico as somewhere to "friendshore"; Mr Trump sees it as a bogeyman.

This means that some listed firms stand to win, while others look likely to lose out. Higher European military spending would boost the continent's defence firms. If Mr Trump were to roll back the IRA, solar-power providers and electric-car makers would be hurt, while owners of coal plants would be rather happier. If the vote is close, and supporters of the losing candidate riot, shares in architectural-glass firms should do well.

Speculators can bet on the outcome of the election by investing money accordingly. Indeed, a portfolio of company stocks that ought to benefit if Mr Trump wins, as well as short positions on companies that ought to lose out in such a scenario, tracks Mr Trump's odds of winning the election in betting markets. The chart below shows one such basket, assembled by Citrini Research, a research firm.

The Economist

What about the consequences for broader asset classes? Investors who would prefer to avoid politics used to be able to shield themselves by simply holding a diversified portfolio. After all, in well-functioning democracies, politics rarely affected overall stockmarket returns, sovereign bonds or currencies. When assessing past American presidential elections, JPMorgan Chase, a bank, finds there is no clear relationship between the outcome and subsequent overall stockmarket performance.

Avoiding politics is becoming more difficult, however. Pity anyone trading British markets while ignoring Brexit negotiations or the policies of Liz Truss, who was prime minister for the life of a lettuce in 2022. Elections also drive moves in emerging markets, which is why Brexit prompted half-joking concerns that Britain had become one. Until the run-up to the referendum there was virtually no relationship between gauges of political risk and the implied volatility of sterling as measured by options, which captures how much hedging currency moves costs. Since then, the two have tracked one another closely.

Yet rather than being an outlier, Britain's experience may presage a global trend. Enthusiasm for state spending is now widespread, and fiscal excess can have large and unforeseeable consequences. The Democrats' knife-edge win in the Georgia US senate election in 2021 unlocked a bevy of stimulus, for instance. Treasury yields rose by 0.1 percentage points that day—a big move but not an unusual one. With hindsight, it is clear that fiscal largesse amplified inflation, meaning an even larger move would have been justified.

Moreover, politics does not only matter more for markets; its effects are also becoming less predictable. Take a scenario troubling many investors today: that Mr Trump carries out his threat to replace Jerome Powell, the Federal Reserve chairman. Would bond yields fall on expectations of looser monetary policy, or rise as a Ms-Truss-style "moron risk premium" became baked in? The answer is far from obvious. Its importance could not be any clearer.■

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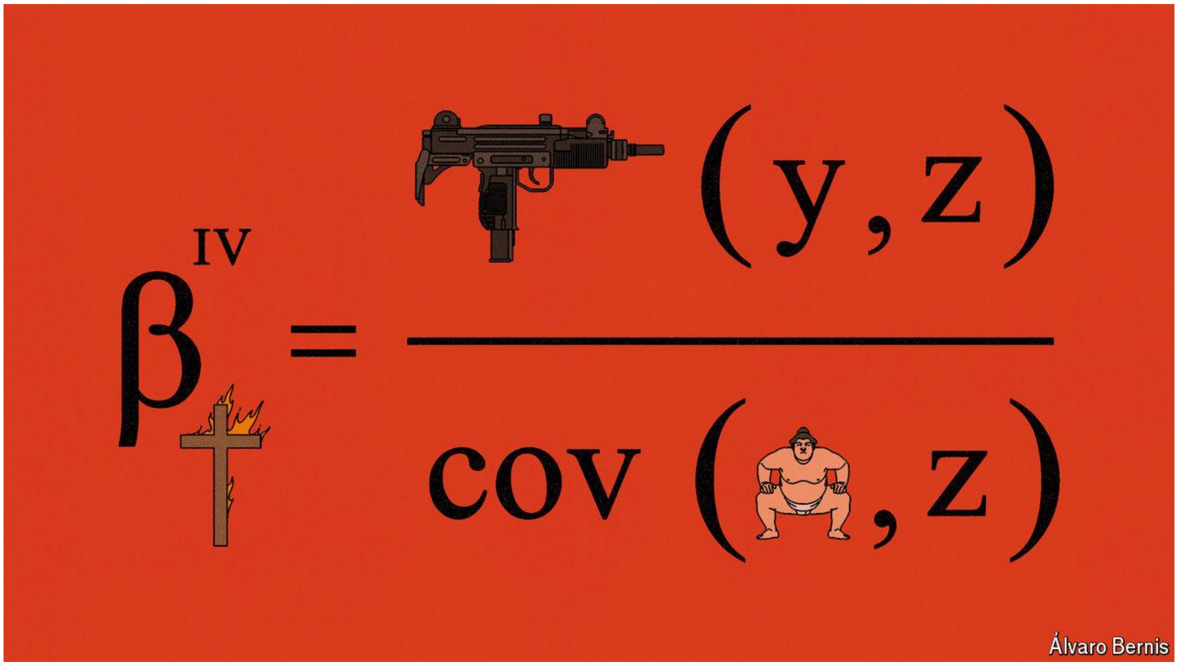
Also: How the Buttonwood column got its name

Free exchange

Why “Freakonomics” failed to transform economics

The approach was fun, but has fallen out of favour

Mar 21st 2024



“ECONOMICS IS A study of mankind in the ordinary business of life.” So starts Alfred Marshall’s “Principles of Economics”, a 19th-century textbook that helped create the common language economists still use today. Marshall’s contention that economics studies the “ordinary” was not a dig, but a statement of intent. The discipline was to take seriously some of the most urgent questions in human life. How do I pay my bills? What do I do for a living? What happens if I get sick? Will I ever be able to retire?

In 2003 the *New York Times* published a profile of Steven Levitt, an economist at the University of Chicago, in which he expressed a very different perspective: “In Levitt’s view,” the article read, “economics is a science with excellent tools for gaining answers but a serious shortage of interesting questions.” Mr Levitt and the article’s author, Stephen Dubner, would go on to write “Freakonomics” together. In their book there was little about the ordinary business of life. Through vignettes featuring cheating sumo wrestlers, minimum-wage-earning crack dealers and the Ku Klux Klan, a white-supremacist organisation, the authors explored how people respond to incentives and how the use of novel data can uncover what is really driving their behaviour.

Freakonomics was a hit. It ranked just below Harry Potter in the bestseller lists. Much like Marvel comics, it spawned an expanded universe: *New York Times* columns, podcasts and sequels, as well as imitators and critics, determined to tear down its arguments. It was at the apex of a wave of books that promised a quirky—yet rigorous—analysis of things that the conventional wisdom had missed. On March 7th Mr Levitt, who for many people became the image of an economist, announced his retirement from academia. "It's the wrong place for me to be," he said.

During his academic career, Mr Levitt wrote papers in applied microeconomics. He was, in his own self-effacing words, "a footnote to the 'credibility revolution'". This refers to the use of statistical tricks, such as instrumental-variable analysis, natural experiments and regression discontinuity, which are designed to tease out causal relationships from data. He popularised the techniques of economists including David Card, Guido Imbens and Joshua Angrist, who together won the economics Nobel prize in 2021. The idea was to exploit quirks in the data to simulate the randomness that actual scientists find in controlled experiments. Arbitrary start dates for school terms could, for instance, be employed to estimate the effect of an extra year of education on wages.

Where the Freakonomics approach differed was to apply these techniques to "the hidden side of everything", as the book's tagline put it. Mr Levitt's work focused on crime, education and racial discrimination. The book's most controversial chapter argued that America's nationwide legalisation of abortion in 1973 had led to a fall in crime in the 1990s, because more unwanted babies were aborted before they could grow into delinquent teenagers. It was a classic of the clever-dick genre: an unflinching social scientist using data to come to a counterintuitive conclusion, and not shying away from offence. It was, however, wrong. Later researchers found a coding error and pointed out that Mr Levitt had used the total number of arrests, which depends on the size of a population, and not the arrest rate, which does not. Others pointed out that the fall in homicide started among women. No-fault divorce, rather than legalised abortion, may have played a bigger role.

Other economists, including James Heckman, Mr Levitt's colleague in Chicago and another Nobel prizewinner, worried about trivialisation. "Cute", was how he described the approach in one interview. Take a paper on discrimination in the "The Weakest Link", a game show in which contestants vote to remove other contestants depending on whether they think they are costing them money by getting questions wrong (in the early portion of the game) or are competition for the prize pool by getting them right (later on). That provided a setting in which Mr Levitt could look at how observations of others' competence interacted with racism and sexism. A cunning design—but perhaps of limited relevance in understanding broader economic outcomes.

At the heart of Mr Heckman's critique was the idea that practitioners of such studies were focusing on "internal validity" (ensuring estimates of the effect of some change were correctly estimated) over "external validity" (whether the estimates would apply more generally). Mr Heckman instead thought that economists should create structural models of decision-making and use data to estimate the parameters that explained behaviour within them. The debate turned toxic. According to Mr Levitt, Mr Heckman went so far as to assign graduate students the task of tearing apart the Freakonomics author's work for their final exam.

Did you know...

Neither man won. The credibility revolution ate its own children: subsequent papers often overturned results, even if, as in the case of those popularised by Freakonomics, they had an afterlife as cocktail-party anecdotes. The problem has spread to the rest of the profession, too. A recent study by economists at the Federal Reserve found that less than half of the published papers they examined could be replicated, even when given help from the original authors. Mr Levitt's counterintuitive results have fallen out of fashion and economists in general have become more sceptical.

Yet Mr Heckman's favoured approaches have problems of their own. Structural models require assumptions that can be as implausible as any quirky quasi-experiment. Sadly, much contemporary research uses vast amounts of data and the techniques of the "credibility revolution" to come to obvious conclusions. The centuries-old questions of economics are as interesting as they always were. The tools to investigate them remain a work in progress. ■

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Science & technology

AI got rhythm

A new generation of music-making algorithms is here

Their most useful application may lie in helping human composers

Mar 21st 2024

IN THE DYSTOPIA of George Orwell's novel "1984", Big Brother numbs the masses with the help of a "versificator", a machine designed to automatically generate the lyrics to popular tunes, thereby ridding society of human creativity. Today, numerous artificial-intelligence (AI) models churn out, some free of charge, the music itself. Unsurprisingly, many fear a world flooded with generic and emotionally barren tunes, with human musicians edged out in the process. Yet there are brighter signs, too, that AI may well drive a boom in musical creativity.

AI music-making is nothing new. The first, so-called "rules-based", models date to the 1950s. These were built by painstakingly translating principles of music theory into algorithmic instructions and probability tables to determine note and chord progressions. The outputs were musically sound but creatively limited. Ed Newton-Rex, an industry veteran who designed one such model for Jukedeck, a London firm he founded in 2012, describes that approach as good for the day but irrelevant now.

The clearest demonstration that times have changed came in August 2023. That is when Meta, a social-media giant, released the source code for AudioCraft, a suite of large "generative" music models built using machine learning. AI outfits worldwide promptly set about using Meta's software to train new music generators, many with additional code folded in. One AudioCraft model, MusicGen, analysed patterns in some 400,000 recordings with a collective duration of almost 28 months to come up with 3.3bn "parameters", or variables, that enables the algorithm to generate patterns of sounds in response to prompts. The space this creates for genuinely new AI compositions is unprecedented.

Such models are also getting easier to use. In September Stability AI, a firm based in London at which Mr Newton-Rex worked until recently, released a model, Stable Audio, trained on some 800,000 tracks. Users guide it by entering text and audio clips. This makes it easy to upload, say, a guitar solo and have it recomposed in jazzy piano, perhaps with a vinyl playback feel. Audio prompts are a big deal for two reasons, says Oliver Bown of Australia's University of New South Wales. First, even skilled musicians struggle to put music into words. Second, because most musical training data are only cursorily tagged, even a large model may not understand a request for, say, a four-bar bridge in ragtime progression (the style familiar from Scott Joplin's "The Entertainer").

The potential, clearly, is vast. But many in the industry remain sceptical. One widespread sentiment is that AI will never produce true music. That's because, as a musician friend recently told Yossef Adi, an engineer at Meta's AI lab in Tel Aviv, "no one broke its heart". That may be true, but some AI firms reckon that they have found a way to retain and reproduce the "unique musical fingerprint" of their musician users, as LifeScore, a company founded near London, puts it. LifeScore's AI limits itself to recomposing the elements of a user's original recordings in ways that maintain the music's feel, rather than turning them into something radically new.

It takes about a day to plug into LifeScore's model the dozens of individually recorded vocal and instrumental microphone tracks, or stems, that go into producing an original song. Once that's done, however, the software, developed at a cost of some $10m, can rework each stem into a new tempo, key or genre within a couple of seconds. The song's artists, present during the process, choose which remixes to keep. Manually remixing a hit track has traditionally taken one or more highly paid specialists weeks.

LifeScore, says Tom Gruber, a co-founder, is "literally swamped with requests" from clients including Sony Music, Universal Music Group and Warner Music Group. An original release is typically turned into anywhere from a handful to a dozen remixes. But one client aims to release a dizzying 6,000 or so AI versions of an original track, each targeting a different market. Artists including Pink Floyd's David Gilmour and Tom Gaebel, a German pop singer, use LifeScore's AI to power websites that allow fans to generate, with a few clicks, new remixes adapted to personal tastes.

The beat of a different drum

If this seems like dizzying progress, it's worth noting that AI's impact on music is still in its early days. Legal uncertainties over the use of copyrighted recordings to train models have slowed development. Outfits that have coughed up for licensing fees note that this can get expensive. To save on that cost, MusicGen's training set mostly sidestepped hits, says Dr Adi. Though output is pretty good, he adds, the model is not yet "artistic enough" to generate narratively complete songs. Harmonic misalignments are common. OpenAI, a San Francisco firm, for its part, says its MuseNet model struggles to pull off "odd pairings", such as a Chopin style that incorporates bass and drums.

In time, bigger training sets of better music will largely overcome such shortcomings, developers reckon. A Stability AI spokesperson says that while Stable Audio's top duration for coherently structured music—"intro, development and outro"—is now about 90 seconds, upgrades will produce longer pieces with "full musicality". But judging music AI by its ability to crank out polished tracks mostly misses the point. The technology's greatest promise, for now at least, lies elsewhere.

Part of it is the empowerment of amateurs. AI handles technical tasks beyond many people's capabilities and means. As a result, AI is drawing legions of newbies into music-making. This is a boon for experimentation by what Simon Cross, head of products at Native Instruments, a firm based in Berlin, calls "bedroom producers".

Consider RX, a Native Instruments AI "assistant" that corrects errors in things like pitch and timing. For the latter, software time-shifts notes by cutting out or inserting slivers of sound with matching timbre, a process called "dynamic time-warping". The company's AI also determines what mixing and mastering processes were performed on a song of a user's choosing. It then replicates, or at least approximates, the same expensive processing on the user's own creations. Boomy, an online "music automation" platform for what Alex Mitchell, its CEO, describes as "low-friction" song production with text prompts, has more than 2m users. The company, based in Berkeley, California, uploads users' (vetted) creations to streaming services and collects a cut of revenues.

AI serves professionals, too. The soundtracks to "Barbie" and "Oppenheimer" were cleaned up in post-production with RX, for example. Another application area is "style transfer", in which models transform music recorded with one instrument into sounds that seem to come from a different one, often with a twist or two requested by the user. Style transfers are also used for voice. A model developed by a startup in London called Voice-Swap slices up sounds sung by (remunerated) professional singers and rearranges the slivers into lyrics written by the service's users, who pay licensing fees for the rights to sell the resulting tracks. And AI tools already exist to recreate singers' voices in other languages. Vocaloid, a voice-synthesising tool from Yamaha, a Japanese instrument manufacturer, is one of many that can use a translation sung by a native speaker as a template for an AI to imitate as it rearranges, modifies and stitches together tiny snippets of the original singer's voice.

Accomplished musicians now widely tap MusicGen and its competitors as sources of "infinite inspirations", the better to alight upon promising composition ideas, says Meta's Dr Adi. Whether such inspiration pays off will, ultimately, be up to the listener to decide. ■

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Back of the neural net

AI models can improve corner-kick tactics

Football coaches should pay attention

Mar 19th 2024

TO ZHE WANG at Google DeepMind, an artificial-intelligence (AI) company, corner kicks are like games of chess. Partly because both feature opposing sides poised to react to a single imminent move. But also, no doubt, because they too may be revolutionised by AI.

AI models thrive where there is abundant data. Football more than satisfies this requirement. Elite players wear vests that measure heart rate, position, speed and force exerted; team analysts watch hours of footage to tally possession percentages and numbers of passes, shots and goals. In a paper published on March 19th in *Nature Communications*, Mr Wang and his colleagues worked with staff at Liverpool Football Club to feed this data into a statistical model known as a graph neural network (GNN). They then were able to use this model to predict which on-field player would wind up making first contact with the ball with levels of accuracy similar to human experts.

Coaches around the world should be pacing in front of their dugouts in excitement at the news. During a football match's standard 90 minutes, it is rare to encounter the same situation twice. But corner kicks, which are eminently repeatable, are the focus of hours of specialist training. And doing well in them pays off. Arsenal, sitting at the top of the Premier League when this research paper was published, have scored 13 goals from corners out of a season total of 70. Small advantages in this part of the game can make a big difference.

DeepMind's GNN works by establishing statistical relationships between data collected from all 22 players during 7,176 corner kicks. Each corner routine was eventually represented as a vector in a 352-dimensional space: impossible for a human to visualise, but easy for a computer to process. Corners that unfolded similarly wound up close together in that space, allowing the model to make predictions about new set pieces.

The model was also capable of using this analysis to suggest new tactics. And, based on ratings given by five experts from Liverpool, AI-generated corner-kick tactics were just as good as those suggested by human coaches. In fact, shown 50 pairs of corners, one real and one with an AI-suggested improvement, 90% of the AI suggestions found favour with the majority of judges.

Mr Wang, who confesses he is "no football fan", says that the sport offers a safe and controllable test-bed to develop helpful AI technologies that might one day be used in health care or defence. After all, football is not a matter of life and death. It is, as Bill Shankly, a former Liverpool manager, once observed, much more important than that.■

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Third time lucky—ish

Elon Musk’s Starship reaches orbit on its third attempt

Though it failed to return to Earth, it’s a step nearer to the stars

Mar 14th 2024

THE WORLD’S largest rocket has flown again, and its uncrewed test flight on March 14th, like the two previous ones, ended in “rapid unscheduled disassembly” (ie, catastrophic explosions). But the upper stage of Starship, built by SpaceX, Elon Musk’s rocket company, reached orbit for the first time and completed several test operations before being destroyed while re-entering Earth’s atmosphere. In a defiant post on X, the social network formerly known as Twitter, Mr Musk insisted that “Starship will make life multiplanetary.” Perhaps. This latest flight was at least another small step in that direction.

Starship is in fact two vehicles: the Super Heavy booster stage, a behemoth 71 metres tall with 33 engines, and the 50-metre Starship upper stage, which separates from the booster at an altitude of around 70km (44 miles) to proceed to orbit. The combined vehicle’s first test flight, in April 2023, ended roughly four minutes after lift-off, with the self-destruction of the entire spacecraft, after stage-separation failed and the rocket began to corkscrew erratically. During the second test flight, in November, the Starship upper stage successfully separated from the booster around three minutes into the flight, and continued to fly for another eight minutes, reaching an altitude of 149km. But both vehicles then suffered failures that led to their rapid unscheduled disassembly.

The third flight, once again from SpaceX's Starbase near Boca Chica in Texas, also led to the loss of both vehicles. But this time the upper stage reached orbit, at an altitude of 230km. SpaceX's aim is that both vehicles should eventually be fully reusable, flying back to Earth to land, as its Falcon 9 boosters already do. For these initial test flights, however, its plan has been for the Super Heavy booster to practise a "soft" splashdown at sea, slowing its descent using rocket engines before slipping beneath the waves, while the Starship swoops halfway around the Earth, re-enters the atmosphere and makes a "hard" splashdown (ie, crashes into the sea from a great height).

Yet even these more limited goals have so far proved overambitious. During the test flight in November, the Super Heavy booster exploded when it attempted to reignite its engines in preparation for splashdown. This time round, it successfully completed its "boostback burn", which carried it to its intended splashdown point in the Gulf of Mexico. But when it reignited its engines for its landing burn, to slow its descent velocity to almost zero, something went wrong, causing the vehicle to explode a few hundred metres above the water.

The Starship, however, reached a low-Earth orbit that took it across southern Africa. While in this so-called coast phase, it carried out a series of test operations: opening and closing its payload door (Starship will ultimately be able to carry as much as 150 tonnes of payload into orbit); transferring propellant between two on-board tanks (a warm-up for future Starship-to-Starship refuelling in orbit, a requirement for missions to the Moon and Mars); and, finally, attempting a controlled re-entry. On-board cameras showed the glowing pink plasma expected of a spacecraft re-entering the atmosphere.

But contact was lost soon afterwards, and SpaceX announced that the vehicle had disintegrated. (Whether this was because of a failure of its heat-shielding tiles, loss of control of the Starship or some other reason remains unclear.)

SpaceX has been mocked for the tendency of its test flights to end in expensive firework shows, but such criticism misunderstands the company's approach to rocket development. It prefers to iterate quickly and learn from failure, rather than painstakingly plan for a perfect launch—which, in the rocket industry, almost never happens (as the loss of the Kairos rocket launched by Space One, a Japanese firm, on its inaugural flight on March 13th, demonstrated). And a successful maiden flight is particularly unlikely for a system as complex as Starship, the largest rocket ever built, which is intended to carry humans to other worlds. In a statement before the launch, SpaceX said that each of these flight tests continues to be just that: a test. They may not be occurring in a lab, the company added, but are about getting information nonetheless.

This less risk-averse approach has undoubtedly enabled SpaceX to outpace its rivals in the industry; last year its Falcon 9 rockets flew more missions and launched more mass into orbit than did those of any other company or space agency. A more valid criticism of SpaceX is that it has cut corners in areas such as environmental protection. The Starbase facility is surrounded by the Lower Rio Grande Valley national wildlife refuge, which is home to an endangered species of ocelot, and the piping plover, a threatened bird species, among other things. The first Starship test flight, last April, caused extensive damage to its launching pad, scattering debris over a wide area, and prompting the Federal Aviation Authority, which regulates rocket launches, to conduct a safety review. SpaceX has since upgraded its launching pad with a "flame deflector" system that sprays water beneath the rocket as it takes off, to reduce noise, heat and damage. But environmentalists continue to worry about the impact of its activities.

And while SpaceX may be making rapid progress by spacefaring standards, Starship development is taking longer than expected. The work is partly funded by NASA, America's space agency, and is critical to its plans to return humans to the Moon later this decade. A lunar landing by astronauts in a Starship vehicle, as part of the Artemis programme, once planned for

2025, has been delayed to 2026. And even that looks a stretch given that Starship has yet to fly successfully, let alone with humans on board.

Mr Musk has said that he hopes Starship will make “at least six more flights this year”. That is just about plausible, even allowing for his infamous over-confidence. But Mr Musk also says that before Starship carries astronauts, he wants it to have completed “hundreds” of uncrewed launches, carrying additional satellites for its Starlink network, which provides high-speed internet access, into orbit. Starship can launch these satellites in larger batches than the Falcon 9, which has a smaller cargo capacity. The paradox of SpaceX’s approach to rocket development is that it is both faster than any of its competitors, and also slower than NASA needs. But whatever its speed of travel, SpaceX has just taken its next step towards the stars. ■

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Aggressive dogs

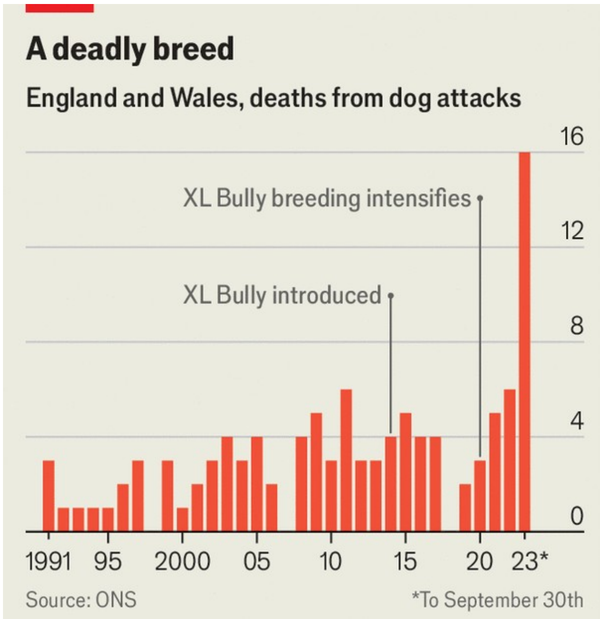
How XL Bullies became such dangerous dogs

Generations of breeding are to blame

Mar 20th 2024

IN 2021, WHILE visiting a friend's house in the Welsh town of Caerphilly, ten-year-old Jack Lis was fatally attacked by a dog called Beast. It mauled him so severely that Jack's mother could identify her son's body only from his shoe.

According to British government statistics, such fatal attacks are on the rise. After decades with an average annual dog-attack fatality rate below three, the number rose to six in 2022 and 16 in 2023 (see chart). Bully Watch UK, a group set up in June 2023 to gather evidence on the problem, attributes most deaths since that of Jack Lis to attacks by suspected Extra Large or 'XL' American Bully dogs, or crosses with them.



The Economist

These dogs look like pit-bulls, but are two to three times their size. They have a broad head, powerful jaws, and a highly muscled physique, the result of inbreeding between large American pit-bulls. This difference in appearance meant that British breeders were able to start importing the XL Bully dog in 2014, despite a long-standing ban on pit-bulls. For a few years their numbers remained modest. Then the pandemic hit and the allure of dog ownership surged, catapulting the value of some XL Bullies. It sparked a breeding frenzy, and as their population exploded, so did the number of attacks.

This is not a problem unique to Britain. Fatalities from suspected XL Bullies have also been seen in America, Canada, Germany and elsewhere, though as many countries do not distinguish between pit-bulls, good data are hard to come by.

The victims are mostly adults, attacked suddenly and often without provocation. Only a small number of injuries are fatal, but many are life-changing. In 2023 XL Bullies made up less than 1% of Britain's dog population and yet, according to Bully Watch UK, the dogs were responsible for 44% of dog attacks on people. They estimate the breed is 270 times more deadly than all other dog breeds combined.

Their ancestry helps explain their aggression. Pit-bull terriers were bred to win dog fights, contests which begin with two animals and end with one. Though illegal in Britain since 1835 and in America since 1976, the fights' popularity as a forum for betting means many continue underground. With money to be made by breeding the best fighters, handlers selected those with tenacity and "gameness"—the ability to keep fighting despite serious injuries. Over decades, the pit-bull terrier developed the ability to attack suddenly, and sustain grave injuries without retreating. This genetic history is present in the XL Bully. "These dogs, being bred for aggression, are likely to inherit aggression," says David Sargan, a geneticist at Cambridge Veterinary School. "However well you treat them, a proportion of them may explode."

Britain has restricted four breeds of fighting dog since the Dangerous Dogs Act of 1991, but it was not until the end of 2023 that XL Bullies were banned. Those that are unregistered will now be destroyed. But existing registered dogs can be kept if they wear a muzzle and lead in public. That is positive, but still leaves owners at risk.: According to Bully Watch UK, three professional handlers have been killed since 2021. And for now at least, in other countries where these dogs are popular, owners have even less protection. ■

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Culture

- How worried should people be about Generation Z?
- How the discovery of dinosaur fossils caused a revolution
- Justice Brett Kavanaugh’s accuser returns with a memoir
- One of the smallest museums in Africa might be its most important
- New York’s 92nd Street Y turns 150
- Kate Winslet explores how to be a good autocrat

The young and the relentless

How worried should people be about Generation Z?

Two new books fit into a familiar pattern of the old fretting about the young

Mar 15th 2024

The Anxious Generation. By Jonathan Haidt. *Penguin Press; 400 pages; $30. Allen Lane; £25*

Bad Therapy. By Abigail Shrier. *Sentinel; 320 pages; $30. Swift Press; £20*

IN 1935 *Harper's* magazine published a sorrowful article about young Americans. The authors, journalists George Leighton and Richard Hellman, argued that a generation was "rotting before our eyes". Apathy and disenchantment were taking hold, together with criminality. Even high-school students were packing guns and were "out for what they can get". Leighton and Hellman blamed mass unemployment for this tragedy. Some of their contemporaries pointed at marijuana.

Around 50 years after that article—and 40 years after the supposedly rotten generation had saved the world from fascism—older people again complained that the young were going awry. In a book, “The Disappearance of Childhood” (1982), Neil Postman, an educational theorist, argued that teenagers were adopting adult vices such as heavy drinking and crime, and having far too much sex. The chief culprit, he explained, was television.

Two more books have now been published about the troubles and flaws of young people. They say almost nothing about unemployment, marijuana or TV; indeed, they do not agree with each other about why the young are in such a mess. The causes change, the measurements change. What does not change is the absolute certainty with which older adults hold forth on the problems of youth.

“The Anxious Generation” describes a cohort suffering from unprecedented levels of mental ill-health. One-fifth of American students were diagnosed with or treated for depression in 2019, up from one-tenth a decade earlier. Jonathan Haidt, a social psychologist at New York University, argues this is not just a sign of increased frankness. Suicides are rising too, more than doubling among American 10- to 14-year-old girls since 2010.

Smartphones and social media are the chief villains. Instead of small, stable real-world communities, young people join virtual ones, where they experience “a daily tornado of memes, fads and ephemeral micro-dramas, played out among a rotating cast of millions of bit players”. Smartphones are so alluring that they reduce interest in all other activities. Reversing Postman’s complaint about teenagers in the 1980s, Mr Haidt says that modern ones are slow to date and to have sex.

Mr Haidt rehearsed some of these arguments in an earlier book, “The Coddling of the American Mind”, which explained why university students have become so sensitive. “The Anxious Generation” posits that the problems begin much earlier, with an over-protective style of child-raising. The book argues for banning phones during school hours, preventing pre-teens from accessing social media and letting children run wild more often. All the suggestions sound sensible. Some even sound fun.

"Bad Therapy" agrees that young people are deeply troubled, but disagrees about the cause. To Abigail Shrier, the culprit is not technology but what she calls the "mental-health industry". Almost two-fifths of young Americans say they have received help from a mental-health professional, and it has done them great harm, she argues. They can "never ignore any pain, no matter how trivial". Therapists and counsellors have sapped them of agency. A boy who has been pronounced learning-disabled and neurodivergent "no longer has the option to stop being lazy".

Ms Shrier, who has previously written about the perils of transgender treatment, also has sharp words for modern parents, although her criticism differs slightly from Mr Haidt's. Parents' desire to be loved by their children, and to see them always happy, leads them to stifle and coddle, she thinks. The result is a crop of "far more self-involved, undisciplined and unlikeable children" than any before. Because children grow up without clear rules, they are confused and aggressive. When their behaviour becomes troubling, the therapists are summoned.

"The Anxious Generation" is the better book. It deals seriously with counter-arguments and gaps in the evidence; although it might sound like faint praise, the endnotes are well worth reading. And Mr Haidt's assured tone is pleasantly interrupted by personal admissions. He, too, has struggled with severe anxiety. He gave his son a smartphone at a startlingly young age and used it to track his movements.

"Bad Therapy" admits no nuance. Ms Shrier has spoken to many therapists, but she declares that she trusts only those who assert that therapy can harm young patients. When assessing arguments that she dislikes, such as the notion that childhood trauma often produces damaged adults, she rightly insists on rigorous evidence. By contrast, some of her own arguments are based on conversations with friends and on a Facebook group where liberal parents complain about their children.

Both authors would have benefited from more travel. Mr Haidt hangs out in New York, Ms Shrier in west Los Angeles. They generalise from those privileged, sometimes nutty places to the rest of America and the world. Their limited perspectives lead them into trouble. Mr Haidt—in the course of saying that fierce competition for university places cannot explain why young Americans are so miserable—argues that applying to university is "far less fraught" in Britain. That will come as a nice surprise to British readers.

"Everyone goes" to university, writes Ms Shrier in a typically sweeping aside. They do not. And young people who do not attend university, who live far from the most privileged corners of America, are often the ones to worry about. The youth suicide rate is much higher in states like Alaska and South Dakota than it is in California or New York; in Britain, it is high in Northern Ireland. It seems unlikely that teenagers in such places are afflicted by a peculiarly large number of smartphones, therapists or permissive parents.

Many young people are certainly anxious, unhappy or lonely. But the conviction that their mental state matters above all is contemporary. Previous generations of adults cared less about young people's minds than about their deviant and unruly behaviour. By such yardsticks, the rising generation is angelic. Fighting, juvenile crime, drug use and teenage pregnancy are all retreating in America.

Generation Z improves on earlier cohorts in other ways. It is intolerant of prejudice: members of Generation X might care to recall how much of their youthful repertoire of insults questioned other people's sexuality or pointed to mental and physical disabilities. To describe Gen Z as hopelessly self-involved, as Ms Shrier does, ignores recent history. Children and teenagers submitted to extraordinary, painful restraints in 2020 in order to save older people from covid.

The generation that is now young will eventually grow up, get jobs, form relationships and have children. If the past is any guide, its members will proceed to write articles and books that find fault with young people. In the 1930s the young were seen as threats to public order; in the 1980s they were growing up too fast. Today they are growing up too slowly and are miserable. What judgment awaits a generation not yet born? ■

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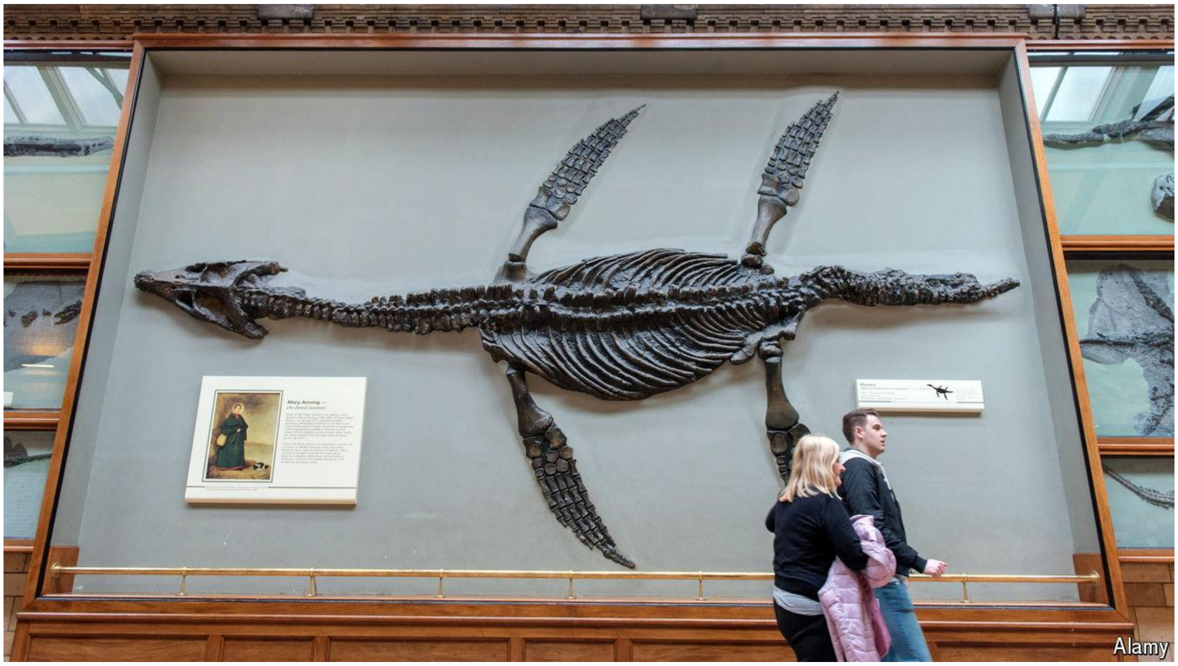
Jurassic spark

How the discovery of dinosaur fossils caused a revolution

“Impossible Monsters” looks at 70 years that changed human thought

Mar 20th 2024



Impossible Monsters. By Michael Taylor. *Bodley Head; 496 pages; £25. To be published in America by Liveright in July; $32.99*

AN INTELLECTUAL REVOLUTION began in 1811 when Mary Anning, a 12-year-old living in Lyme Regis, a harbour town in south-west England, excavated the first fossil of a marine reptile, the *Ichthyosaurus*. It culminated in 1881 with the opening of the Natural History Museum in London, imperial capital of the world, by Richard Owen. Those seven decades spanned a change in thinking as profound as that triggered by the astronomers of the late Renaissance—and as disturbing to the established church. (In this case, the threatened church was that of England, not Rome.) Fossils sparked a revelation of biblical proportions: God had not created the world in six days a few thousand years before, as so many believed.

“Impossible Monsters” is a story about time—or, rather, two parallel stories. In one, time moves forward, as the players take turns making remarkable discoveries that help advance science and humans’ understanding of their place in the world. In the second, it moves backwards, as the years needed to accommodate the findings of geologists and naturalists expand from thousands, to hundreds of thousands, to millions, pushing the date of “Creation” further away.

In writing “Impossible Monsters”, the task of Michael Taylor, a historian, was to tell a much-told tale better than it had been told before. He has succeeded splendidly. The cast is many and varied, including Anning (pictured), a lowly fossil-seller, who achieved international fame through her discoveries—*Ichthyosaurus* was but the first—yet was barred from joining the Royal Geological Society because of her sex. Many are memorably idiosyncratic, such as William Buckland, an eccentric Oxford don who once ate a mummified morsel of Louis XIV’s heart. He is better remembered for identifying and naming *Megalosaurus*, the first of the group subsequently dubbed “dinosaurs”.

Some of the characters are familiar, like Charles Darwin (no introduction needed, unless you live somewhere his theory is banned from textbooks). But many are less well known, such as Alfred Russel Wallace, a collector and seller of tropical specimens, who devised the idea of natural selection independently. Thomas Huxley, Darwin’s self-appointed “bulldog”, became chief mover and shaker for all things official and scientific in Victorian Britain. Owen, Huxley’s enemy, held out against Darwin’s ideas, yet forced through the construction of the museum many now regard as evolution’s temple.

It is a grand pageant. But Mr Taylor also conveys a sense of just how risky it was to believe in and promulgate the new ideas tied to the rocks and tropical forests where people hunted for specimens. Some clergymen, Buckland among them, performed intellectual contortions to reconcile the bones with the Bible. Even Darwin, wealthy and well-connected (and at one point himself destined for the church), at first lived in fear of the disgrace that might accrue if his ideas became public.

The intellectual climate changed, of course. However, lest readers congratulate themselves too readily on their enlightenment, it is salutary to consider, as the book's prologue does, the case of James Ussher, an Anglo-Irish archbishop who lived in the 17th century. Ussher devoted his life to calculating the exact date of God's creation of the world. Unlike some of his 19th-century ecclesiastical successors, he cannot be accused of ignoring or twisting the evidence. He spent decades and a fortune assembling dusty tomes that gave him what he thought were the data points he needed to anchor biblical passages in time, just as a modern geologist might use the radiometric evidence of volcanic-ash layers to date a series of strata.

Ussher's conclusion was that the world began on October 22nd 4004BC. It is an idea that sounds almost as prehistoric as a fossil. But who knows what widely accepted notions of today will also go extinct? ■

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Justice Brett Kavanaugh’s accuser returns with a memoir

Christine Blasey Ford re-enters the spotlight

Mar 18th 2024

One Way Back. By Christine Blasey Ford. *St Martin’s Press; 320 pages; $29 and £24.99*

“MOST MEMOIRS are the story behind a life. This is the life behind a story.” So begins “One Way Back” by Christine Blasey Ford, who became a global story herself in 2018, after she accused Brett Kavanaugh, Donald Trump’s nominee for the Supreme Court, of assaulting her when they were teenagers. Her testimony before the Senate Judiciary Committee was watched by around 20m Americans on television, as was Mr Kavanaugh’s energetic and red-faced denial.

Mr Kavanaugh was narrowly confirmed to the Supreme Court in a vote along party lines. But many women were inspired by Ms Blasey Ford’s courage to come forward. She received more than 100,000 letters of support from 42 countries and all 50 states, with about a quarter of them sharing personal experiences of sexual assault. These correspondents inspired her to pen her full account, which is dedicated to them: "Thank you. I'm finally writing you back."

Given a years-long smear campaign that included doxxing and death threats —requiring her to spend a small fortune on private security—Ms Blasey Ford's decision to re-emerge publicly may be surprising. Though her book does not provide dramatic new revelations, it shows the cost of stepping forward. Her message is that, contrary to accusations by some Republicans, her testimony was not a politically motivated "last-minute effort to block Kavanaugh's confirmation".

Indeed, the process was protracted and messy. She agonised over how to reveal the assault she recalled occurring when she was 15 at a home in the posh suburbs of Washington, DC. She, like Mr Kavanaugh, was a "Beltway baby" raised in mainly Republican circles, when she found herself trapped in a bedroom at a party. Even former President Donald Trump initially called her a credible witness and "very fine woman" after she described her memory of Mr Kavanaugh, then 17 and drunk, trying to undress her and covering her mouth so she would not scream.

Ms Blasey Ford, a professor of psychology at Palo Alto University in California, first realised that her "attacker" was a powerful judge in 2004, when then-President George W. Bush attended his wedding. But not until Mr Kavanaugh's name appeared on a shortlist for the Supreme Court did she feel it her "civic duty" to step forward.

Determined to go it alone, Ms Blasey Ford comes across as naive and out of her depth. At first she refused legal help and believed she could remain anonymous. "Never in a million years did I think my face would publicly accompany the allegations," she writes.

However, her name was leaked, possibly by a senator, and then she came under pressure to testify. History might have been different had she heeded advice from contacts in Silicon Valley to hire a top Republican lawyer and act more assertively.

Written earlier, the book would have been a diatribe against “the machine [that] would stop at nothing to rehabilitate Kavanaugh”. Instead her memoir is honest and often wry. Readers learn that the unassuming professor once dyed her hair partially blue and was pulled from the brink of despair by an invitation to meet her favourite band, Metallica, backstage.

“One Way Back” feels like a missive from a time long past. In the five years since Ms Blasey Ford’s testimony, the chorus of #MeToo, in which women came forward and publicly identified men who they said had abused them, has faded. Now a rollback of reproductive rights has been enabled by a conservative Supreme Court majority, which Mr Kavanaugh’s appointment helped to cement.

Ms Blasey Ford has many regrets about how her testimony unfolded. But she would do it again, “absolutely”. She surfs, a sport that gives her ordeal and the book its (clichéd) metaphor. The book is not ghostwritten or slick, and is occasionally awkward and out of order, but Ms Blasey Ford is “riding the wave back” with her head held high. Her tone is one of disgusted resignation. “It felt like I had been believed,” she writes, “but then the response was a proverbial shrug.” ■

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House of horrors

One of the smallest museums in Africa might be its most important

A curator's battle to commemorate Germany's forgotten genocide in Namibia

Mar 21st 2024 | SWAKOPMUND


Melanie Stetson Freeman/The Christian Science Monitor

THERE ARE plenty of reminders of the colonial past in Swakopmund, a town on Namibia's coast, if you know where to look. Mechanics work beneath battered Mercedes; doughy cooks prepare doughy strudel; a guesthouse is named after a Bavarian prince. In the centre of town the privately run Swakopmund Museum is a mix of taxidermy and Germany. Near a stuffed seal is a cabinet of pilsner glasses used by those who left the Second Reich for German South-West Africa, as Namibia was known between 1884 to 1915. The museum's curator concedes that it "does not tell the whole story" and cites a lack of funds.

To grasp a fuller account of German colonialism, travel to the town's outskirts. In front of a small house is an outbuilding no bigger than a Volkswagen SUV. It is probably the smallest museum in Africa; it is certainly one of the most important.

The Swakopmund Genocide Museum memorialises what scholars have described as the first genocide of the 20th century. From 1904 to 1908 around 65,000 Herero people (80% of the total) and 10,000 Nama (50%) were killed as part of a brutal German response to a rebellion. The methods foreshadowed and inspired the Nazis. (The brown shirts worn by the Nazi Party's paramilitary *Sturmabteilung* came from a surplus supply of colonial uniforms.) Thousands were crammed into concentration camps. Their skulls were sent to Germany for examination by eugenicist scientists.

"I set this up because the Swakopmund Museum does not tell the story of my people," says Laidlaw Peringanda (pictured), whose museum officially gained permission to operate in January. It is sparse, consisting mostly of homemade print-outs of black-and-white photos. The images are of skulls, emaciated children in camps and women chained together.

Aside from an old German rifle that Mr Peringanda swivels in his hand as he talks, there is just one artefact: an *ekori* (a traditional headdress worn by Herero women). It was sent by a rich Swiss woman who found it in her private collection. Many totems still remain outside Namibia.

After more than five years of talks, in 2021 Germany's then foreign minister announced that "We will now officially call these events what they are from today’s perspective: genocide.” Germany promised to spend more than €1bn ($1.1bn) over 30 years on aid and development projects.

Though some Herero worry that they will not see the cash, no other European country has offered to pay as much for colonial crimes in Africa. In 2013 Britain offered about £20m ($31m) in compensation to 5,000 elderly victims for abuse they suffered in Kenya in the 1950s, and only after a lawsuit. A Belgian commission was assembled to assess brutality in Congo but failed to issue an apology. France is keener on returning artefacts than apologising.

Mr Peringanda points out that Germany is no longer the main obstacle to a reckoning; there are two more important forces. The first is the Namibian government. Like neighbouring South Africa, from which the country seceded in 1990, Namibia is run by a party, SWAPO, whose legitimacy stems from its opposition to white rule. School textbooks make little mention of the genocide, lest it complicate the narrative that only they, SWAPO, resisted the whites. Ovambo, Namibia’s largest group, dominate SWAPO; Herero and Nama remain marginalised.

The second target is recalcitrants in Swakopmund itself. A monument to the German soldiers who died in the “war” against the Herero and Nama still stands near the beach. The statue makes no mention of atrocities; some powerful townsfolk worry that it could damage tourism.

Later your correspondent crosses town to where researchers have detected mass graves of Herero. In a grimly ironic twist, the site is a cemetery used by affluent residents of adjacent suburbs. Only a black stone monument built by Mr Peringanda marks who else lies beneath the ground. He erected it after the council stated that many Herero had died here in “mysterious circumstances”. His tiny but vital museum clears up any mystery. ■

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A miracle on 92nd Street

New York's 92nd Street Y turns 150

Its reinvention holds lessons for other cultural centres

Mar 21st 2024 | The Upper East Side of Manhattan

THE 92ND STREET Y is a temple of culture that has hosted some of the greatest creative minds of the 20th and 21st centuries. Truman Capote first publicly discussed his novel "In Cold Blood" there, and Kurt Vonnegut unveiled "Breakfast of Champions" before even his wife had read it. Yo-Yo Ma, a cellist, performed at the venue as a teenager. Literary greats Maya Angelou, James Baldwin, T.S. Eliot and Dylan Thomas have stridden across the stage. Others have pirouetted: Martha Graham and Alvin Ailey, modern-dance choreographers, put on performances.

The 92nd Street Y (which rebranded itself 92NY in 2022) is celebrating its 150th birthday in the style you might expect: with a year of talks, workshops and other events. Jewish business and civic leaders founded it on March 22nd 1874 as the Young Men's Hebrew Association, with the goal of helping Jewish immigrants arriving from eastern Europe. When Emma Lazarus wrote "The New Colossus" in 1883—which contained the line "give me your tired, your poor, your huddled masses", still etched on the

Statue of Liberty—she was teaching English to recently arrived Russian Jewish immigrants at the 92NY.

92NY has innovated to stay relevant. In the early 1900s it started providing services and enrichment programmes to people of all backgrounds and beliefs. Today it still serves as a community centre, offering swimming and violin lessons to children and shoemaking classes to adults, and is in the throes of a $200m renovation. It invented "Giving Tuesday", now celebrated worldwide by workers at charities, who use the occasion to ask people for donations.

It is not easy for other institutions to replicate 92NY's special mix of wealth, networks and breadth of programming that have made it so successful—though no doubt many have tried. But despite 92NY's uniqueness, it is navigating two challenges that other community groups also face.

One is how to deal best with faith in a polarised climate. The murder of Israelis by Hamas terrorists on October 7th complicated 92NY's goal of bringing diverse thinkers to the stage. Shortly after the attack it postponed a reading by Viet Thanh Nguyen, a Pulitzer-prizewinning novelist who had been critical of Israel. A handful of other authors then cancelled events at 92NY in solidarity, to oppose what they called censorship. 92NY decided to put its literary series on hold.

As a Jewish institution that serves more non-Jews than Jews, 92NY has struggled to get the balance right. Seth Pinsky, its boss, says 92NY is "an ambassador to the world on behalf of the Jewish community" but also caters to "the need for meaning" and "community" generally. This makes 92NY "more relevant than we've ever been in our history". In recent months it has hosted both critics and supporters of Israel. Like 92NY, many arts groups have tried to balance inclusivity and free speech, with bumps along the way.

92NY has also had to confront another challenge: a transition from a renowned venue with programmes housed in a single building into an online brand with links to people outside New York. Here it has been succeeding spectacularly. The pandemic forced a digital pivot. In 2019 138,000 people attended an event or class at 92NY, all in person. Last year 150,000 people attended in person, but in addition, 26% of all tickets and places in classes were sold to online participants. One in every $8 of sales was generated from digital sources. In the year to February, there were 44m views of 92NY's online digital content, which includes classes, concerts, archives and panel discussions. About 42% of the views came from outside America.

92NY has become a platform for other cultural groups, too. The Cleveland Museum of Art, the Bronx Zoo and the Isabella Stewart Gardner Museum in Boston are among 45 institutions that put their content on the 92NY's website. Mr Pinsky says 92NY's competition is "everybody and nobody". Plenty of somebodies outside New York will be hearing about 92NY in the years ahead. ■

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Back Story

Kate Winslet explores how to be a good autocrat

“The Regime” is a silly show with a deadly serious point

Mar 19th 2024

THE CAPRICIOUS leader of an unnamed country in central Europe, Elena Vernham is carried around her palace in a mobile oxygen chamber. She chats with her father’s embalmed corpse. In Kate Winslet’s star turn, her lisping petulance recalls Veruca Salt, the spoiled brat in “Charlie and the Chocolate Factory”. Elena’s antics, amours and annexations are chronicled in “The Regime”, a satiricaldrama out now in America and in Britain soon. It is a silly TV show that makes serious points about autocracy.

Elena and her country are sly composites of real people and places. There are echoes of communist Romania under the doomed Ceausescus and of the failed Soviet coup of 1991, when state TV broadcast “Swan Lake” (here it is “The Barber of Seville”). Elena’s ceremonial braided hairstyle evokes Yulia Tymoshenko, a Ukrainian firebrand. But the main influence is Vladimir Putin’s Russia. The action begins with the arrival in the palace of a rough-hewn corporal, Herbert Zubak (Matthias Schoenaerts).

Because of his role in a massacre, which nobody lets him forget, his nickname is "the Butcher". This is the show's first insight: Herbert is promoted not in spite of his disgrace but because of it. Elena, like other autocrats, knows compromised people are pliable. Systems like hers rely on mutual blackmail, whereby every courtier has dirt on all the others; an honest person is useless. If blood is shed, many hands are dipped in it, as when Russian bigwigs appear with Mr Putin in his televised warmongering.

Next, consider that portable oxygen chamber. Elena's hypochondria—she has a horror of spores—spoofs germophobe leaders who are fanatical about their own welfare yet neglect their citizens'. But her quirks are also exertions of power. If she says noxious spores pervade her palace, they do. Everyone applauds her atrocious singing, just as Mr Putin's lickspittles let him win at ice hockey.

The goal is not to make anyone believe in such fantasies and lies: it is to force underlings to swallow them, so underlining the autocrat's power. You are not meant to believe the Kremlin's denial that it killed Alexei Navalny in Russia's gulag. If you did, the murder's intimidating message would be blunted. The aim is to add intellectual insult to lethal injury.

Elena speaks to her subjects in televised addresses, calling them "my loves". As autocrats do, she claims to have a mystical connection to the people, wielding them in arguments like a mace. In truth, she despises them as grubby bumpkins and loathes meeting them. She frets over their loyalty, as rulers tend to when normal debate is stifled.

"They love to see America punched in the mouth," an apparatchik says of his compatriots. As in many smallish countries, Elena oscillates between courting and resenting American involvement. She tries to play Washington off against Beijing and launches half-baked bids for autarky. Yet even as she denounces America she enjoys its pop culture, watching "Friends" over dinner, rather as Bashar Assad clung to his iTunes account as Syria imploded.

Apart from bashing the West, in a fix Elena deploys two go-to autocratic tactics. She trumpets a crackdown on corruption (notwithstanding her own offshore stash) and seizes a slice of adjacent territory in what is not, repeat not, an invasion. The ensuing sanctions mean a disgruntled insider can no longer visit his pied-à-terre in Miami. As circumstances deteriorate, the cronies must calculate when to run, a dilemma familiar to henchmen from Cairo to Caracas.

Artistically, the show has flaws. It tries vainly to make you care about its characters even as it sends them up. The waspish dialogue is not as funny as the invective in "Succession". But, autocratically, it hits the mark—above all in capturing the way this sort of power is itself a kind of twisted performance.

"Could it just be theatre?" that insider wonders when an oligarch is publicly humiliated. In regimes like this, however, theatre is the basic mode of statecraft. It isn't only that "the visuals" matter more than the substance of events. The autocrat substitutes ritual and spectacle for political competition (as in Russia's farcical election). Politics is a pastiche of democracy, a satirical pantomime in which all are dragooned into the joke. An autocracy, in other words, is often a silly show with a tragically serious point.■

Read more from Back Story, our column on culture:
Infatuation, kids, adultery: marriage is the theme of the Oscars (Mar 7th)
"The Picture of Dorian Gray" points to the future of theatre (Feb 29th)
The real message of Vladimir Putin's chat with Tucker Carlson (Feb 9th)

Also: How the Back Story column got its name.

The Economist reads

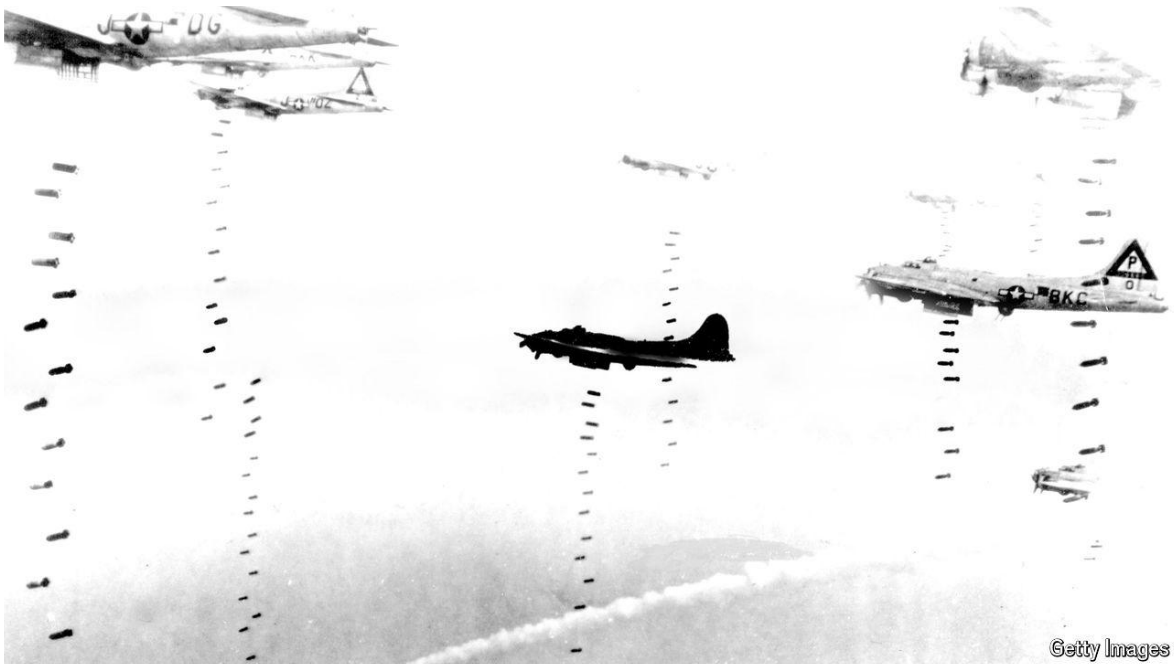
- Seven of the best war novels

The Economist reads

Seven of the best war novels

For a fuller understanding of war, read fiction as well as history and journalism

Mar 21st 2024


Getty Images

THE MOTHER of all war novels, to adapt a phrase from Saddam Hussein, must be "War and Peace". But, just as the BBC's "Desert Island Discs" gives every castaway a Bible and the complete works of Shakespeare, so we will plonk on your bookshelves Leo Tolstoy's epic, assuming they are not already sagging under its weight, and move on. Here are seven of the best non-Tolstoyan war novels, arranged in the chronological order of the conflicts they are about. Four ("All Quiet on the Western Front", "Stalingrad", "The Bridge over the River Kwai" and "The Sorrow of War") were written in languages other than English. We chose books whose subject matter spans a range of wars around the world—from the trenches of Flanders to the jungles of Vietnam. They also express the full ambit of conflict, from the terror of hand-to-hand combat to the emotional scars that never heal, which can lead to post-traumatic stress disorder (PTSD). "War is a crucial, deeply ingrained part of human history," wrote Magaret

MacMillan, a historian. Novelists have been as perceptive about it as practitioners of her profession.

All Quiet on the Western Front. By Erich Maria Remarque**.** Translated by Arthur Wesley Wheen. *Random House; 240 pages; $17. Vintage; £9.99*

Unflinching fictional writing about war begins with Erich Maria Remarque's masterpiece of 1929. For the first time a writer gave a raw, pitiless account of men killing each other, by any means possible. "All Quiet on the Western Front", written in German by a veteran of the first world war, marked the definitive end of the Victorian ripping-yarn tradition of writing about war. Stripping away remnants of old notions of nobility and idealism, Remarque's account of life in the German trenches on the western front, which includes a graphic description of hand-to-hand fighting, revealed the full barbarism of that conflict, as well as the dehumanising effects it had on the shockingly young men who fought in it. Its first readers were unprepared for this sort of detail. It caused a sensation when it was published, quickly selling hundreds of thousands of copies. It still has the power to shock, even after countless film adaptations. "All Quiet" is not explicitly an anti-war book, but its unrelenting honesty makes it hard to read it as anything else.

Regeneration. By Pat Barker. *Penguin; 256 pages; $17. Penguin; £9.99*

"Regeneration" is the first book of a trilogy. Its sequels are "The Eye in the Door" and "The Ghost Road". All were published in the 1990s, a decade of renewed interest in the horrors of the first world war prompted by the knowledge that the last veterans of that conflict would soon be gone. Such memorialising contributed to the extraordinary success of Sebastian Faulks's magnificent "Birdsong", about British miners operating under the German lines on the Somme. "Regeneration" weaves fact with fiction to tell the story of William Rivers, a British doctor who developed treatments of what he diagnosed as shell shock. At the time, most soldiers invalided out of the trenches with symptoms of extreme emotional stress were dismissed as cowards or as insane. Rivers's most famous patient was the poet Siegfried Sassoon. This intensely moving and compassionate novel focuses on their relationship.

The Bridge on the River Kwai. By Pierre Boulle. Translated by Xan Fielding. *Mehta Publishing House; 174 pages; $15.99. Vintage; £9.99*

Pierre Boulle's novel, first published in French in 1952, should be read as a prelude to the much better film version that David Lean directed five years later. It won an armful of Oscars and remains the best war film ever made. Neither the book nor the film seeks to convey the true awfulness of the conditions for Allied prisoners of war on the Burma-Siam railway during the second world war. "As nobody should ever have needed telling, the picture is a load of high-toned codswallop," said one survivor. Boulle's theme was not the brutality of war but the codes of honour and duty that could result in such brutality. Thus, his story is primarily a forensic dissection of human dispositions, particularly pride—in the regiment, and in the military discipline that will sustain fighting units even in the most horrendous circumstances. At the core of the novel is the battle of wills between two equally brave but stubborn men, the commanding officer of the British POWs, Lieutenant Colonel Nicolson, and Colonel Saito, the Japanese commander of the camp. Both have an overdeveloped sense of duty. Boulle shows how this can lead to both glory and disaster.

Stalingrad: A Novel. By Vasily Grossman. Translated by Robert and Elizabeth Chandler. *NYRB Classics; 1,088 pages; $27.95. Harvill Secker; £25*

When Nazi Germany invaded the Soviet Union in 1941, Vasily Grossman signed up to write for *Red Star,* the Red Army's newspaper. He produced propagandistic reports about Soviet soldiers at the front. Yet the author, born to a Jewish family in Soviet Ukraine, was no Stalinist lackey; his writing expressed his admiration for the Soviet people's courage and resilience in the face of fascist aggression. Grossman returned to the theme in two novels about the battle of Stalingrad, which took place from 1942 to 1943. The first was published in the 1950s, albeit in censored form, as "For a Just Cause". The Soviet regime banned the second, "Life and Fate", partly because it compared Stalinism to National Socialism. It was smuggled to the West and published there in the 1980s. A new English translation of the first novel was published in 2019. It restored the author's original title "Stalingrad" and unpublished sections. It is now acknowledged as a classic, powerfully mixing civilian and military perspectives on the "Great Patriotic War".

Slaughterhouse-Five. By Kurt Vonnegut. *Dial Press Trade; 288 pages; $18. Vintage; £9.99*

For decades Kurt Vonnegut struggled and failed to write what he called, ironically, his "famous Dresden book". Captured by the Germans at the Battle of the Bulge in 1944, he was a POW in Saxony's capital during the firebombing of February 1945. Vonnegut listened from an underground slaughterhouse as the bombs rained down. Surely, he recounts, it should have been "easy" to describe the experience, "since all I would have to do would be to report what I had seen". But the words came slowly. How could Vonnegut describe a city consumed by "one big flame"? His solution, eventually, was to replace normal narrative structure with a dizzying zig-zag through time and space. The hero of "Slaughterhouse-Five", Billy Pilgrim, reveals the tragedy of Dresden sparingly and episodically. His telling is shaped by the psychological dislocations of what came to be called PTSD well after the novel appeared in 1969. Published during the Vietnam war, "Slaughterhouse-Five" caught the anti-war mood of the time and continues to sell more than 100,000 copies a year.

The Sorrow of War. By Bao Ninh. Translated by Frank Palmos. *Knopf; 240 pages; $18. Vintage; £9.99*

This mesmerising novel by a veteran of what Vietnamese call the American war is peopled more by ghosts than by the living. Bao Ninh is the pen name of a man who was one of ten survivors among the 500 members of his Glorious 27th Youth Brigade. His protagonist Kien is likewise a survivor of the North Vietnamese army. His war restarts in 1976, after the fall of the American-backed government in the south, when he is sent back to his former battlegrounds to recover bodies. Fallen comrades haunt him in the "Jungle of Screaming Souls", as he moves between present reality and past horror, finding solace only in his most distant, dreamlike memories of pre-war youth and love. As with Vonnegut's novel, "The Sorrow of War" discards conventional narrative as useless in the face of hell. Creating his own shifting patterns in time, avoiding both sentimentality and stereotypes, Bao Ninh describes the impact on the human spirit of combat and its aftermath.

Half of a Yellow Sun. By Chimamanda Ngozi Adichie. *Knopf; 435 pages; $24.95. Fourth Estate; £18.99*

Published in 2006, Chimamanda Ngozi Adichie's second novel takes place during a civil war in Nigeria in the late 1960s. The rebellious and oil-rich Republic of Biafra, largely made up of the Igbo people, broke away from the country in 1967, initiating a conflict that killed hundreds of thousands of civilians. It ended when Nigeria's army reconquered the territory in 1970. In "Half of a Yellow Sun" Ms Adichie, born in 1977, attempts a reckoning with the war's terrible consequences. (The title refers to the central image of the flag of the breakaway territory.) Unlike some of the other books on this list, Ms Adichie's novel does not depict fighting. Rather, her concern is about how competing loyalties—to country, to ethnic group and to ideals—divide and crush lovers, families and friends. Through the character of Richard, a British writer, Ms Adichie also shows how Western media distort or ignore conflicts in Africa.

Also try

Most of *The Economist*'s coverage of war is fact-based. We write copiously about the Israel-Hamas war and the war in Ukraine. In 2023 we published a cover leader and special report on the future of war. During the pandemic our Back Story columnist found new relevance in "Catch-22", a great comic war novel. "War and Peace" was also good pandemic reading. "The Ambulance Drivers", published in 2017, explores the relationship between two war novelists of the 20th century, Ernest Hemingway and John Dos Passos. Read about the Kurt Vonnegut Museum and Library, which opened in Indianapolis in 2019. Bao Ninh was among the people interviewed in "The Vietnam War", a documentary. We reviewed a play based on "Life and Fate" and a novel by Pat Barker that is not part of the Regeneration trilogy but also deals with the first world war.■

Economic & financial indicators

- Economic data, commodities and markets

Indicators

Economic data, commodities and markets

Mar 21st 2024

Economic data

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	Gross domestic product % change on year ago: latest		quarter*	2023†	Consumer prices % change on year ago: latest		2023†	Unemployment rate %	
United States	3.1	Q4	3.2	2.5	3.2	Feb	4.1	3.9	Feb
China	5.2	Q4	4.1	5.2	0.7	Feb	0.3	5.3	Feb‡§
Japan	1.2	Q4	0.4	1.9	2.1	Jan	3.3	2.4	Jan
Britain	-0.2	Q4	-1.4	0.1	3.4	Feb	6.8	3.9	Dec††
Canada	0.9	Q4	1.0	1.1	2.8	Feb	3.9	5.8	Feb
Euro area	0.1	Q4	-0.2	0.6	2.6	Feb	5.4	6.4	Jan
Austria	-1.7	Q4	0.2‡	-0.7	4.2	Feb	7.7	5.0	Jan
Belgium	1.5	Q4	1.4	1.4	3.6	Feb	2.3	5.5	Jan
France	0.7	Q4	0.2	0.9	3.2	Feb	5.7	7.5	Jan
Germany	-0.2	Q4	-1.1	-0.1	2.7	Feb	6.0	3.1	Jan
Greece	1.1	Q4	0.6	2.0	3.1	Feb	4.2	10.4	Jan
Italy	0.6	Q4	0.7	0.7	0.8	Feb	5.9	7.2	Jan
Netherlands	-0.5	Q4	1.3	0.1	2.7	Feb	4.1	3.6	Jan
Spain	2.0	Q4	2.5	2.5	2.9	Feb	3.4	11.6	Jan
Czech Republic	-0.2	Q4	1.0	-0.4	2.0	Feb	10.6	3.0	Jan‡
Denmark	3.2	Q4	8.2	0.9	0.8	Feb	3.3	2.9	Jan
Norway	0.5	Q4	6.2	0.8	4.5	Feb	5.5	3.9	Dec‡‡
Poland	1.0	Q4	nil	0.2	2.8	Feb	11.4	5.4	Feb§
Russia	5.5	Q3	na	3.6	7.7	Feb	5.9	2.9	Jan§
Sweden	-0.1	Q4	-0.2	nil	4.5	Feb	6.0	8.5	Feb§
Switzerland	0.6	Q4	1.2	0.8	1.2	Feb	2.1	2.2	Feb
Turkey	4.0	Q4	3.9	4.5	67.1	Feb	53.9	9.8	Jan§
Australia	1.5	Q4	1.0	1.9	4.1	Q4	5.6	3.7	Feb
Hong Kong	4.3	Q4	1.8	3.2	1.7	Jan	2.1	2.9	Feb††
India	8.4	Q4	8.0	7.3	5.1	Feb	5.7	8.0	Feb
Indonesia	5.0	Q4	na	5.0	2.8	Feb	3.7	5.3	Q3§
Malaysia	3.0	Q4	na	3.7	1.5	Jan	2.5	3.3	Jan§
Pakistan	nil	2023**	na	nil	23.1	Feb	30.8	6.3	2021
Philippines	5.6	Q4	8.7	5.6	3.4	Feb	6.0	4.5	Q1§
Singapore	2.2	Q4	4.8	1.1	2.9	Jan	4.8	2.0	Q4
South Korea	2.2	Q4	2.5	1.3	3.1	Feb	3.6	3.2	Feb§
Taiwan	4.9	Q4	9.7	1.4	3.1	Feb	2.5	3.4	Jan
Thailand	1.7	Q4	-2.3	1.9	-0.8	Feb	1.2	1.1	Jan§
Argentina	-1.4	Q4	-7.3	-1.6	276	Feb	134	5.7	Q4§
Brazil	2.1	Q4	-0.1	2.9	4.5	Feb	4.6	7.6	Jan§‡‡
Chile	0.4	Q4	0.4	nil	3.6	Feb	7.3	8.4	Jan§‡‡
Colombia	0.3	Q4	0.1	0.6	7.7	Feb	11.7	12.7	Jan§
Mexico	2.5	Q4	0.3	3.2	4.4	Feb	5.5	2.8	Jan
Peru	-0.4	Q4	0.9	-0.6	3.3	Feb	6.3	7.6	Feb§
Egypt	2.7	Q3	na	3.8	35.7	Feb	33.9	6.9	Q4§
Israel	-4.6	Q4	-20.7	2.0	2.5	Feb	4.2	3.3	Feb
Saudi Arabia	-0.8	2023	na	-0.9	1.8	Feb	2.3	5.1	Q3
South Africa	1.2	Q4	0.2	0.6	5.5	Feb	6.1	32.1	Q4§

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. Note: Euro area consumer prices are harmonised.

The Economist

Economic data

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	Current-account balance % of GDP, 2023†	Budget balance % of GDP, 2023†	Interest rates 10-yr gov't bonds latest,%		change on year ago, bp	Currency units per $ Mar 20th	% change on year ago
United States	-3.0	-6.3	4.3		80.0	-	
China	1.5	-4.6	2.2	§§	-46.0	7.20	-4.3
Japan	3.6	-5.2	0.7		42.0	152	-13.2
Britain	-3.0	-5.7	4.1		79.0	0.79	3.8
Canada	-1.0	-1.2	3.5		67.0	1.36	0.7
Euro area	2.8	-3.6	2.4		31.0	0.92	1.1
Austria	1.8	-2.6	2.9		12.0	0.92	1.1
Belgium	-0.9	-4.5	2.9		12.0	0.92	1.1
France	-1.1	-4.9	2.9		22.0	0.92	1.1
Germany	7.2	-2.2	2.4		31.0	0.92	1.1
Greece	-6.4	-2.1	3.4		-70.0	0.92	1.1
Italy	0.3	-7.2	3.7		-27.0	0.92	1.1
Netherlands	9.3	-2.1	2.7		17.0	0.92	1.1
Spain	2.1	-4.0	3.2		-11.0	0.92	1.1
Czech Republic	0.6	-3.9	4.0		-42.0	23.2	-3.7
Denmark	10.5	2.2	2.5		3.0	6.87	1.0
Norway	15.6	16.0	3.7		80.0	10.7	0.1
Poland	1.6	-4.7	5.5		-46.0	3.98	10.3
Russia	2.4	-1.8	13.2		230	92.5	-16.7
Sweden	5.6	-0.2	2.4		21.0	10.5	-0.9
Switzerland	10.0	-0.7	0.7		-7.0	0.89	4.5
Turkey	-4.0	-5.0	25.4		1,388	32.4	-41.3
Australia	1.2	0.7	4.0		51.0	1.53	-2.6
Hong Kong	8.6	-3.4	3.9		86.0	7.82	0.3
India	-0.6	-5.8	7.1		-23.0	83.2	-0.6
Indonesia	0.4	-2.5	6.7		-22.0	15,715	-2.3
Malaysia	1.2	-5.1	3.9		-15.0	4.74	-5.3
Pakistan	0.2	-6.2	14.2	†††	-99.0	279	1.2
Philippines	-2.8	-6.3	6.2		8.0	56.1	-2.6
Singapore	19.8	-1.6	3.1		26.0	1.34	nil
South Korea	2.3	-2.9	3.5		15.0	1,340	-2.2
Taiwan	13.2	-0.1	1.3		13.0	31.9	-4.1
Thailand	1.3	-2.7	2.8		45.0	36.2	-5.7
Argentina	-3.3	-6.1	na		na	853	-76.0
Brazil	-1.3	-7.5	10.9		-215	5.01	4.8
Chile	-3.4	-2.3	5.8		46.0	976	-15.3
Colombia	-2.7	-4.0	9.9		-227	3,885	24.0
Mexico	-0.8	-3.3	9.3		17.0	16.8	12.2
Peru	0.6	-2.8	7.0		-62.0	3.70	2.2
Egypt	-2.0	-6.3	na		na	46.9	-34.1
Israel	5.0	-4.2	4.3		56.0	3.66	0.3
Saudi Arabia	2.7	-2.1	na		na	3.75	0.3
South Africa	-1.6	-5.4	10.4		45.0	18.8	-1.4

Source: Haver Analytics. §§5-year yield. †††Dollar-denominated bonds.

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Markets

In local currency	Index Mar 20th	% change on: one week	% change on: Dec 29th 2023
United States S&P 500	5,224.6	1.1	9.5
United States NAScomp	16,369.4	1.2	9.0
China Shanghai Comp	3,079.7	1.2	3.5
China Shenzhen Comp	1,806.6	2.2	-1.7
Japan Nikkei 225	40,003.6	3.4	19.5
Japan Topix	2,751.0	3.9	16.3
Britain FTSE 100	7,737.4	-0.4	0.1
Canada S&P TSX	22,045.7	0.3	5.2
Euro area EURO STOXX 50	5,000.3	nil	10.6
France CAC 40	8,161.4	0.3	8.2
Germany DAX*	18,015.1	0.3	7.5
Italy FTSE/MIB	34,293.3	1.2	13.0
Netherlands AEX	860.5	nil	9.4
Spain IBEX 35	10,752.5	1.8	6.4
Poland WIG	79,709.3	-2.4	1.6
Russia RTS, $ terms	1,113.9	-2.5	2.8
Switzerland SMI	11,618.6	-1.5	4.3
Turkey BIST	8,955.1	0.5	19.9
Australia All Ord.	7,954.5	-0.4	1.6
Hong Kong Hang Seng	16,543.1	-3.2	-3.0
India BSE	72,101.7	-0.9	-0.2
Indonesia IDX	7,331.1	-1.2	0.8
Malaysia KLSE	1,535.8	-0.2	5.6
Pakistan KSE	65,731.8	2.6	5.3
Singapore STI	3,177.5	0.5	-1.9
South Korea KOSPI	2,690.1	-0.1	1.3
Taiwan TWI	19,784.5	-0.7	10.3
Thailand SET	1,373.2	-0.8	-3.0
Argentina MERV	1,185,177.0	12.8	27.5
Brazil BVSP*	129,124.8	0.9	-3.8
Mexico IPC	56,618.0	1.4	-1.3
Egypt EGX 30	28,589.4	-7.8	14.8
Israel TA-125	2,008.5	3.8	6.4
Saudi Arabia Tadawul	12,739.3	0.1	6.5
South Africa JSE AS	72,419.7	-2.5	-5.8
World, dev'd MSCI	3,414.9	0.6	7.8
Emerging markets MSCI	1,032.1	-1.4	0.8

US corporate bonds, spread over Treasuries

Basis points	latest	Dec 29th 2023
Investment grade	107	154
High-yield	354	502

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

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Commodities

The Economist **commodity-price index**

2020=100	Mar 12th	Mar 19th*	% change on: month	% change on: year
Dollar Index				
All Items	126.3	126.8	-0.7	-4.5
Food	134.8	135.9	3.1	-3.4
Industrials				
All	119.3	119.3	-4.1	-5.6
Non-food agriculturals	135.5	138.5	3.7	6.8
Metals	115.1	114.3	-6.3	-8.9
Sterling Index				
All items	126.9	128.2	-1.1	-8.4
Euro Index				
All items	132.2	133.4	-1.1	-5.3
Gold				
$ per oz	2,163.1	2,154.1	6.3	10.7
Brent				
$ per barrel	82.6	87.4	6.2	16.2

Sources: Bloomberg; CME Group; Fastmarkets; FT; LSEG Workspace; LME; NZ Wool Services; S&P Global Commodity Insights; Thompson Lloyd & Ewart; Urner Barry; WSJ. *Provisional.

The Economist

Obituary

- **Frans de Waal taught the world that animals had emotions**

Monkeys and morality

Frans de Waal taught the world that animals had emotions

The Dutch-American primatologist died on March 14th, aged 75

Mar 20th 2024

THE YOUNG male chimps at Burgers' Zoo in Arnhem were fighting again. They were running round their island, teeth bared, screaming. Two in particular were battling until one definitively won, and the other lost. They ended up, apparently sulking, high in widely separate branches of the same tree. Then young Frans de Waal, who was observing their wars for his dissertation, saw something astonishing. One held out his hand to the other, as if to say "Let's make it up." In a minute they had swung down to a main fork of the tree, where they embraced and kissed.

He did not hesitate to call this what it was: reconciliation. What was more, it was essential if the group was to cohere and survive. The word, though, scandalised his tutors. Studying primates in those days, the mid-1970s, was mostly a matter of recording violence, aggression and selfishness. Those were the "animal instincts" that human beings were supposed to rise above.

Animals did not have the feelings or understanding to let bygones be bygones. On Chimp Island, it was all tooth and claw.

But Dr de Waal had seen that hand reaching out, and it changed his work for good. He determined to give the scientific sceptics the evidence they demanded—hundreds of experiments, hours of video and reams of data—to prove that every emotion humans felt, other primates felt too. When he looked into the eyes of a chimpanzee, an intelligent and self-assured personality looked back. Darwin had felt the same when he saw tickled chimps laugh, just as his children did. His most blinkered opponents were the 20th-century behaviourists, who reduced animals to machines and their laughter to "vocalised panting".

Over decades, working mostly at Emory University in Georgia as professor of primate behaviour and delivering joke-filled TED talks in his deadpan Dutch way, he slipped his ideas into the mainstream of science. He chose his species carefully: chimpanzees, bonobos and capuchins, the first two differing by a mere 1.5% from the DNA makeup of humans. Chimpanzees he knew well, since before working at the zoo he had befriended two who lived, oddly, in Nijmegen University's psychology department. Bonobos intrigued him because they had little of the admitted aggression of chimps, but were peaceable to the point of making love, not war, almost all the time. (As a bit of a hippy himself, virtually as hairy in the 1970s as a bonobo, he warmed to that.) What if he could convince people that their better instincts—altruism, co-operation, peacemaking—were as innate to them as violence was, and "animal" too?

The notion of fairness was a good example. Other primates, too, demanded equality of treatment and reward, and his proof was recorded in a video that swiftly went viral. Two capuchins were put in adjacent cages and given the same task, to hand stones out to a researcher. At first, both were rewarded with a slice of watery cucumber. But then one was rewarded with a grape. The slighted monkey noticed, and got uneasy. When it happened again the monkey went wild, hurled its slice of cucumber out of the cage, shook the bars and did its best to grab the bowl of grapes from outside. An Occupy Wall Street protest, right there.

Politics was a field his subjects excelled at, and in surprisingly subtle ways. Savagery played no part in chimpanzee leadership contests. Instead, deals were struck and alliances nurtured, with gifts of food or the favours of certain females. The alpha male in a group, he noted, was by no means always the biggest or strongest, but the best at plotting. A chimp Machiavelli, in short. All this he laid out in “Chimpanzee Politics” (1982), the first of 17 popular books he wrote on primate behaviour, which Newt Gingrich, a bumptious speaker of the House, declared should be read by all congressional freshmen.

Dr de Waal himself had embraced America from his first settling in, in Wisconsin in 1981, to his happy move to the woods of Georgia ten years later, where he held “simian soirées” for his students. America was a great place to push his cause, but its basis had been firmly laid in the Dutch polders where he had fished as a boy—not to eat his catch, but to keep them and watch them live. Though he came to focus on primates, his study of animal feelings had started with fire salamanders and sticklebacks.

Beyond co-operation, which he liked to prove by showing two chimpanzees hauling a heavy box they could not shift alone, he also saw instances of sheer altruism: the matriarch chimp Penny, too old to walk, helped across an enclosure and into a tree by other females, or a group of males licking the wounds of a defeated warrior. He saw males providing child care when females were absent, even slowing their pace through the forest to let the little one keep up. Same-sex sex was common, and anything went; there was no intolerance. Perhaps most moving was the clear empathy of a female bonobo called Kuni who, finding an injured bird, climbed to the top of the tallest tree with it and spread out its wings to encourage it to fly.

Whether such primates could have a moral conscience, let alone moral certainty, he doubted. The chief difference between them and humans was that humans constructed stories, like Aesop’s fables, to justify how they acted. Armed with that justification, they often attempted to impose their moral values on different peoples. Other primates did not try, and typically showed out-groups only their rough side.

Summing up his own work, he thought he had raised apes up a bit and brought humans down. There was still that topmost layer of human achievement, like the piano pieces he loved to play, which was, of course, to be treasured. But he treasured as much what he saw when the covid-19 lockdowns ended: human beings delighting in simple group togetherness, looking at real faces, touching each other, in their primate nature. ■

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