The Economist

The Republican meltdown

Does AI doom screens?

Africa loses faith in democracy

Eulogy to a sycamore

OCTOBER 7TH–13TH 2023

ARE FREE MARKETS HISTORY?

The rise of homeland economics


Morgan Freeman


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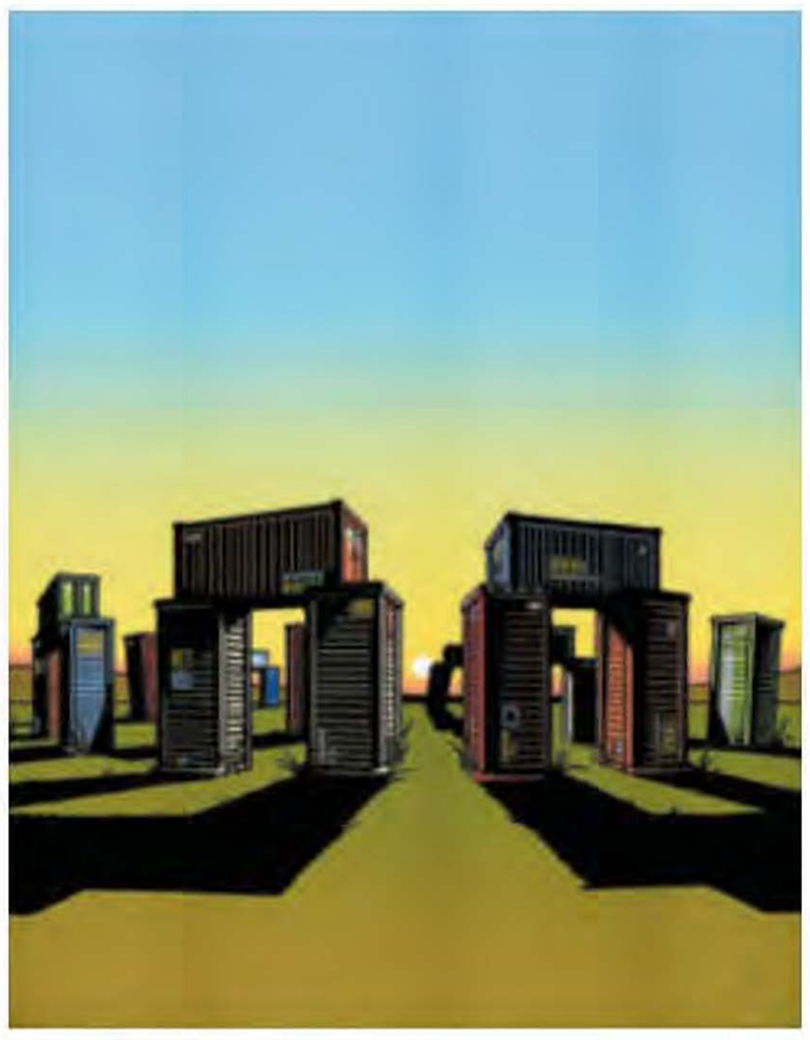

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America's **House of Representatives** ejected Kevin McCarthy as speaker, the first time in history someone has been ousted from the job. His downfall was initiated by Matt Gaetz, a far-right congressman, after Mr McCarthy secured the passage of a last-minute bill to avoid a government shutdown with Democratic support (the bill keeps the government functioning only until November 17th). Mr Gaetz said it was a sell-out. In the ballot that decided Mr McCarthy's fate a handful of rebellious Republicans joined the Democrats to fire him.

California's governor, Gavin Newsom, appointed Laphonza Butler to the **Senate** seat left vacant by the death of Dianne Feinstein. Ms Feinstein was elected to the seat in 1992 and, aged 90, was the oldest member of the chamber. Ms Butler is a lesbian and only the third black female senator ever. She is a close ally of Kamala Harris, America's vice-president, who was the second black woman to be elected to the Senate.

Donald Trump's trial for business fraud began in New York. The civil charges against him are in addition to the accusation that Mr Trump and his business inflated the value of his assets in order to secure loans. The judge (there is no jury) has already ruled that Mr Trump committed "repeated and persistent fraud" in that matter.

Robert Fico was hoping to become **Slovakia's** prime minister again, after his party came first in a general election and sought to form a governing coalition. Mr Fico, a pro-Russian populist nationalist, has been prime minister twice before, resigning in 2018 amid mass protests during a political crisis over the murder of a journalist. He has pledged to stop sending arms to Ukraine.

The European Union's foreign ministers held a meeting in Kyiv, Ukraine's capital, the first time they have gathered in a non-EU country. They pledged more help for **Ukraine**, but the once-steadfast support for defending it has wobbled lately. As well as the election of Mr Fico, Poland has got into a row with Ukraine over grain exports, and is not sending it more weapons. And America's Republicans have blocked extra funding for Ukraine in Congress's emergency-spending package.

Cancelled departure

Rishi Sunak, Britain's prime minister, announced that the leg of a high-speed rail project connecting Birmingham to Manchester will be scrapped. The cost of **HS2** soared from an initial £37.5bn in 2009 (then $62bn) to an estimated £100bn. Mr Sunak thinks the money could be better spent on transport links between northern cities.

Serbia said it had pulled back some of the troops it had sent to the border with **Kosovo** after tensions rose between the two countries following a shoot-out at a monastery involving ethnic Serbs and Kosovan police. America had described Serbia's military build-up as "very destabilising".

In **Spain** Pedro Sánchez's Socialist party was tasked by the king with trying to form a new government, following the failure of Alberto Núñez Feijóo, leader of the conservative People's Party, to cobble a coalition together. Mr Sánchez, the prime minister, staged an inconclusive election in July, in which the PP got the most seats but fell far short of a majority. He will need the support of the far left and Basque and Catalan nationalist parties if he is to govern again.

Turkey carried out air strikes on **Kurdish** rebels in northern Iraq and arrested dozens of suspected Kurdistan Workers' Party activists, after a suicide-bomber attacked the interior ministry in Ankara. Police shot dead a second attacker, but the incident caused no other fatalities.

Protesters blocked roads in **Guatemala** over the attorney-general's seizure of voting tallies from the electoral authorities, the latest move against president-elect, Bernardo Arévalo. Since the victory in August's election of Mr Arévalo, an anti-corruption crusader, a group of elites have tried to dissolve his party to prevent him taking power in January.

After a year of wrangling, the UN Security Council voted to back sending a Kenyan-led multinational armed force to **Haiti** for a year. Kenya will send 1,000 troops and other countries have pledged people and funds. Russia and China abstained from the vote. Past deployments to the Caribbean island have not always been welcomed by locals, but gang violence in the country has reached a desperate state.

Two suicide-bomb attacks on mosques in **Pakistan** killed 59 people. No group claimed responsibility, but the Pakistani government ordered all illegal migrants, namely 1.7m **Afghans**, to leave the country by November 1st. (Some 4.4m Afghan refugees also live there.) The government said Afghans had carried out 14 of the 24 suicide-bombings in Pakistan this year and accuses Afghanistan of harbouring the groups responsible.

India reportedly ordered **Canada** to remove 41 of its 62 diplomats from the country, in a continuing row over Canada's claim that India killed a Sikh separatist in Vancouver. Justin Trudeau, Canada's prime minister, said "We're going through an extremely challenging time with India right now."

China's gain, India's loss

Mohamed Muizzu won a presidential run-off election in the **Maldives**, defeating Ibrahim Mohamed Solih, the incumbent. Mr Muizzu is pro-China. After his victory he declared that "foreign troops", meaning a small contingent of Indian soldiers, must leave the archipelago nation.

Tuareg rebels captured a town in northern **Mali** and killed over 80 soldiers in an attack in the central Mopti region. It was their most southerly raid since fighting broke out in August after the collapse of a peace deal signed in 2015. The renewed conflict was in part precipitated by the withdrawal of UN peacekeepers, who were ordered to leave the country by the ruling junta.

The European Union agreed to give **Ethiopia** €650m ($683m) in aid, three years after it had cut off assistance because of atrocities committed during the civil war in Tigray. UN experts say that war crimes are still being committed.

Abdel-Fattah al-Sisi, **Egypt's** president, announced that he would stand for a third term in elections in December. Winning will be easy but his popularity has waned and his next term will face myriad problems, not least Egypt's floundering economy.

Human-rights campaigners in **Iran** accused the morality policy of beating a girl who was riding the metro in Tehran for not wearing a hijab. They released a photo which they said showed her in a coma. The Iranian authorities said she had fainted.

The rout in **government-bond markets** deepened, as investors bet that interest rates would stay higher for longer. The yield on America's ten-year Treasury bond neared 4.9%, the highest since 2007. In Europe the yield on Germany's benchmark ten-year debt rose above 3% for the first time since 2011. With markets speculating that the Bank of Japan will soon raise rates, **Japanese** bond yields were at their highest point in a decade, pushing the central bank to make unscheduled purchases of government debt in order to maintain its policy of controlling yields. The finance ministry refused to say whether it had intervened in currency markets, after the yen reached 150 to the dollar.

The sell-off spread to **stockmarkets**, causing the Dow Jones Industrial Average to turn negative for the year. The S&P 500 fell by 5% in September and the NASDAQ Composite by 6%, the worst month for both indices so far in 2023.

Losing faith in the homeland

The **Russian rouble** slid below the symbolic mark of 100 to the dollar. A Kremlin spokesman said there was "no cause for concern". Officials have been putting pressure on the central bank to lift interest rates to halt the decline. The bank made an emergency increase in August and raised its main rate again last month, to 13%. One reason for the rouble's depreciation is businesspeople pulling their money from Russia, which has sparked a debate about reintroducing the type of currency controls that were brought in at the start of Russia's war on Ukraine.

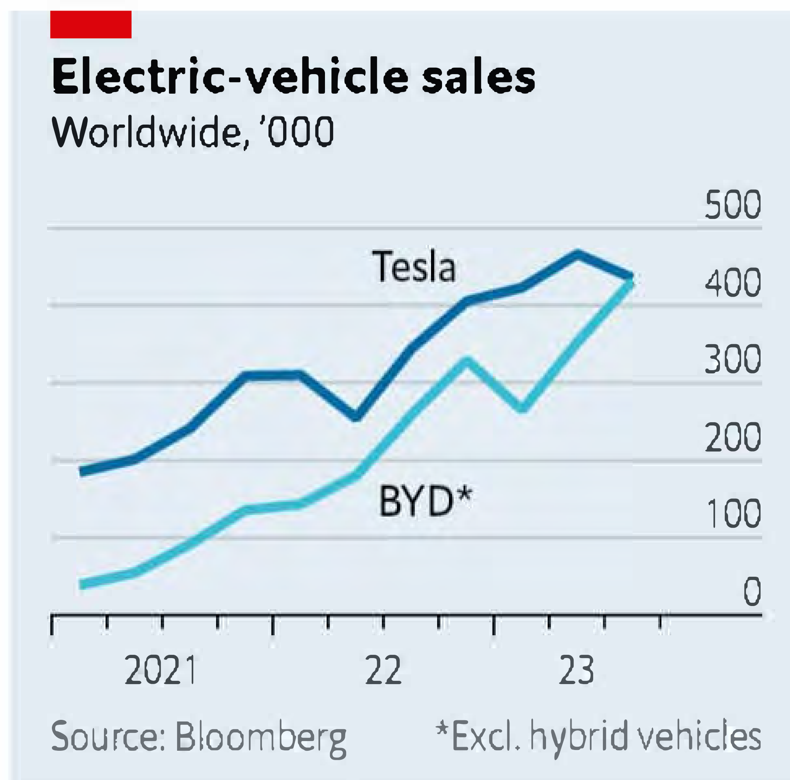
The euro zone's annual **inflation** rate fell sharply in September, to 4.3%, the lowest level in almost two years. The core rate, which excludes food and energy, dropped to 4.5%. The mood music from the European Central Bank is that it will keep its interest rates at the current high levels so that inflation drops to 2% by 2025.

A rise in the cost of oil pushed **Turkey's** inflation rate to 61.5% in September. The central bank has raised interest rates to 30% to try to tame prices.

Sam Bankman-Fried went on trial in a court in Manhattan over the collapse of FTX, the world's third-biggest cryptocurrency exchange before its bankruptcy. Mr Bankman-Fried is accused of defrauding investors and customers in the company he founded and of money-laundering. He has pleaded not guilty. The trial of the former high-roller, who was once courted by politicians because of his generous funding for projects related to "effective altruism", is expected to last six weeks.

Birkenstock priced its forthcoming IPO on the New York Stock Exchange at a range of between $44 and $49 a share. The German sandal-maker is seeking a top valuation of $10bn, which would make it one of the biggest stockmarket flotations this year.

Air France-KLM will take a stake of 19.9% in **SAS**, as the bankrupt Scandinavian airline restructures its business. An American private-equity firm, Castlelake, will become the biggest shareholder with a 32% holding. The Danish government will hold roughly 26%. The reorganisation means SAS will no longer list on the stockmarket, wiping out existing shareholders.



Tesla delivered just over 435,000 cars in the third quarter. That was below market expectations, even accounting for the effects of upgrades to the carmaker's factories. With Tesla's production down by 10% over the previous quarter, **BYD** is nipping at its heels as the world's biggest seller of electric vehicles. The Chinese company, which is making a big drive into foreign markets, sold 431,600 fully electric cars in the quarter.

Riding the wave of a boom in tourism, **Carnival Cruises** reported a record $6.9bn in quarterly revenues and a solid profit. The company's booking volumes are nearly 20% above their levels in 2019. Carnival and Royal Caribbean Cruises have been among the best-performing stocks on the S&P 500 this year, exceeded only by the likes of Meta, Nvidia and Tesla.

A shoplifters' paradise

British retailers demanded that the government take urgent action to stop the rise of **retail crime**. British shops recorded 867 incidents a day in the 12 months ending March 2022, double the pre-pandemic rate. Retail theft cost £953m ($1.1bn) in the most recent survey, despite retailers spending £700m on crime prevention. Retailers want the police to do more; 44% think the police response has been poor.

Florence became the latest tourist destination to curtail **Airbnb** and similar platforms when it banned new short-term rentals in the city centre. The number of local properties listed on Airbnb has mushroomed from 6,000 in 2016 to almost 14,400 today, even as average ordinary monthly residential rents have jumped by 42%. Florentines are complaining that their apartment blocks are turning into hotels, says the mayor.

The Economist

Are free markets history?

Governments have jettisoned the principles that made the world rich

SOMETIMES, IN WARS and revolutions, fundamental change arrives with a bang. More often, it creeps up on you. That is the way with what we are calling "homeland economics", a protectionist, high-subsidy, intervention-heavy ideology administered by an ambitious state. Fragile supply chains, growing threats to national security, the energy transition and the cost-of-living crisis have each demanded action by governments—and for good reason. But when you lump them all together, it becomes clear just how systematically the presumption of open markets and limited government has been left in the dust.

For this newspaper, this is an alarming trend. We were founded in 1843 to campaign for, among other things, free trade and a modest role for government. Today these classical liberal values are not only unpopular, they are increasingly absent from political debate. Less than eight years ago President Barack Obama was trying to sign America up to a giant Pacific trade pact. Today if you argue for free trade in Washington, you will be scoffed at as hopelessly naive. In the emerging world, you will be painted as a neocolonial relic from the era when the West knew best.

Our special report this week argues that homeland economics will ultimately prove to be a disappointment. It misdiagnoses what has gone wrong, it overburdens the state with unmeetable responsibilities and it will botch a period of rapid social and technological change. The good news is that eventually it will bring about its own demise.

Central to the new regime is the idea that protectionism is the way to cope with the buffeting of open markets. China's success convinced working-class Westerners that they had a lot to lose from the free movement of goods across borders. The covid-19 pandemic left elites thinking that global supply chains had to be "derisked", often by moving production closer to home. China's rise under "state capitalism", with its disregard for rules-based trade and challenge to American power, was seized on in rich and emerging economies as a justification for intervention.

This protectionism goes along with extra government spending. Industry is gobbling up subsidies to boost the energy transition and guarantee the supply of strategic goods. Vast handouts to households during the pandemic have raised expectations of the state as a bulwark against life's misfortunes. The Spanish and Italian governments are even bailing out borrowers who cannot afford the rising cost of mortgages.

And, inevitably, state handouts go along with extra regulation. Antitrust has become activist. Regulators are eyeing nascent markets, from cloud gaming to artificial intelligence. Because carbon prices are still too low (see Finance & economics section), governments end up micro-managing the energy transition by decree.

This mix of protection, spending and regulation comes at a heavy cost. For a start, it is a misdiagnosis. The pooling of risks is indeed an essential function of governments. But not all risks: for markets to work, actions must have consequences.

In contrast to the accepted view, covid and the Ukraine war have shown that markets deal with shocks better than planners do. Globalised trade coped with huge swings in consumer demand: throughput at America's ports in 2021 was 11% higher than in 2019. In 2022 Germany's economy repeated the trick, suffering no calamity as it switched rapidly from Russian gas to other sources of energy. By contrast, state-dominated markets like the supply of shells for Ukraine are still struggling. Just like the old complaints about trade with China—which has boosted Americans' real incomes—gripes about globalisation's supposed fragility have built a cathedral of fear over a grain of truth.

Another flaw in homeland economics is to overburden the state. Governments are losing all restraint just when they need to curtail welfare spending. Ageing populations weigh down budgets with extra bills for pensions and health care. Rising interest rates make everything worse. After a bond-market crisis in 2022, Britain's right-wing government is raising taxes, as a share of GDP, by more than in any parliamentary term in the country's history. As yields rise on long-dated bonds, indebted Italy looks wobbly again (see leader). America's rising debt-service bill will probably match its all-time high before the end of the decade—testimony to the fiscal fragility of the new era.

The least visible, but potentially most costly flaw is that homeland economics is a blunt instrument in a time of rapid change. The energy and AI transitions are too big for any government to plan. Nobody knows the cheapest ways to decarbonise or the best uses of new technology. Ideas need to be tested and channelled by markets, not governed by checklists from the centre. Excessive regulation will inhibit innovation and, by raising costs, make change slower and more painful.

Despite its flaws, homeland economics will be tough to restrain. People enjoy spending other people's money. As government budgets get bigger, the special interests that feed on them will grow in size and influence. It is harder to withdraw protection and handouts than to grant them—particularly with more elderly voters, who have less of a stake in economic growth. Anyone doe-eyed about the arc of history bending towards progress should remember that a century ago Argentina was about as rich as Switzerland.

Plan for the road ahead

Yet disillusionment will eventually set in. That may be because fiscal extravagance catches up with indebted governments. Perhaps the rent-seekers' greed will become too hard to conceal. Or a stagnating, repressive China may no longer hold out the promise of state-directed prosperity.

When change comes, it can be surprisingly swift—in democracies, at least. In the 1970s the tide turned in favour of free markets almost as fast as it has turned against them today, leading to the election of Margaret Thatcher and Ronald Reagan. The task for classical liberals is to prepare for that moment by defining a new consensus that adapts their ideas to a more dangerous, interconnected and fractious world. That will not be easy, especially in the face of the rivalry between America and China. But it has been done in the past. And think of the prize. ■

African politics

Losing faith in democracy

Unfortunately, the alternative will almost certainly be worse

SOMETHING HAS gone badly wrong in Africa. Sudan has collapsed into carnage, as two grasping warlords battle for control. Genocide has returned to Darfur: fighters loyal to one of those warlords are murdering every male they can find from one ethnic group, even shooting baby boys strapped to their mothers' backs, as we report (see Middle East & Africa section). In Ethiopia one civil war has barely ended and a new one is brewing. Across the Sahel, jihadists are terrorising millions and soldiers are seizing power, promising to restore calm but not actually doing so. You can now walk across nearly the widest part of Africa, from the Atlantic to the Red Sea, passing only through countries that have suffered coups in the past three years. But it would be unwise—you might well be kidnapped.

One reason coups have grown more common is that many Africans have lost faith in democracy. Afrobarometer, a pollster, found that the share who prefer democracy to any other form of government has fallen from 75% in 2012 to 66%. That may sound like a solid majority, but it includes many waverers. An alarming 53% said a coup would be legitimate if civilian leaders abuse their power, which they often do (see International section). In South Africa, which has one of the world's most liberal constitutions, 72% say that if a non-elected leader could cut crime and boost housing and jobs, they would be willing to forgo elections.

There are as many reasons for this growing disillusion as there are medals on a coup-leader's chest. One is that incumbent regimes, most of which claim to be democratic, have brought neither prosperity nor security. Real GDP per person in sub-Saharan Africa was lower last year than it had been ten years earlier. More people are dying in small conflicts than at any point since at least 1989. In Nigeria whole schools have been abducted. When people lose hope that their lives will improve, they become impatient for change and the risk of coups and civil wars increases sharply.

Another problem is that many so-called democracies in Africa are phoney. Most African countries adopted the trappings of multiparty democracy after the end of the cold war. And in some countries, such as Kenya and Zambia, power changes hands more or less peacefully at voters' behest. In many others, though, rulers allow the opposition to participate in elections but take a thousand precautions to ensure they cannot win, from tampering with the voters' roll to throttling the media. No fewer than nine African leaders have been in power for more than 20 years. It is hard to expect people to support democracy if all they have experienced is a masquerade of it.

Meanwhile, geopolitics has grown friendlier to autocrats. If the West withholds arms or loans from African juntas, China and Russia are happy to step in. So, too, are unsqueamish middling powers such as Turkey and the United Arab Emirates. Western governments have sometimes acted shabbily, turning a blind eye to a coup in Chad and electoral theft in Congo. Their hypocrisy undermines the democratic values they espouse.

Africa is not the only part of the world where democratic disillusion is spreading. A whopping 62% of Americans and 56% of French told a Pew poll last year that they were not satisfied with democracy in their countries. Among young Americans, nearly a fifth think a dictatorship would be preferable. The big difference is that rich, mature democracies have solid institutions that make a coup virtually impossible. In much of Africa the army and its cronies are all too ready to seize control.

Once the men with guns are in charge, they are hard to dislodge. They postpone elections indefinitely and remove even the threadbare checks on executive power that once existed. They govern terribly, but if the joyful crowds that greet some coups change their minds about their new rulers, there is little they can do about it. Equatorial Guinea's president seized power in 1979. He is still in office, and his luxury-loving son may succeed him. Autocracy lacks the built-in correction mechanism of true democracy: the promise that, if governments are no good, voters can sack them. And because many African countries have festering ethnic tensions and territorial disputes, coups and dictatorships often lead to war, as has happened in Sudan.

Reversing Africa's turn away from democracy will not be easy. It is a task, first and foremost, for Africans themselves. The African Union, a regional body, should once again take seriously its old "no-coup" policy, and ostracise putschists. More important, African governments that claim to be democratic will have to govern better, by curbing corruption, fostering growth and resisting the temptation to hogtie the opposition. For example, the World Bank reckons that implementing the African Continental Free Trade Area could raise incomes by 9% by 2035 by removing obstacles to trade. Yet its members are dragging their feet.

Rich countries can help. They ought to press ahead with restructuring unsustainable debts and make good on a long-standing, unkept promise to spend $100bn a year to help poor countries with climate change. The World Bank and IMF could help crowd in investment, especially if their capital were topped up. The West would do well to welcome more African migrants to study and work; some will return home with useful skills and others will send back money to educate nieces or bankroll new businesses.

To help improve African security, America, which is more popular than former colonial powers such as Britain and France, could keep training and arming legitimate forces battling jihadists and other insurgents. The European Union must not cut funding for African-led peacekeeping missions, such as the one in Somalia that is now being wound down.

From cradle of humanity to centre of gravity

The main reason to wish for progress in Africa is to benefit Africans. But the rest of the world has a stake, too. Africa is the only continent where population growth is fast. By 2030 nearly one in three people entering working age will live there. Many of humanity's big challenges, from climate change to pandemics, will be harder to tackle if Africa is dysfunctional. There is no guarantee a more democratic Africa will be prosperous and peaceful, but one ruled by autocrats and generals will surely not be. ■

America's Republican Party

The conservative Jacobins

Kevin McCarthy's defenestration is harmful for America and worse for Ukraine

Two months before the French revolution in 1789, Congress met for the first time, in New York City's Federal Hall. In the intervening 234 years no speaker of the House of Representatives has been removed by a motion to vacate—until this week, when a small cadre of Republicans ejected Kevin McCarthy. Mr McCarthy had only had the gig since January. But the House Republican Party exists in a state of permanent revolution. All of the past three Republican speakers have been hounded by their own side. The parliamentary point that did for Mr McCarthy in the end was arcane, but its consequences are not.

A healthy two-party system ought to encourage bipartisan dealmaking. In the House the only way Mr McCarthy could ascend to the speakership, after a humiliating 15 rounds of voting, was to make a series of apparently contradictory promises to members of his own side—and then agree to a rule whereby any one of 222 Republicans could bring forward a motion to replace him. Mr McCarthy has a reputation for being slippery, but making promises that are impossible to keep seems to be a condition for obtaining the speaker's job. The minute he did the right thing, by reaching across the aisle to fund the government with help from Democrats, he was fired.

The next speaker, whoever he or she is, will try to amend the rule that allows just one member to trigger a contest. But the same dynamic will apply. One of the unwritten laws of American politics is that when Republicans control the House and the president is a Democrat, chaos ensues. There was a government shutdown when Republicans took the House during Bill Clinton's presidency. There was another when they took the House during Barack Obama's presidency. A shutdown was only narrowly, and temporarily, averted this time because Mr McCarthy decided to do the deal with Democrats which cost him his job.

This way of not governing is bad for American voters. The country's debt-to-GDP ratio has reached 98%, at a time when the cost of borrowing has also risen sharply. Tackling this will require hard trade-offs, something this Congress does not deal in. Legislative strikes in Washington do the work of Chinese government propagandists, who say that democracy is no way to run a serious country. And they make America's allies nervous about whether presidents can keep their word.

Ukraine is the most concerned among them. Funding for the war will probably run out before the end of the year. The only way for the House to pass a 45-day budget extension and avoid a shutdown was to ditch a new package of help for Ukraine. This comes at a time when Poland, one of Ukraine's staunchest allies, has been threatening to block some arms deliveries in a row over grain exports. In Slovakia, another hitherto firm ally, a recent election may produce a government under Robert Fico that is sympathetic to Russia.

To counter the impression that the West is wavering, the next speaker should bring funding to the floor and allow the cross-party majority in the House that supports Ukraine to vote. The convention that only legislation supported by a majority of the majority can come to the House floor is a pointless one that ought to be scrapped. Doing so would make it harder for a small group of nihilists to prevent anyone else from passing laws.

A more likely outcome is that Congress will stick to the usual way of doing things. The House will eventually find more money for Ukraine—but not until the end of the year, when a gigantic spending bill arrives before the Christmas break. That needless delay will undermine American credibility. By encouraging Vladimir Putin to wait for the West's support to peter out, it may cost Ukrainian lives, too. ■

Italy's public finances

Reality beckons

Rising bond yields are exposing fiscal fantasy in Europe

As the fear that interest rates could stay higher for longer sinks in, government-bond yields across the rich world are rising. America's ten-year Treasury yields, at about 4.7%, are at their highest since 2007. The Bank of Japan has ramped up its bond purchases to maintain its cap on yields. In Europe on October 4th the yield on ten-year German bunds crossed 3% for the first time in more than a decade. Those on Italian debt are nearly 5%—the highest since the tail-end of the euro zone's sovereign-debt crisis in 2012. And that is a worry, because Italy is one of the bloc's most indebted member states and its government has not woken up to how its spending plans now look unsustainable.

Over the past 15 months a surge in inflation in the euro zone has been met by dramatic action from the European Central Bank (ECB), which has raised rates by 4.5 percentage points. Look at public spending, though, and you would not know that a battle against inflation is raging. Budgets ballooned in several big European countries as governments sought to help their citizens recover from lockdowns and an energy crunch. But even as those shocks have faded, deficits have remained wide. France projects a budget shortfall of nearly 5% of GDP this year, and 4.4% next. Italy plans to run a deficit of 5.3% this year, and 4.3% in 2024. Its shortfall comes even as the country is on course to receive nearly €70bn ($74bn), equivalent to another 2% of annual GDP, from the EU's common pandemic-recovery fund.

Italy's spending is a particular problem because of its slow growth, which this year is expected to be below 1%, and its vast debt burden—net public debt in 2022 was 144% of GDP. If it runs too wide a deficit, or faces too high an interest rate, the debt will become unmanageable. Now it is in danger of both.

Investors are well attuned to these risks, which is why they extract a premium for lending to Italy, compared with lending to Germany. When Italy's government, led by Giorgia Meloni, revealed its budget plans on September 27th, that yield-spread duly went up. Unless she reins in spending, Ms Meloni looks set on a collision course with the European Commission, the central bank and investors.

In an ideal world, Italy would follow the EU's fiscal rules, designed to ensure that its public finances stay out of danger. Alas, this will be hard to pull off. For a start, the rules are not realistic. To expect Italy to hit a debt-to-GDP target of 60% over a set number of years, as they do, is ridiculous. Although the European Commission hopes to overhaul those rules, hawkish northern countries are loth to give much ground. The result is standstill.

Even if better regulations were in place, enforcing them would be another difficulty. Past experience suggests that national governments rarely choose to follow the rules set in Brussels and trim spending at home, because it risks irking voters.

That leaves Italy subject to discipline from investors and the ECB. The role of the central bank is far clearer than it was during the depths of the euro zone's debt meltdown. Should spreads on government debt start to spiral out of control, the ECB has committed itself to buying that debt. In July last year the bank also said it would seek to aid the smooth transmission of monetary policy, by buying a country's debt if spreads rise by more than it deems to be warranted by economic fundamentals.

Meloni-drama

Yet none of this means that the ECB will backstop reckless fiscal policy. Its programmes come into force only if the country in question accepts budgetary discipline. The central bank's focus is unwarranted rises in spreads, rather than the level of the interest rate itself—and it is that which is a problem for Italy. Moreover, having been an enthusiastic buyer of government bonds during the pandemic, the ECB will soon decide how to shrink its holdings, which may further reduce demand for Italian bonds.

The scene is set for more market jitters. Ms Meloni's government could begin to curb spending before then. More likely, though, she will wait for nervous investors and rising borrowing costs to force her hand. A reckoning with reality is almost certain. The only question is how much drama is needed first. ■

The Nobel prize for medicine

The greatest benefit conferred on humankind

In an ugly world, vaccines are a beautiful gift worth honouring

THE NOBEL prize for medicine, awarded on October 2nd to Katalin Karikó, a biochemist, and Drew Weissman, an immunologist, is a fitting capstone to a great underdog story. Dr Karikó's unfashionable insistence on trying to get RNA into cells set back her career. She persisted, and the two developed a technique which allowed the immune system to be primed against threats in an entirely new way (see Science & technology section). When the covid-19 pandemic hit, the mRNA vaccines they had made possible saved millions of lives—and freed billions more to live normally again.

Their prize is unusual. The only previous scientist to have won a Nobel prize in the context of vaccination was Max Theiler, who discovered the attenuated strain of the yellow-fever virus which has been used as a vaccine since the 1930s. Neither Jonas Salk nor Albert Sabin was rewarded for developing polio vaccines. The eradication of smallpox went uncelebrated, too.

Given that Alfred Nobel's will calls for the prizes to go to those who have conferred the greatest benefit on humankind, this poor record is undeserved. But although they may have gone without trips to Stockholm, nice fat cheques and 175g gold medals portraying an entrepreneur in explosives, vaccine scientists can contemplate something even better. As the inscription to Christopher Wren in St Paul's Cathedral puts it: *Si monumentum requiris, circumspice* (If you seek his monument, look around you). The vaccine-makers' work is commemorated in hundreds of millions of lives.

The World Health Organisation (WHO) says that vaccines have saved more from death than any other medical invention. It is a hard claim to gainsay. Vaccines protect people from disease cheaply, reliably and in remarkable numbers. And their capacity to do so continues to grow. In 2021 the WHO approved a first vaccine against malaria; this week it approved a second.

Vaccines are not only immensely useful; they also embody something beautifully human in their combination of care and communication. Vaccines do not trick the immune system, as is sometimes said; they educate and train it. As a resource of good public health, they allow doctors to whisper words of warning into the cells of their patients. In an age short of trust, this intimacy between government policy and an individual's immune system is easily misconstrued as a threat. But vaccines are not conspiracies or tools of control: they are molecular loving-kindness.

The best way to further honour this extraordinary set of technologies is to use it more and better. Gavi, a public-private global-health partnership, has made over 1bn doses of various vaccines available to children in poor and middle-income countries this century; it believes this has averted over 17m deaths. Even so, millions of children receive no vaccinations at all.

It is often said that Nobel's bequest was an atonement for the destruction his explosives made possible. His writings offer no evidence for that, but the sheer scale of the damage they did—the military use of explosives in 20th-century wars is reckoned to have claimed 100m-150m lives—is so great that the idea feels as if it should be true. Vaccination is one of the few benefits conferred on humankind that measures up to that task. It is as though the world were able to run one of the terrible wars of the 20th century in reverse, saving millions of lives a year, every year. *Si expiationem requiris, circumspice.* ■

Ukraine's army divisions

The claim that a lack of professional junior leaders may have impeded Ukrainian operations seems plausible ("Are Ukraine's tactics working?", September 16th). Since the first world war, effective infantry tactics have relied on expertise at the squad, platoon and company levels. Nevertheless, the real obstruction to Ukraine's counter-offensive seems to be located higher up the chain of command, especially at the divisional level.

The job of the division, a command of about three brigades (20,000 troops), is to co-ordinate artillery and air strikes in the "deep" battlespace beyond its brigades, but in immediate support of them. Although the Ukrainians have mounted many successful operational strikes against Russian targets in Crimea and elsewhere, they seem to have struggled to support their brigades with sufficiently concentrated fireplans. Brigades have fought bravely and effectively on their own.

If it is difficult to train junior commanders, it is even more challenging to develop competent divisional commanders, supported by efficient headquarters. The West would be wise to address this issue over the winter.

ANTHONY KING
Chair of war studies
University of Warwick
Coventry

A precedent for India

India is alleged to have killed a Sikh separatist in Canada ("Death in Vancouver", September 23rd). Perhaps it could take a lesson from Northern Ireland, where funding for the IRA came mainly from donors in America. British governments worked with the American authorities to stop the flow of those funds. At no time did the British government accuse the American government of conspiring to cause mayhem in Northern Ireland. It was a bone of contention but both governments had to work within the law. India must understand this. However beleaguered it may feel about separatist movements outside its shores, it must recognise that foreign governments have to work within the law of their own countries. India may then be able to achieve a lot more in that spirit of co-operation.

AJAY DOSHI
Nairobi

Britain's frustrating politics

Bagehot (September 16th) blamed the clash of Rory Stewart's idealism with the political reality of Westminster for his going "a bit mad". But isn't the endorsement of the "grubby but always needed art of politics" even crazier? The corrupt, factional skulduggery now embedded in many representative governments should not be the best that Britain can hope for, especially now that we so clearly see that it produces an apathetic, alienated population, divisive all-or-nothing referendums and a long decline of national competitiveness.

Those seeking power must spell out new ideas, even if at first they sound naive, otherwise newcomers like Mr Stewart will have no legitimacy to reform how any country is run. Change in Britain might include proportional representation, randomly selected citizens' assemblies, doing something new with the House of Lords, a mix of all these and more. True insanity is to keep banging our heads against the wall of the same outdated voting system and to expect that it will produce a better result.

HUGH POPE
Brussels

Like that Japanese soldier who hid in the jungle until 1974 Britain's parties are survivors of dead conflicts. The MPs they pick and control for our approval are tied to manifestos with minority support. Our simplified elections are cockfights between the two main parties, one of which expects to win. Unlike Europe's other voters, ours despise coalitions and proportional representation as formulas for sissies. As a result we have alternating rule by one party that the majority of voters have usually rejected, which is on the hook to its remnant membership.

ROD TIPPLE
Cambridge

Can AI spot fake science?

You ask whether artificial intelligence could transform science itself, highlighting the potential for AI algorithms to trawl through the global academic literature for patterns and insights ("I, robot scientist", September 16th). It is a troubling reality that the reliability and trustworthiness of this literature is undermined by a significant proportion of content that is fraudulent, dishonest and fake, for reasons which are often related to the career advancement of the miscreants.

Some of this material is weeded out by suspicious readers, reviewers and editors, but an unknown volume escapes censure to contaminate the academic gene pool. In my own wide-ranging field of medicine, information from fraudulent and misleading papers can have a significant adverse impact upon human health and well-being.

Hence there is a real danger that trawling AI for insights will naively integrate the good, the bad and the ugly with the erroneous and potentially damaging. The solutions to this problem are not yet clear, but awareness of the potential for harm is an important first step.

DAVID REW
Faculty of medicine
University of Southampton

To describe the concerns of some people about AI and the "extinction of humanity" as fretting, whereas others are just focused on its potential, is a classic on the one hand, on the other hand formulation. I can't see how you can reasonably balance extinction with anything else. In those stakes, we don't fret enough.

LORI FONTANES
Rye, New York

Extremists in power

You argued that the far right in Europe would become less dangerous if it entered government ("The real threat from Europe's hard right", September 16th). I am not so sure. That was precisely the argument used to obtain President Hindenburg's approval for bringing the National Socialists into government in 1933. But why turn to ancient history? Just look at Hungary's Fidesz party, which has become much more extreme since attaining a governing supermajority in 2010. Beyond Hungary, there is a great deal of evidence—Nuevas Ideas in El Salvador, Law and Justice in Poland, the True Finns in Finland—that extremist parties and leaders do not in fact become more moderate after achieving power. Your claim seems to involve the triumph of hope over experience.

MATTHEW DRAPER
Charlottesville, Virginia

You chose a photo of a shaven-headed man with an earring to illustrate your cover on the far right (September 16th). The reality is that the hard right today has support from men and women of all ages, races, religion, sexual orientation and classes, both with and without hair. Some of them even wear suits.

JACK LARD
Balding but not extreme
Paris

Now you listen here!

I speak for all Monty Python fans when I posit that, although Elon Musk's Messiah status remains unclear, with all his self-acknowledged faux pas he certainly is a very naughty boy ("Messiah, menace or both?", September 16th).

TOM APPLETON
Haywards Heath, West Sussex

Letters are welcome and should be addressed to the Editor at
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Ripple effects

KYIV

The war in Ukraine is threatening to wash across the Black Sea

When Russia invaded Ukraine last year, the Black Sea seemed unlikely to become much of a battleground. The Ukrainian navy, after all, had only one warship, which it was forced to scuttle as Russian troops advanced on the shipyard where it was being repaired, in the city of Mykolaiv. Snake Island, a maritime outpost guarding the western approaches of Odessa, Ukraine's biggest port, fell to Russian attackers on the first day of the war. Odessa itself braced for an amphibious assault that would have cut Ukraine off from the sea altogether.

The fact the landings never came was the first sign that Russia's dominion over the sea was not as absolute as it seemed. A more ringing indication of that came in April of last year, when Ukraine managed to sink the flagship of Russia's Black Sea fleet, the *Moskva*, using a newly developed anti-ship missile. Two months later intense Ukrainian bombardment drove the occupiers from Snake island. But it is only much more recently that Ukraine has begun to demonstrate a capacity to strike targets across the Black Sea.

In early August a Ukrainian naval drone—another new weapon—damaged a Russian landing-ship just off Novorossiysk, a big Russian port far to the east of the war zone. The following day another drone damaged a Russian oil tanker off Crimea, the peninsula that dominates the Black Sea, which Russia seized from Ukraine in 2014. On October 1st aerial drones struck a helicopter base in Sochi, some 600km away from the closest Ukrainian-held territory. Most dramatically of all, over the past month, Ukrainian missiles and drones have repeatedly hit targets across Crimea, culminating in the destruction of the headquarters of Russia's Black Sea fleet in Sevastopol on September 22nd.

Russia also seems to be intensifying the war at sea. In July it withdrew from a pact overseen by the UN whereby it allowed Ukrainian grain exports to pass safely across the sea. It has threatened to sink any cargo ships calling at Ukrainian ports and has repeatedly bombed Ukrainian docks and grain silos in an effort to throttle Ukraine's maritime trade. Since Russia and Ukraine both have the capacity to strike at shipping and since, as a diplomat puts it, the Black Sea is to grain what the Persian Gulf is to oil, an escalation in naval warfare could have a harrowing impact on global food markets. In fact, the Black Sea is also a big conduit for oil, and is central to the economies not only of Russia and Ukraine, but also Turkey and other littoral states. If it truly becomes a war zone, the world will feel the repercussions.

Sea gall

For the most part, the war in Ukraine has been dominated by infantry, tanks and artillery, as well as long-range drones and missiles. But even though the six amphibious assault ships that Russia deployed to the Black Sea just before the outbreak of hostilities have not been used, the threat to Ukraine's southern shores has in some ways shaped the conflict. For one thing, the possibility of a coastal landing meant that Russia could menace Ukraine from three directions, and obliged Ukraine to spread its forces thinly in response.

Much the same logic has applied to the war in the skies. Excluding Iranian-made drones, around a fifth of all Russian missile strikes on Ukraine between January and March of this year originated at sea. Attacking from the sea, as well as from land ▸▸

and air, has allowed Russia to place a greater stress on Ukraine's air defences, which have to watch for attacks from every direction bar the west.

Ukraine's response has in some ways been a triumph. The sinking of the *Moskva* has obliged Russia to keep its ships away from the shore. And the steady bombardment of Sevastopol has turned a huge naval base into something of a liability. Several ships previously berthed there have been pulled back to Novorossiysk. "They are like mice running away," scoffs a Ukrainian naval officer. Ukraine has achieved "the functional defeat of the Russian Black Sea Fleet", crowed James Heappey, Britain's junior defence minister, this week.

But for all its successes, Ukraine's main goal, to ensure that cargo ships can come and go safely from Odessa and its other ports, remains elusive. After Russia withdrew from the UN's grain initiative, Ukraine set up a new shipping route that hugs its coastline until the Romanian border to the west of Snake Island (see map). The intention is to keep civilian vessels as far from Russian guns as possible, and to get them as quickly as possible into the territorial waters of Romania, a member of NATO, where Russia would presumably hesitate to launch attacks. So far ten ships have come to Odessa this way, loaded grain and set sail again, without incident, despite Russia's threats.

A senior Ukrainian official tells *The Economist* that intelligence indicates Russia is planning an attack on civilian shipping, in an attempt to disrupt the new export route. Russian warships can fire missiles with a range of 2,500km, which would allow them to strike cargo vessels from a safe distance. By the same token, Russia can use submarines to lay mines even if its surface ships are forced to stay away, suggests Sidharth Kaushal of the Royal United Services Institute (RUSI), a think-tank in London (although Ukrainians argue that the shallow waters along the new export route would make that difficult). Even if Ukraine were somehow to sink the entire Russian fleet, missiles fired from Crimea could easily destroy a lumbering cargo ship off Odessa.

Another Ukrainian official notes that Russian strikes on Ukrainian ports are already raising insurance premiums across the Black Sea: "Insurers see where things are headed. They are not daft." But, adds the first, "Two can play at this game." Ukraine has warned that, if Russia attacks civilian vessels, it will retaliate in kind. It has been demonstrating its capacity to hit distant naval targets not to escalate the war in the Black Sea, he says, but to deter Russia from doing so.

The stakes for both countries are high. Before the war, roughly 60% of Ukraine's exports passed through its ports on the Black Sea. The volume of trade has since contracted dramatically, both because of the Russian blockade and because of the broader disruptions caused by the war to farms, factories and infrastructure. Even when the grain initiative was operating, Ukraine's exports were a fraction of what they once were (see chart on next page).

Some of the missing volumes have been diverted to barges on the Danube river. Ukrainian officials say they are managing to export over 3m tonnes of grain a month in that way at the moment. Another 1m tonnes is being exported by train and a smaller amount by lorry. But these alternatives are all much slower and more expensive than piling giant freighters with cargo. The cost of exporting a tonne of grain by river barge, for example, is roughly $120, versus $30-40 for exports by sea. Russia is bombing the new routes as well. What is more, Ukraine simply does not have adequate road, rail and barge capacity to substitute for deep-sea ports. The result is a further blow to an economy already gutted by the war, and further loss of tax revenue and foreign exchange for a government that is borrowing unsustainably.

But Russia has a lot to lose as well. More than 80% of its grain exports and about 30% of its oil exports pass through ports on the Black Sea. These shipments have barely been affected by the war so far. Russia's military force in Syria is also dependent on fuel and supplies shipped via the Black Sea. This "Syrian express" probably ranks high on Ukraine's list of potential targets should the war at sea expand in scope.

Crimea and punishment

To inflict serious injury on the Russian economy, Ukraine does not need to sink all Russia-bound ships, but simply to damage enough of them that insurance premiums shoot up and Russian ports become commercially unattractive. "We don't have the drones to stop all Russian trade. But if you are asking if we can dramatically increase the financial stakes? Sure, no problem," says a Ukrainian official.

That would be bad not only for Russia, but also for global food markets. In the early stages of the war, they were gripped by panic. After all, when fighting broke out, Russia and Ukraine together accounted for an eighth of the calories traded worldwide. In 2021 they were the world's first and fifth biggest exporters of wheat, shipping 39m tonnes and 17m tonnes respectively—28% of the world's traded supply. Both also grow a lot of grain used to feed animals, such as maize and barley, and are the top two producers of sunflower seeds, giving them an 11.5% share of the vegetable-oil market.

Within days, the invasion sent wheat prices to more than $12 a bushel, up from $7 two months before; the cost of maize shot to its highest in a decade. This was largely because of the Russian blockade of Ukraine's ports on the Black Sea. Traders also feared that the war and Western sanctions might impede Russian exports. Many, including *The Economist*, warned that global food shortages were looming.

Agricultural markets are much calmer now, despite the growing risk of escalation in the Black Sea. Wheat currently costs little more than $5 a bushel, less than it did before the war began. In fact, prices fell back to pre-war levels during the summer of 2022 and have stayed there since.

That was less because of the UN's deal to revive Ukraine's grain exports than because of bumper crops elsewhere. Russia, whose farming industry is exempt from Western sanctions, harvested an unprecedented 100m tonnes of wheat in 2022. Other countries, from Brazil to India, also enjoyed bumper crops.

This year looks much the same. Ukraine is growing less wheat than before the war and its exports are down sharply because of the scrapping of the grain deal. But Russia has again produced a bountiful harvest, as have many other exporters. Whereas last year crops were threatened by La Niña, a climatic phenomenon that often saps yields in big cereal-growing regions in the northern hemisphere, this year, notes Carlos Mera of Rabobank, a Dutch lender, the reverse pattern, El Niño, promises more benign conditions.

Attacks on commercial shipping in the Black Sea would doubtless send prices leaping again. Insurers would raise their rates or refuse to underwrite cargoes at all. Grain would not be the only casualty: some 2m barrels of oil and a further 1m barrels of refined petroleum products are exported through the Black Sea every day.

But the effects might again be short-lived. The Russian government is already insuring lots of the oil tankers that visit its ports, to help shipping firms evade Western sanctions. It could do the same for other exports as well. Despite rising tensions and Western pressure, lots of shipping firms are willing to transport Russian goods, says Matthew Wright of Kpler, a ship-tracking firm. What is more, Russia has a very dense network of oil pipelines. It could probably divert a good part of the oil that is normally shipped across the Black Sea to terminals in the Baltic. (The refined products would be harder to move around in this way.)

War and peas

Transporting grain by road from Russia's farming heartlands in the west to distant terminals in St Petersburg, the Baltics or the Pacific would be slow and prohibitively expensive. (Ukraine already struggles to truck much smaller volumes over shorter distances.) But Russia has several grain terminals on the Black Sea and the adjoining Sea of Azov, so it could use an ever-shifting assortment of ports and shipping routes to keep cargoes out of harm's way. Given that Russia has struggled to choke off Ukraine's grain exports despite its vastly superior navy and air force, it is hard to imagine Ukraine snuffing out Russian trade.

For all these reasons, Viktor Kurilov of Rystad Energy, a consultancy, reckons attacks on commercial shipping might cause crude-oil prices to rise by only \$5-7 a barrel before settling \$1-2 above where they would otherwise have been. Wheat markets might be jolted more severely, at least for a time. That would not be painless: the brief spikes in food prices last year, the UN calculates, helped lift the number of people around the world facing severe hunger by 65m. But a lasting cataclysm is unlikely.

A critical variable in all this is the stance of Turkey, in effect the gatekeeper to the Black Sea. Under a treaty called the Montreux Convention, Turkey is obliged to let commercial shipping pass unhindered through the Bosporus and Dardanelles, the narrow straits connecting the Black Sea to the Mediterranean. But the treaty places restrictions on the number and size of transiting warships. When war breaks out on the Black Sea, it gives Turkey the power to prevent belligerents from sending in reinforcements and to close the straits entirely to warships from non-littoral countries. So when Russia invaded Ukraine it barred Russia from reinforcing its Black Sea fleet, but also stopped NATO countries from sending in ships, despite being a member of the alliance itself.

With the collapse of the grain deal, Turkey is under pressure to help prevent Russia from strangling Ukrainian trade. Bulgaria and Romania, two NATO members with coastline on the Black Sea but relatively weak navies, would welcome a show of force from the alliance. Some Ukrainians are calling for Western naval convoys to protect commercial shipping.

But Turkey is loth to allow anything that increases the risk of a broader conflagration and that antagonises Russia. By sitting on the fence, Turkey's president, Recep Tayyip Erdogan, has won valuable concessions from his Russian counterpart, Vladimir Putin. Russia let Turkey delay some payments for Russian gas, worth perhaps billions of dollars, a sop that helped Mr Erdogan conceal the scale of his economic mismanagement before elections earlier this year. Turkey's refusal to join other NATO members in imposing harsh sanctions on Russia has also been lucrative: trade between the two countries nearly doubled last year, to \$62bn.

Some analysts suspect that Mr Putin also promised Mr Erdogan that Russian troops sent to enforce a ceasefire would instead stand aside as Azerbaijan, Turkey's main regional ally, seized control of a disputed province from ethnic-Armenian rebels in late September. "Turkey is using Russian weakness to extract concessions," says Yoruk Isik, who runs Bosphorus Observer, a consultancy. "As long as it continues to get them and as long as trade with Russia continues," he adds, "Turkey will do its best not to confront Russia."

Russia is equally reluctant to rock the boat, as it were. If Russia were to attack commercial shipping, the pressure on Mr Erdogan to allow NATO ships into the Black Sea would increase dramatically. One thought holding Mr Putin back may be the risk of pushing Mr Erdogan into a less accommodating position.

It is just another way in which neither side is likely to prevail completely in the war at sea. Ukrainian drones will continue to embarrass Russia, but the Russian navy will remain a menace to Ukrainian cities and shipping. Russia can probably push insurance rates sky-high, reckons Mr Kaushal of RUSI, "irrespective of how uncomfortable the Ukrainians can make Sevastopol". And although naval battles will never be the main focus of the fighting, fears of an alarming flare-up will always linger. ■


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A House in disarray

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WASHINGTON, DC

The sacking of Kevin McCarthy will make supporting Ukraine—and funding the American government—even harder

KEVIN MCCARTHY'S stint as speaker of America's House of Representatives ended the way it had begun: in utterly humiliating fashion. On October 3rd members of the lower chamber of Congress disposed of their leader for the first time in American history. Despite earning support from 210 of the 221 House Republicans, eight hardliners teamed up with 208 Democrats to fire Mr McCarthy. Shortly thereafter the former speaker announced that he would not try to regain the title. The coming weeks are likely to be chaotic, and the results of this chapter of congressional dysfunction will reverberate far beyond Capitol Hill.

An embarrassing ejection appeared to be on the cards as soon as Mr McCarthy won the speaker's gavel in January. As part of a deal with recalcitrant Republicans after 15 rounds of voting, Mr McCarthy agreed to allow a single congressman, at any time, for any reason, to call a vote for his removal as speaker. Matt Gaetz, an elaborately coiffed representative from Florida, had threatened to use the so-called motion to vacate for some time. Mr McCarthy's recent dealmaking with Democrats to avoid a government shutdown pushed Mr Gaetz over the edge.

"You all know Matt Gaetz. You know it was personal," Mr McCarthy said at a press conference after being ousted. Mr Gaetz denies that personal pique drove his fight against the former speaker, but the Florida Republican has faced a long-running House Ethics Committee inquiry into alleged sexual misconduct and misuse of funds. No doubt he was not thrilled that Mr McCarthy failed to stop the investigation. Yet the rebel leader probably had a mix of motives for making his move now.

"He's very, very sharp, very calculated, and very intelligent: a political pro," says Christian Ziegler, chairman of the Florida Republican Party. "This isn't someone that's just doing something uncalculated off the cuff and in the heat of the moment. Everything is very meticulously planned when Matt Gaetz takes action." Mr Gaetz enjoys the spotlight, and he also raised funds during this fight, which surely made him enemies on Capitol Hill. That is less important for someone who could be eyeing the governor's mansion in Florida.

For all his faults, Mr McCarthy overcame thin margins during his time in office. In May he managed to persuade the House to raise the debt ceiling, to avoid a damaging default. Then, on September 30th, he pushed through a last-minute bipartisan deal to delay a costly government shutdown. The next speaker may find the job harder still, even without the same baggage that some in the unruly Republican Party felt that Mr McCarthy carried.

The immediate task will be funding the government. The deal to avert a shutdown keeps the government going with a "continuing resolution" (CR) only until November 17th. A Republican strategist, Liam Donovan, reckons Mr Gaetz might be satisfied with Mr McCarthy gone, but other hardliners will not easily accept a long-term funding solution simply because a fresh face is running the House. Government will have to be funded "in a way that is even ▸▸

→ Also in this section

more anathema to these Republicans than the CR," Mr Donovan says. Mr McCarthy's replacement could soon be overseeing a shutdown. Averting a closure could potentially cost the new speaker his job.

Aid for Ukraine, which was not included in the government-funding deal in order to placate hardliners, is the greatest concern for those beyond America's borders. At the press conference announcing his departure, Mr McCarthy compared Vladimir Putin to Adolf Hitler and said the current world reminded him of the 1930s. He reiterated his support for Ukraine and rightly criticised President Joe Biden for his past hesitance on arming the country.

But some House Republicans have begun to oppose further funding. Mr McCarthy suggested a quid pro quo, in which aid for the government in Kyiv could be approved if Democrats help pass policies to shore up America's porous border. Supporters of Ukraine in Congress, who constitute a clear majority in both chambers, are pushing for a vote that would guarantee funding for the war-torn country up until the 2024 American presidential election. Threading this legislative needle could be even more difficult than avoiding a government shutdown.

To whom that task will fall is not obvious. Patrick McHenry, a North Carolina Republican hand-picked by Mr McCarthy, will serve as acting speaker and will merely oversee the election of Mr McCarthy's replacement. Republicans are planning for a candidate forum on October 10th and a vote the following day. But the real question is who among the Republicans has the mental fitness to do the job—and is mad enough to seek it.

No one expects a consensus figure to emerge as quickly as, for example, Paul Ryan did when he replaced John Boehner as speaker in 2015. Steve Scalise, the second-ranked Republican in the House, has thrown his hat in the ring. So has Jim Jordan, chairman of the Judiciary Committee, who has credibility with the right as a former Freedom Caucus head who managed to work productively with McCarthy allies. Kevin Hern seems to want the job, too: he leads the Republican Study Committee, which counts a majority of the House party as members. Yet uncertainty could pave the way for a dark horse. (Marjorie Taylor Greene, a prominent member of the Republican berserker caucus, tweeted that the only candidate she was supporting for speaker was Donald Trump.)

The chaos and intrigue will be as entertaining as any episode of "The West Wing", a Washington-focused television drama. That will provide little comfort for Americans who want their government to stay open—or for Ukrainians who rely on American power and largesse to sustain their fight for survival. ■

Swing states

The other Republican meltdown

MACKINAC ISLAND, MICHIGAN

Republican parties in important swing states are falling behind

STANDING ON A podium in a pink hotel ballroom Kristina Karamo, the chairwoman of the Michigan Republican Party, addressed a group of Republican university students. "I first got my start in politics on a college campus," she said. "I picked up a book called 'The Politics of Population Control', and I learned that...the abortion movement...was a plot to lower the human population." So began the 35th Mackinac Republican Leadership Conference.

As recently as 2015, six presidential hopefuls ventured to the quaint, car-free island known for its sickly-sweet fudge to campaign at the regular gathering of party bigwigs. This year the lone presidential candidate in attendance was Vivek Ramaswamy, who is polling at less than 7%. The rest of the programme, with mostly obscure speakers who railed against evolution, the deep state and "stolen" elections, reflected a populist makeover and descent into conspiracism that has come to characterise many state Republican parties since Donald Trump won the presidency in 2016.

Nowhere will the MAGA-fication of local parties have bigger implications for 2024 than in swing states. According to data that *The Economist* retrieved from the Federal Election Commission (FEC), Democratic state parties are raising more money than their Republican counterparts in six of the seven states where the presidential race is expected to be tightest (see chart 1 on next page). In Wisconsin the gap is an astonishing $8.8m, because of a competitive race for control of the state Supreme Court in April, which the Democrat-endorsed candidate won. Together, these six states account for 77 electoral votes, nearly 30% of the total needed to win the presidency.

To understand the effect of a party's politics on its wallet, consider two swing states where Republicans are falling especially far behind: Arizona and Michigan. In Michigan, the Mackinac conference was meant to showcase a new grassroots "America First" party. Instead it showed how quickly one of the strongest state parties in the country has fallen into disarray. For the first time in nearly 40 years, Democrats control both chambers of the state legislature and the governor's mansion.

Ms Karamo (illustrated above, on the left) is an election-denier who lost a bid for Michigan secretary of state, a post that oversees local elections, in 2022 by 14 percentage points. She was elected to her position as party chairwoman seven months ago. Her short tenure has been marked by a deepening rift between the party's populist wing, with which she is aligned, and establishment Republicans. Many Republican state legislators, including the state House and Senate minority leaders, stayed away from Mackinac. At one point, Ms Karamo felt the need to dispel rumours that she would resign. "Those who wish to maintain the status quo and manage inefficiently are angry that I'm chair," she told the audience. "Pound sand," she added.

Data from the FEC suggest the state party's fundraising totals are the lowest they have been at this point in the past five gen-


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Mood swing

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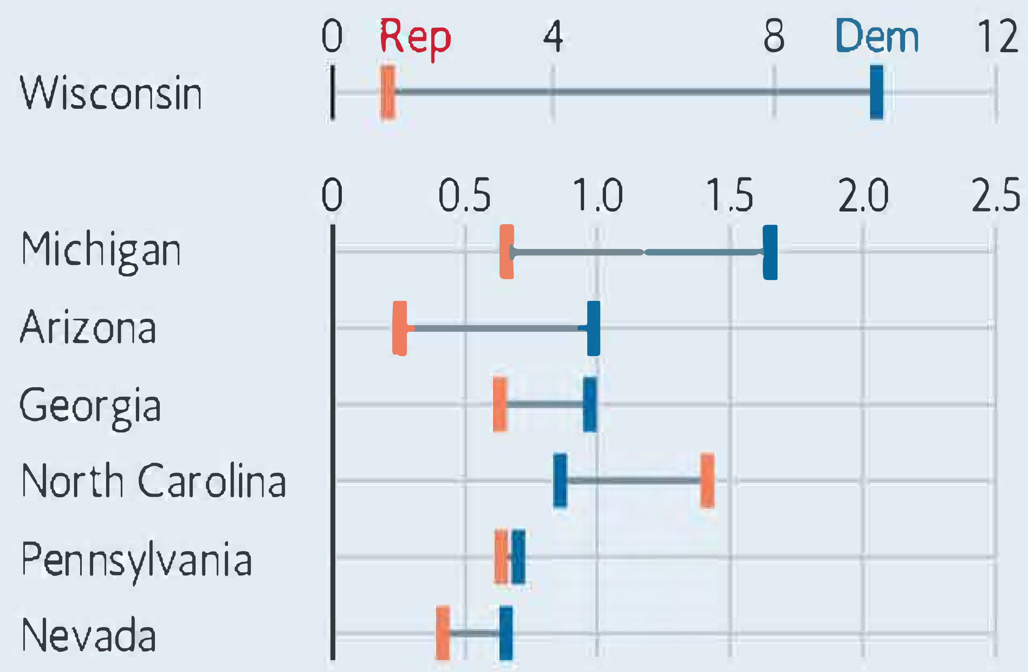


Source: Federal Election Commission

*'Toss-up' or 'lean' states as defined by *Cook Political Report*

eral-election cycles. Tim Ross, an exasperated member of the state party's budget committee, claims that the leaders refuse to share details on the party's financial health. "I still can't tell you exactly how much we're in debt, exactly how much we're spending and exactly what our revenue is. Because they're not giving us those numbers," he says. The party did not respond to requests for comment.

In the first half of 2023 the state party raised $655,399. After accounting for inflation, this is just 61% of the amount raised during the same period leading up to the 2020 election, and 43% of what it raised last time it had a competitive primary, in 2015 (see chart 2). This money is also quickly dwindling. During the first half of the year Michigan Republicans spent nearly four times as much money as they raised, leaving them with only $146,931 cash on hand by the end of June. Even that underwhelming number is in question. The FEC has asked the party to explain discrepancies between their filings and the bottom lines in the bank accounts used for federal elections, which suggest they have a little under half the amount they reported.

FEC data paint a partial picture. Campaign-finance law requires filings only for accounts used for federal elections as opposed to state ones. But reports trickling in about the party's state-level accounts are dire. Documents obtained by the *Detroit News* show that as recently as June the party's state account had a negative balance.

Michigan's Republican Party is not alone. The gap between Republican and Democratic fundraising in Arizona is nearly as wide. In fact, populist Republicans in these states see each other as fellow travellers. Kari Lake (on the right in our illustration), who lost Arizona's governor's race last year and is perhaps America's loudest election-denier besides Mr Trump, was the star speaker at the Mackinac event in Michigan. "We know that she is the true governor of Arizona," said Ms Karamo, welcoming Ms Lake to the stage.

Arizona is no newcomer to populist politics. In 1964 Barry Goldwater, an anti-establishment senator, captured the imagination of grassroots party members and became the Republican presidential nominee. Yet after Goldwater lost in a landslide, the party decided that moving towards the centre was the way to win back voters. Arizonans then sent relative moderates to the Senate, such as John McCain and Jeff Flake. Mr Trump's loss in 2020 has not provoked the same reaction (in large part because many Republicans believe he won). Instead, the populist wing of the Republican Party has doubled down.

A big perpetrator of the Big Lie that Mr Trump won the 2020 election was Kelli Ward, a former chairwoman of Arizona's Republican Party. Like Ms Karamo, Ms Ward took the reins of the state party after losing an election—she twice failed to win a Senate seat—and saw Democrats make great gains during her leadership. Arizona Republicans lost the governor's mansion, a Senate seat and the secretary of state's office. Party leaders also censured several members of Arizona's political elite who dared to break ranks with Mr Trump, including McCain's widow and Mr Flake, who had since left the Senate.

And so to 2024

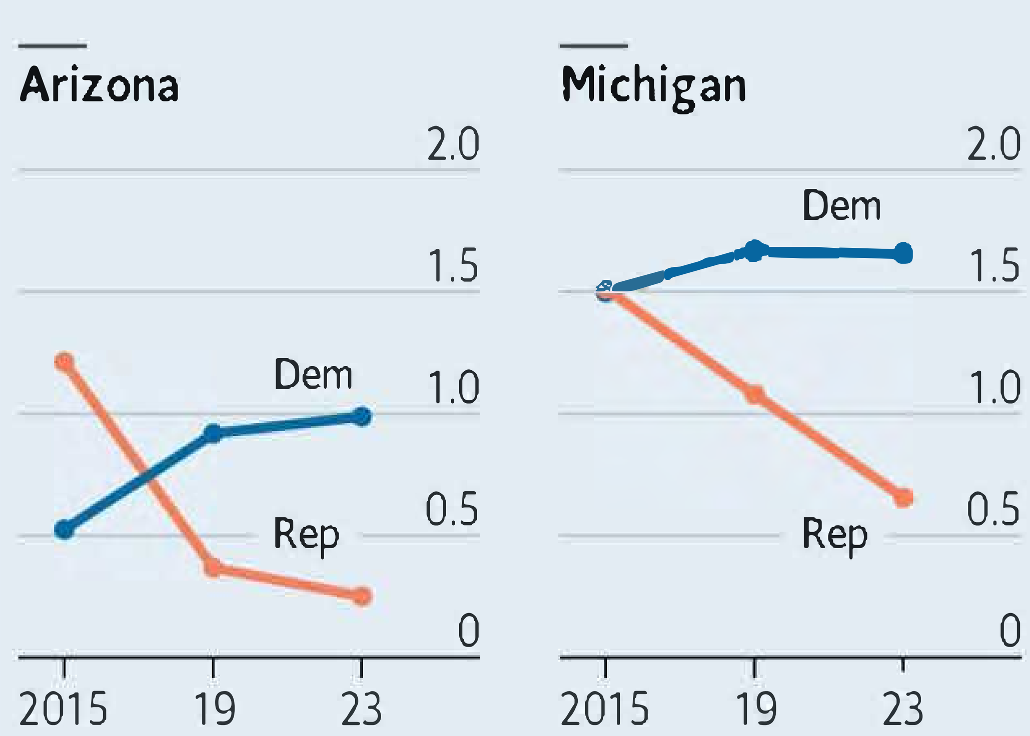
As in Michigan, donors have taken notice. Arizona's new party chairman, Jeff DeWit, who helped run Mr Trump's first two campaigns, seems to recognise that placating warring factions and boosting fundraising will be a Herculean feat. "I just need everyone to come together for two years...Let's get out the vote, let's register voters, let's win elections," he urged after winning the chairmanship. "And in two years if you want to go back to fighting with each other, that's your choice," he added.

Democrats are not immune to infighting. After supporters of Bernie Sanders took over the leadership of Nevada's Democratic Party in 2021, the establishment wing set up a parallel organisation. In the 2022 mid-terms Nevada Democrats managed to hold on to a Senate seat, but lost the governor's race. The state's other Senate seat, up for grabs in 2024, will be another test. Even amid such bickering, FEC data suggest Nevada Democrats are raising more money than Republicans.

The MAGA effect

US, fundraising by state political parties, $m

Jan-Jun of year before general election, June 2023 prices



Source: Federal Election Commission

How will the MAGA makeovers of swing-state parties affect the 2024 elections? A well-functioning party registers voters, recruits strong candidates and co-ordinates messaging and the allocation of resources across dozens of local party organisations. Jason Roe, a former Michigan Republican Party executive director who resigned after criticising Mr Trump, says that by this point in the election cycle parties should be hiring field staff to prepare for 2024. He alleges that in Michigan "there is no field staff operation to speak of". The party did not respond to enquiries about the size of its field operation.

Republican-aligned Super PACs, which can take unlimited donations so long as they do not directly co-ordinate with campaigns, and the national party, both flush with cash, should be able to fill the fundraising gap. But Super PACs lack the local knowledge and network that state parties have built up over decades. Relying on the national party to save a faltering state party is risky: it's not clear why the Republican National Committee (RNC) would funnel money into entities unable to balance their own cheque book. More probably, the RNC will work around them to distribute resources to key House and Senate races.

But organisational dysfunction is "not a real good look when you're talking about wanting to govern a state", says Mr Roe. Though true independent voters are scarcer than in the past, they can still make a difference in swing states. Arizona and Michigan have seen election margins of fewer than 11,000 votes in 2020 and 2016, respectively. Galvanising people to vote—historically the role of state parties—is instrumental to winning.

Sputtering state parties are a worrying trend not only for Republicans' electoral prospects, but also for democratic politics more broadly. More mechanisms for accountability and transparency exist in a state party than in notoriously murky Super PACs. Raymond La Raja, a political scientist, notes that enfeebled state parties could accelerate the nationalisation of politics by replacing local institutions with groups focused on mobilising voters around national issues, which are more polarising. "In many states, policy issues remain less polarised at the state level and we want to keep it that way," he says.

Back on Mackinac Island, worries about losing votes in 2024 seemed less pressing than the Republican Party's war against "the experts", such as Dr Anthony Fauci, and "the globalists" of the World Economic Forum. The 2024 elections were hardly mentioned at all. ■

ASEAN SUMMIT
Eyes Sustainable Collaboration

Global players gathered in Jakarta for two flagship events

Indonesia's position as ASEAN Chairman in 2023 reiterated its strategic role in navigating the regional dynamic. In 1967, five nations in the region came together to form the ASEAN or The Association of Southeast Asian Nations; today, five more countries have joined the ASEAN bloc to progress regional agendas, with one more country now in the process of joining. Over the last 56 years, this inter-governmental organisation has brought together neighbouring countries, promoting regional peace and stability and addressing and accelerating economic growth, cultural development, social progress, and sustainable agendas.

As a G20 member, Indonesia played the vital role of highlighting the significance of the Southeast Asian economic bloc. When combined, the ASEAN bloc serves as the world's 5th largest economy, with a GDP of $3.3 trillion, and has been successfully prospering and trading with China, the United States, and European Union nations. As flagships of the ASEAN Chairmanship in 2023 under the strategic theme of ASEAN Matters: Epicentrum of Growth, which underlined the relevance of ASEAN in the current geopolitical dynamic and its objective to ensure the cooperation brings prosperity to the people, Indonesia organised the ASEAN-Indo-Pacific Forum, or AIPF, along with the Indonesian Sustainability Forum, or ISF.

AIPF Fosters Regional Stability

Indonesia and fellow ASEAN countries have been heavily focusing on strengthening their green infrastructures and supply chains. During this year's edition of the AIPF, various discussions were held around the themes of energy transition and alternatives, sustainable construction, and the reinforcement of global supply chains. These discussions considered the recently created ASEAN Leaders' Declaration on Developing Regional Electric Vehicle Ecosystem, which outlines how the region will serve as a hub for electric vehicle production. During the event, participants also divulged topics highlighting cooperation between governments and private financial partners to mobilise capital for environmental and socioeconomic projects, along with the transforming role of technology.

Upon inaugurating AIPF, President of Indonesia, Joko Widodo, announced 166 concrete projects that consist of 93 matured projects and 73 potential projects amounting to $56 billion between ASEAN member states and countries in the Indo-Pacific. Together, these nations have understood that stability and inclusivity in the Indo-Pacific are required to realise ASEAN's vision of becoming a centre of economic growth through multi-layered collaboration.

The AIPF served as the country's initiative to provide a platform for public and private sectors from ASEAN and partners in the Indo-Pacific to converse, debate, and generate inclusive and concrete business cooperation. The aim was to unlock innovative opportunities and construct stronger bonds between ASEAN nations and the Indo-Pacific to promote peace and prosperity. The region accounts for over 60% of global GDP and half of international trade, acting as a significant economic hub for business and investments.

ISF Cements Indonesia's Sustainability Commitment

Indonesia's Chairmanship on ASEAN also gave birth the ISF, which ended on a high note with the attendance of key global leaders such as World Bank President Ajay Banga, IMF Managing Director Kristalina Georgieva, top government officials, as well as global companies from diverse sectors such as tech giants, energy and renewable energy companies, pharmaceutical companies, multinational banks, and international finance enterprises. The forum also facilitated the signing of eight strategic MoUs on regional sustainability issues, such as the Nusantara Capital Authority (OIKN)-Stanford Doerr School of Sustainability collaboration.

Coordinating Minister of Maritime affairs and Investment of Indonesia Luhut B. Pandjaitan (middle) along with world leaders (left to right), Chairman of Indonesia Chamber of Commerce and Industry (Kadin Indonesia) Arsjad Rasjid, Managing Director of IMF Kristalina Georgiva, Prime Minister of Papua Guinea James Marape, and Minister of Transportation of Indonesia Budi Karya Sumadi

Photo credit: Kadin Indonesia

President Joko Widodo accompanied by Foreign Minister of Foreign Affairs Retno Marsudi and Coordinating Minister for Politic, Legal and Security Affairs, Mahfud MD opened the Retreat Session of the 43rd ASEAN Summit, Jakarta, 5/9/2023

Photo credit: Media Center ASEAN Summit 2023/M. Agung Rajasa/pras

> *"AIPF is based on the spirit of forward-looking cooperation and seeks to put a strong foundation for our future economic growth. During a global economic downturn, ASEAN economies remain resilient, surpassing average global growth."*
>
> — Joko Widodo
> President of Indonesia

Hosted by the Coordinating Ministry of Maritime Affairs and Investment with the Indonesia Chamber of Commerce and Industry (Kadin Indonesia), the ISF cemented Indonesia's strategic position to become a key player in sustainability. Indonesia offers a captivating market for green investment with more than 280 million people as a prospective market and strong macroeconomic growth that consistently stands between 5-6% annually. The country also holds the world's leading nickel, tin, and copper reserves that are critical for energy transition.

More than 2,000 people from 41 countries gathered at the two-day forum, which provided a platform to accelerate and scale green solutions to Indonesia's ASEAN Chairmanship's objectives. With this year's summit ending well, expectations are running high for Laos to continue the AIPF's success next year. At the same time, Indonesia stands ready to host the next ISF 2024 as the country's flagship sustainability event on a global scale.

ASEAN INDONESIA 2023

INDONESIA SUSTAINABILITY FORUM

Patient passengers

Coming, slowly, to America

MIAMI INTERNATIONAL AIRPORT

International travel has become a waiting game—and could get worse

TRAVELLERS ON A flight to Spain last month found themselves in a stinky situation. An ailing passenger had trailed diarrhoea down the aisle, forcing the plane to return to Atlanta. For those flying into or out of America these days, poop is not the only hazard they may face.

International air travel has soared since the covid-19 pandemic. This has created a jam at airports, with long queues in immigration halls. According to Customs and Border Protection (CBP), the agency charged with patrolling America's borders, at airports as well as land frontiers (see box), some passengers have waited for over two hours this month to enter the country. Those who make it past immigration may then find overflowing security queues for connections. Twice this year your correspondent has had to sprint through Miami airport to make her domestic flights.

Technology (including increasing use of biometric data) can help speed things up. And for those willing to pay, signing up to Global Entry is an option. It allows pre-cleared passengers to sail smugly past the long lines. However, even that avenue is clogged up: those applying now should prepare to wait nearly a year for approval.

For some the delays begin long before they reach an international airport. According to the State Department, Americans who apply for a passport this month may have to wait for between eight and 11 weeks. That is an improvement: those who applied between March and October this year waited for up to 13 weeks. Non-citizens who need interviews for visas to visit America face far worse backlogs.

These problems have been brewing for years. International travel more than doubled from 2000 to 2020, thanks to rising discretionary income and cheaper foreign flights, as more low-cost carriers entered the market. The pandemic abruptly squelched the swell. Now that restrictions are over, eager travellers are once again boarding flights at near-record rates, putting fresh pressure on the system.

Travel patterns have also changed, meaning there is little let-up. "Folks are travelling in the shoulder seasons," says Matthew Cornelius of Airports Council International, a trade organisation that represents airport operators. Travellers are now flying in months that are usually slower, like April and October, "so there isn't a break for the whole system."

This has made it hard for federal agencies to keep up. CBP had staffing shortages before the pandemic. Now it is short by ▸▸

Immigration

Border disorder

ANAHEIM

The post-Title-42 lull in border crossings is over

IN THE WEEKS before the end of Title 42, a pandemic rule that made it easy for America to quickly deport undocumented migrants, pundits predicted pandemonium. Newsrooms dispatched reporters to El Paso, Texas, and San Diego, California, where they described scenes of migrants waiting to cross the border. "It's going to be chaotic for a while," warned President Joe Biden. Yet when Title 42 expired on May 11th, things stayed calm. In fact, migrant encounters recorded by Customs and Border Protection (CBP) fell by more than 70% in the weeks following the policy's end.

But the lull hasn't lasted. Migrant encounters at the US-Mexico border rebounded by 61% between June and August, to roughly 233,000. Who is coming has also changed (see chart). Whereas about three-quarters of migrants caught by border patrol in October of 2019 were from Guatemala, Honduras and Mexico, migrants from those three countries made up a little more than half of apprehensions this August.

People fleeing other countries are making up the difference. Four years ago, fewer than 1,000 Venezuelans were caught crossing America's southern border. But their numbers have surged as the country has languished under President Nicolás Maduro. In August more than 31,000 made the trip north. It is not just central and south Americans who are coming. The number of Russians crossing the border jumped following Vladimir Putin's invasion of Ukraine. More Chinese and Indian migrants are wandering the borderlands of Arizona, California and Texas, too.

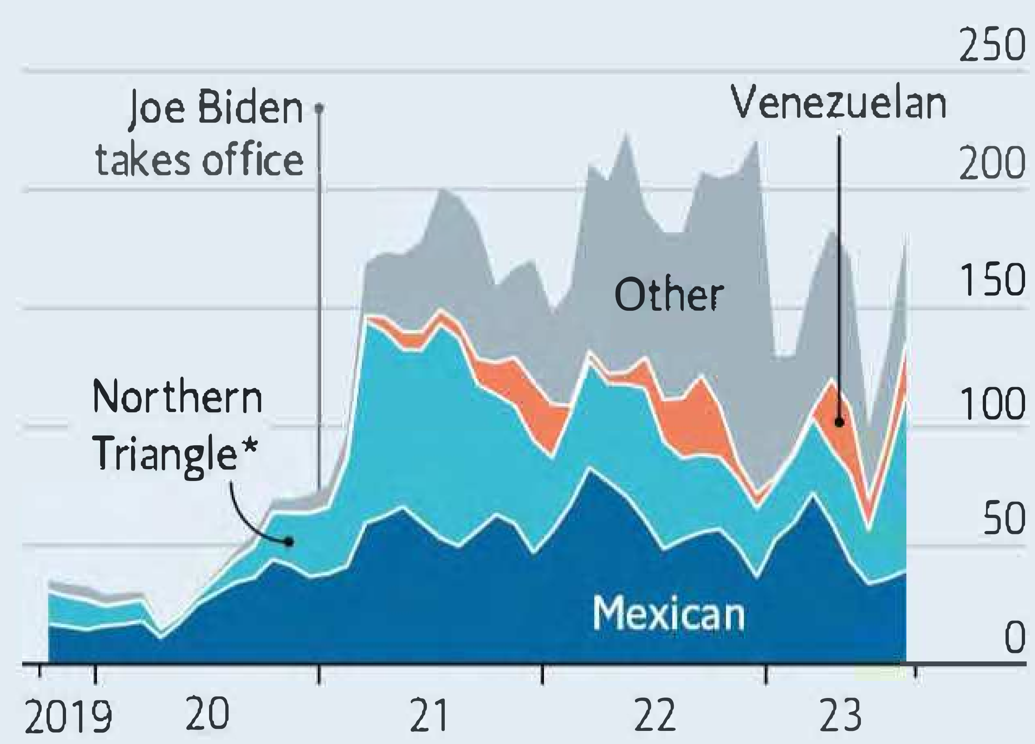
The increase comes at a tricky time for Mr Biden, as the 2024 presidential campaign gets under way. During their speeches at the California Republican Party's annual convention in Anaheim last weekend, Mr Biden's would-be challengers denigrated his border policies. Donald Trump ("I'll solve the border problems within 24 hours") and Ron DeSantis ("We're not going to let people in") made grand promises of change.

The number of border-crossers is just one of many signs that the deadlock in Congress over immigration reform has wrought havoc. Last month a federal judge in Texas ruled that Deferred Action for Childhood Arrivals (DACA), a programme that allows undocumented people brought to America as children to stay, is illegal. Dreamers, as they are known, already enrolled in DACA will be able to keep renewing their status. But no new applicants will be considered while the case is being appealed.

Thousands of migrants who were bused to big Democratic cities, such as New York and Chicago, by Republican governors are also stuck in limbo. The Biden administration's recent decision to extend temporary protected status to nearly 500,000 Venezuelans, which will allow them to get work permits, should help. But American cities are begging for federal funds to care for migrants, and the election is looming.

The crossing

United States, Border Patrol encounters on south-west border, by nationality, '000



*El Salvador, Guatemala and Honduras
Source: US Customs and Border Protection

around 1,000 agents. The State Department, which issues American passports and visas, is facing a similar problem, as is the Transportation Security Administration (TSA), which controls airport security.

Fortunately staffing may improve soon. In July TSA officers received a pay rise that was approved by Congress in December, putting them on a par with other federal agencies. That should help with recruitment and retention. CBP has also asked Congress for more funding for staffing. The State Department has been hiring, too.

The agencies will need to act quickly. Pre-covid, nearly 3m Chinese people visited America a year. Post-pandemic demand for international travel from China is bound to climb. Waiting times at airports may be bad, but they could get worse. ■

Detroit's tax reform

By George!

DETROIT

Motor City wants to be the first big American city to tax land value

FROM THE vantage point of a new apartment on the 33rd floor of the Book Tower, a stunning 1920s Italian-Renaissance-style skyscraper in downtown Detroit, two aspects of the city are visible. Look southeast, towards Canada, and you see a skyline thick with cranes. New towers are shooting up, old ones being rebuilt, and the pavements below are thick with pedestrians. Cross to the other bedroom, however, and you get quite a different view. Right up to the edge of a highway entire city blocks are occupied by nothing but tarmac. At 11am an ocean of surface parking is uninterrupted by even a single car.

Just over a decade ago Detroit became the biggest American city to go bankrupt. Since then its city centre has made a remarkable recovery. The Book Tower, which was completely derelict in 2009, has been rebuilt at a cost of over $300m by Bedrock, a property firm owned by Dan Gilbert, Michigan's richest man. Yet though downtown is humming, huge parts of the city remain blighted.

The city now has a more ambitious plan to reduce the amount of vacant land. It intends to tax it. A lot. Will it work?

The idea, proposed by Mike Duggan, the city's pugnacious mayor, is to replace Detroit's current property tax with a split tax. In essence, assessors will distinguish between the value of its land and of the buildings on it. This done, the city's property tax will be reduced from 2% for every $1 of assessed value (which is less than market value) to 0.6%. To make up for the revenues lost, land will be taxed at a new rate of 11.8%, whether or not it has anything built on it. In Michigan changes to property-tax rates have to be approved by voters. A law to allow that cleared its first hurdle in the state House in late September. A referendum could happen in February.

The principle of taxing land instead of buildings has a long history. Over a century ago Henry George, a liberal economist, argued that the rich used land ownership to hoard the wealth being created by progress. His most dedicated fans adopted the slogan "Do you see the cat?" (based on a convoluted metaphor), to refer to his ideas that land ownership underpinned high inequality. Yet George's proposal—a single tax on land value—has barely been tried. If Mr Duggan's scheme becomes law, Detroit will be one of the first big cities anywhere in the world to implement one.

How come Detroit is able to try something so radical? One advantage, says Jay Rising, the city's chief financial officer, is that the city now raises very little from its current system. In 1959, according to a study by the Lincoln Institute of Land Policy, a think-tank in Massachusetts, the city's property tax raised over $1bn, adjusted for inflation. By 2019, after decades of economic decline, the figure had fallen to just $119m. "If this was 80% of our revenues, we'd be a lot more nervous," says Mr Rising. In fact it is just 16%. Moreover, the value of residential land is very low, which makes it an easier sell to voters.

The hope is that taxing land more will in fact spur development. Right now, says Alex Alsup of Regrid, a data firm, Detroit has "a very pure version of speculation". As downtown booms, people who bought land nearby years ago—such as the owners of the car parks—merely have to wait for investment nearby to raise the value of their own land. Higher taxes might force them to sell up to people who will build on it. "It is entirely possible that this land tax has the ability to free up properties," says Kofi Bonner, the CEO of Bedrock.

The bigger immediate benefit, though, comes from reducing taxes on most residents. The city argues that 97% of homeowners will get a tax cut. Lower tax rates on improvements ought to encourage people to invest in properties—and help some avoid falling behind on their taxes. Though they raise little, Detroit's property taxes are punishing to poor homeowners. Between 2011 and 2015, according to a study published in 2019, one in four city properties went into tax foreclosure, their owners having fallen behind on payments.

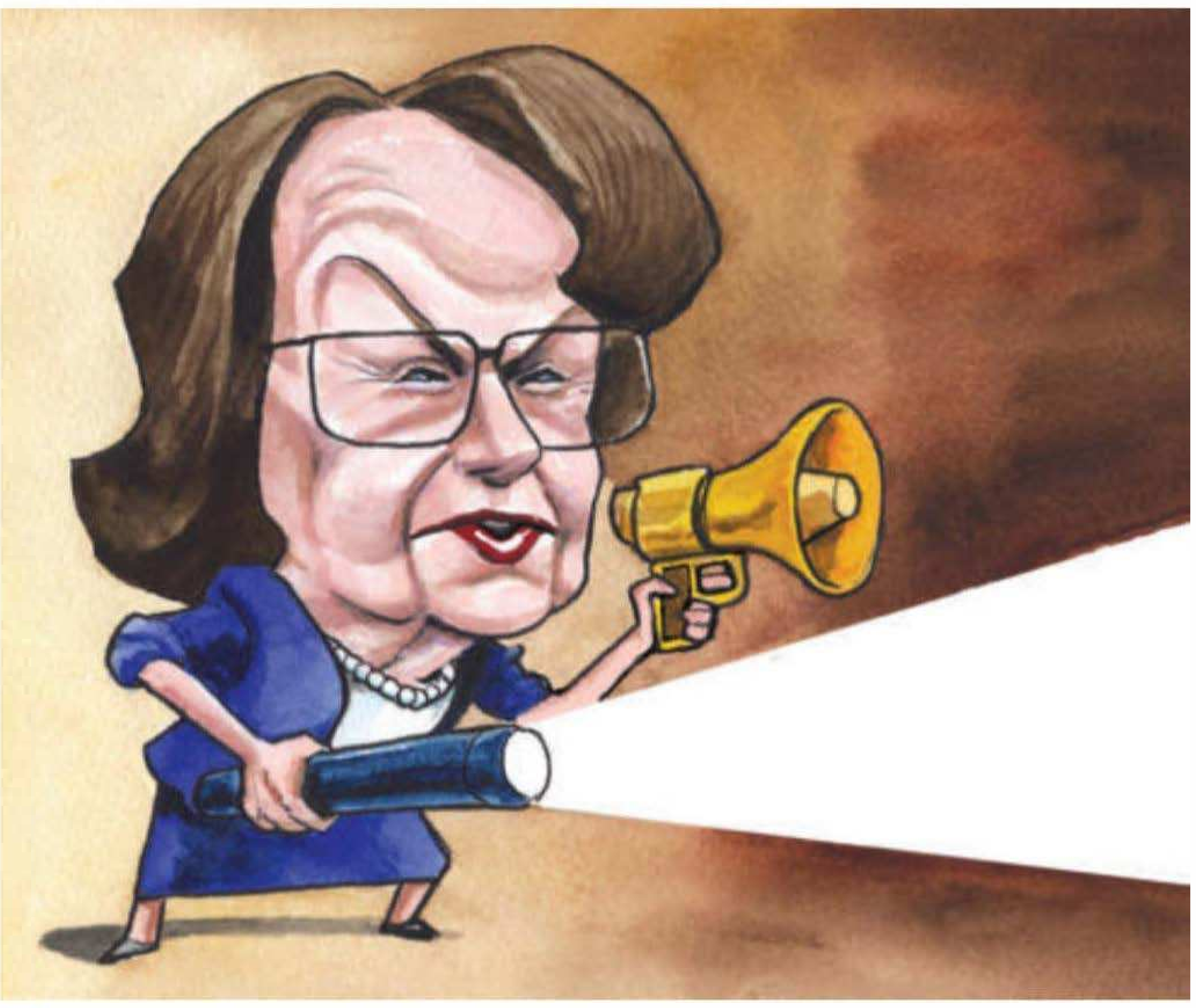
But Bernadette Atuahene, one of the authors of that study, suggests that high rates were not the only problem. What mattered more was that after the great financial crisis, Detroit's assessor systematically overvalued the homes of the poorest residents. When people could not pay, Wayne County, which includes the city, added interest at 18%. Homes ended up auctioned, with any excess over the tax owed banked by the county. Ms Atuahene worries that the proposed new tax does nothing to fix this problem—and if residential land ends up overvalued, may exacerbate it. "We currently have an assessment division that's not doing its job," she says.

Getting assessments right is one of the long-standing challenges of land-value taxes, and explains why they are so rare. Still, if the city can do that well, there will be real gains. Gabriel McNeil, a 61-year-old former chef who now lives on disability benefits, says that even a small tax cut would help him a lot. Having bought his home for just $8,000 in 2013, he struggles with tax payments of thousands of dollars each year. "The property tax is not designed for lower-income people at all," he says. "It's not easy to keep up." For some, any cut is better than nothing. ■

Do you see the cat?

Lexington | Feinstein's law

Her patriotism made her a fearless truth-teller when the government fell short



It seems like another age—almost a different America, shrouded in a different dark cloud—but it was just nine years ago, on a Friday: Dianne Feinstein, then the chairman of the Senate Intelligence Committee, got a call from John Kerry, the secretary of state and an old friend. Ms Feinstein, a Democrat from California, had just dispatched to the printer the executive summary of her committee's report on the CIA's use of torture after the attacks of September 11th 2001. She was planning to release the findings the next week, despite intense resistance not just from the CIA but from Barack Obama's White House, which had demanded so many redactions she had feared the report might be "decimated".

Now Mr Kerry was making one more effort, admonishing her that revealing the report could provoke violence around the world. His warning was echoed over the weekend by American intelligence agencies, which issued a threat assessment that the committee's disclosures would not only lead to violence but also significantly damage American relationships with other countries.

Imagine the weight of responsibility. Ms Feinstein, who died in office at the age of 90 on September 29th, was no enemy of the security state. She defended the government's "targeted killings" via drone and its surveillance programmes; she regarded Edward Snowden, who revealed that the National Security Agency had vacuumed up Americans' phone records, as a traitor. Now people and agencies she trusted were predicting she would have blood on her hands if she went ahead—and they would be able to say she had been warned. "That's a lot to ask of an elected official," says Daniel Jones, who was the committee's chief investigator.

Ms Feinstein wavered. She spent the weekend consulting fellow members of the committee, as well as the Senate majority leader, Harry Reid. Some reminded her what the investigation had shown: that the CIA repeatedly misled two consecutive White Houses and Congress to protect its perceived interests. The CIA had even ransacked the committee's computers and falsely accused its staff of breaking the law. Others argued that Congress could not simply defer to the White House on a matter of such importance. But as of the following Tuesday morning, even committee staff members did not know what Ms Feinstein would do. Then she left her office for the Senate floor.

As she stepped up to the lectern Ms Feinstein looked exhausted, but she spoke, as ever, firmly and precisely. Regardless of how the report might be manipulated to justify or even provoke violence, she said, "History will judge us by our commitment to a just society governed by law and the willingness to face an ugly truth and say 'Never again'."

For an hour, she walked her colleagues through the key findings in the 500-page executive summary, drawn from the 6,700-page report, which is still classified. She recalled how the CIA disclosed its use of "enhanced interrogation techniques" to her committee only in 2006, four years after it had begun using them. Ms Feinstein noted that the CIA director at the time, Michael Hayden, testified then that the techniques included such innovations as a "tummy slap" that were "minimally harmful" and "applied in a highly clinical and professional manner".

"They were not," she continued, with icy restraint. As the report indelibly recorded, detainees were stripped naked and put in nappies, struck and chained in "stress positions" with their hands over their heads, kept awake for days at a time, isolated and doused with cold water, menaced with weapons or harm to their families. Some were waterboarded dozens of times or subjected to forced "rectal hydration" so that their captors could establish what they called "total control over the detainee". Mr Jones and other staff had examined 20 cases in which the CIA claimed these techniques produced critical information. "Not a single case holds up," she said. Captives told their persecutors what they wanted to hear. Some CIA officers objected to the techniques but were ignored.

Mark Udall, a former senator from Colorado who was a member of the Intelligence Committee, says Ms Feinstein was "tormented" to learn how the CIA had misled Congress. "Dianne could be cautious," he says. "She was a centrist Democrat in some respects. But, boy, when it really mattered, she had her eyes on history and future generations."

To serve out Ms Feinstein's term, Gavin Newsom, the governor of California, swiftly appointed Laphonza Butler, a former labour leader who was the president of EMILY's List, which works to elect female Democrats who support abortion rights; she becomes the first black openly lesbian senator. Ms Butler, who at 44 is a newcomer to elective office, has not decided whether she will run to hold the seat when it is up next year. Three formidable members of the House of Representatives are competing in what is already a costly, bruising Democratic primary, to be decided in March.

Doing the right thing

Ms Feinstein stayed in the Senate too long. She faded from a commanding presence to a poignant one. Yet the lessons she leaves are less about when to give up the job than how to do it right in the first place. She first won her seat in 1992, when California still elected some Republicans to statewide office. Her successor is unlikely to share her bipartisan instincts, but she, or he, would do well to study the patriotism that made Ms Feinstein such an independent-minded critic of the institutions she revered.

Publishing the torture report did not cause bloodshed. It also did not, as Ms Feinstein said it would not, remove the stain of torture committed in Americans' names. But it did, as she said it would, "say to our people, and the world, that America is big enough to admit when it's wrong, and confident enough to learn from its mistakes". That was an important message then, and it is a comforting reminder now that America is capable not just of losing its way but also, with the right leaders, of finding it again. ■

Violence in the Caribbean

Awash with American guns

DAJABÓN AND MIAMI

Governments across the Caribbean are trying to stem increasing bloodshed

ON OCTOBER 2ND the UN Security Council authorised a Kenyan-led multinational security force to go to Haiti. The mission, to last for a year, was first requested by Ariel Henry, Haiti's acting prime minister, in 2022. Mr Henry's request, in turn, came a year after the assassination of Jovenel Moïse, then the president, in July 2021. For two years the small Caribbean country has been racked by violence and without an elected government. Around 200 gangs operate in the country with near-total impunity. Starvation is commonplace. Some 3,000 people are reported to have been murdered this year alone, though that is probably a small fraction of the actual total. Kenya will send 1,000 troops to help Haiti's embattled police force.

Haiti is an extreme example, but violence is rising across much of the Caribbean. The region, which consists of independent states as well as overseas territories of Britain, the United States, the Netherlands and France, has long been a hotspot for criminal activity, because of its strategic position between the coca-producing countries of South America and the drug-consuming markets of North America and Europe. That is especially true of the 15 developing countries in Caricom, a regional intergovernmental organisation.

Homicide rates, which began to rise in 2020, reached record levels in 2022, according to InsightCrime, a site that covers organised crime. The murder rate per 100,000 people climbed to 53 in Jamaica, 78 in the Turks and Caicos (an associate member of Caricom), and 39 in Trinidad & Tobago. Even in tourist destinations such as the Bahamas, the rate rose to 32 in 2022 (see chart 1 on next page). By contrast the rate in the United States in 2021 (the latest data available) was eight per 100,000 people, while in the EU it was just 0.8.

Officials attribute the escalating violence to the increased availability of firearms. The share of murders and other crimes that involve a gun has surged. Last year fully 85% of murders and violent crimes in Jamaica were carried out with an illegal firearm. That same year firearms were used in 87% of the 605 murders in Trinidad & Tobago. That is "far higher" than earlier years, says Erla Harewood-Christopher, the country's police chief.

Almost all the weapons are illegally trafficked. The Caribbean countries do not manufacture guns, and their governments strictly regulate them (although a rise in the number of private-security companies has increased the number of legal ones, too, which are sometimes diverted into the wrong hands). Illegal arms may outnumber licensed ones by three to one in the Dominican Republic, according to an estimate by its government.

Bang, bang

The majority of guns appear to come from the United States, and Florida in particular (see chart 2 on next page). Anthony Salisbury, head of US Homeland Security Investigations in Miami, says in the past year his agency has witnessed a "massive uptick" in weapons being smuggled from the United States to the region, especially to Haiti. Seizures are of increasingly lethal weapons, including belt-fed machine-guns and armour-piercing rifles.

Caribbean leaders fret about a spillover effect from Haiti. This is because it is not only a destination country for arms, but exports them to the rest of the region, says Simonetta Grassi of the UN Office on Drugs and Crime (UNODC). Gangs in Haiti have ▸▸

A deadly burden 1

Homicides per 100,000 people

2022 or latest

Sources: InSight Crime; UNODC; Eurostat

long worked with their equivalents in Jamaica, trading guns for drugs; now they are trading guns for food. The weaponry in Haiti is of good quality, says Luis Moreno, a former ambassador for the United States, who has served in Jamaica and Haiti. It looks like it comes from "the front lines in Afghanistan", he says.

Fears are particularly acute in the Dominican Republic, which shares a 400km (240-mile) land border with Haiti. On a Monday morning in early September dozens of Haitians crossed the bridge into Dajabón, in the north-western part of the Dominican Republic. Many Dominicans fear arms and gang members will come across, too. A few days later, four Dominicans were shot dead in Dajabón, apparently by Haitian robbers. On September 15th, blaming a dispute over the construction of a canal in Haiti that would tap into a shared river, the Dominican government completely closed its land, air and sea borders with its neighbour.

Caribbean countries are now demanding more action from the United States. In April Andrew Holness, Jamaica's prime minister, argued: "As we have assisted them in the war on drugs, they must assist us in the war on guns." In June Caricom and the United States launched the Caribbean Crime Gun Intelligence Unit (CCGIU). This will work with international organisations, such as Interpol, to carry out arms-trafficking investigations.

Anecdotal evidence from seizures and court cases suggests the weapons are sent in small numbers, typically two to two dozen. The process is not sophisticated, says Matt Schroeder of Small Arms Survey, a Geneva-based NGO. Often they are hidden among clothes or food. More than half of the 29 trafficking networks studied by the Small Arms Survey used shipping companies to send their contraband. Last year the Haitian police intercepted 22 guns, including 18 assault rifles, among relief supplies such as powdered milk coming by boat from Fort Lauderdale and apparently addressed to the Episcopal Church in Haiti. (Some members of the Haitian branch of the church were arrested in connection with the case, but not charged. Both they and the church deny any involvement.)

The risk is worth it. Handguns that sell for \$400 to \$500 in the United States can be resold for as much as \$10,000 in Haiti, according to the UN. Haiti's ports are "the Wild West", in part because they have no scanners, according to a port official. For two months last year gangs took over a fuel port in the Haitian capital.

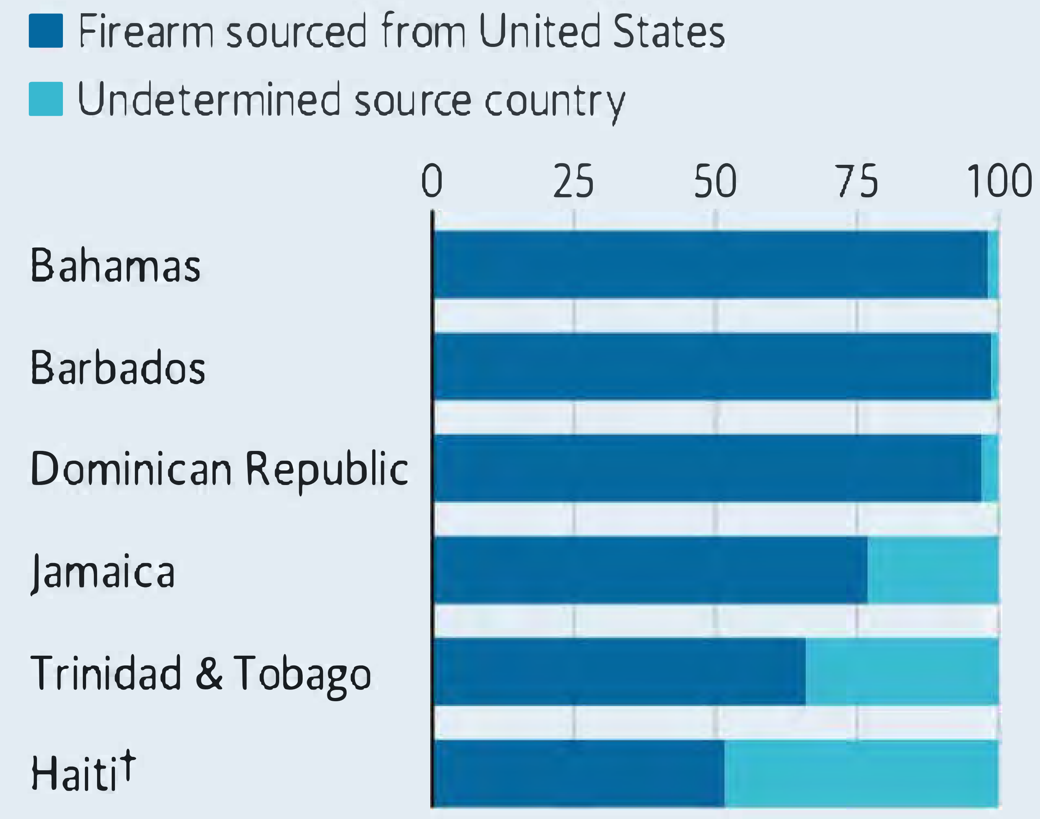
A commitment to tackling arms trafficking is missing in Haiti, says Edwin Paraison, a former consul for Haiti in the Dominican Republic. But elsewhere "enormous efforts" are being made, he says. Some 17 countries in the Caribbean now use eTrace, an internet-based system set up by the United States in 2005 to provide information about the history of a weapon. (Haiti does not use it.) Countries including Grenada and Dominica are tightening their laws on legal gun ownership and introducing stiffer penalties for violations. Jamaica and the Dominican Republic are upgrading technology at their borders.

The CCGIU should help. It has already launched ten cases. "There is a lot of intel out there," says an American official. Ms Grassi says the Caribbean countries need their own cases, rather than simply extraditing people to the United States, to send the message that justice will be done at home. Haiti signed an agreement this summer with the United States to create its own Trans-National Criminal Investigative Unit, that would create vetted police units with 14 American advisers.

Meanwhile, the Dominican Republic is trying to reduce the circulation of illegal arms. Since 2021 the government has given cash and shopping coupons to anyone who hands in a gun, which is then destroyed (the programme also rewards officials who intercept them). In three years they have received 15,500 weapons, compared with 3,280 in the previous four, boasts Jesús Vásquez, the interior minister. He reckons this has helped his country avoid the levels of violence seen elsewhere, despite being a hub for drug-trafficking in the Caribbean. Its murder rate in 2022 was 12.

Smoking gun 2

Firearms recovered and submitted to the ATF* for tracing, 2022, % of total



*US Bureau of Alcohol, Tobacco, Firearms and Explosives †2021

Source: ATF

Tackling illegal arms and their trafficking is especially hard for smaller countries: after Haiti and the Dominican Republic, Jamaica is the next-most-populous of the Caricom countries, with only 3m people. In a country like Trinidad & Tobago with a population of 1.5m or Grenada with 126,000, there may be only a couple of officials assigned to the issue. The costs of gun violence are high for underfunded health-care systems. According to the Small Arms Survey, in Jamaica it costs an average of \$3,249 to treat a gunshot wound. Annual health spending per person is \$326.

One shot

Mr Salisbury, the HSI agent, says the United States is dedicating more resources to stopping guns leaving the country. But there is a limit to what American agencies and Caribbean governments can do while weapons are so readily available in the United States (see box on next page). President Joe Biden has tried to tighten regulation of the gun industry. The Bipartisan Safer Communities Act, passed in 2022, has made it more difficult to buy weapons in bulk in the United States.

But the Caribbean must tackle its gangs, too. Governments have tended to crack down hard on gangs—the *mano dura*, or iron-fist, approach—without putting in place the social programmes to stop them coming back, says Alexander Causwell, a security analyst who advises Jamaica's government. Jamaica has long avoided dealing with communities where the majority of gangs operate, though last year its police and army created a joint anti-gang task-force to start doing it. Any multinational force sent to Haiti may be able to bring down violence there, but getting rid of its gangs will take generations. ■

Illegal fishing

Fishy business

SÃO PAULO

The record of South American governments on curbing illegal fishing is mixed

THE CHINESE fishing fleet has the worst reputation for illegal, unreported and unregulated (IUU) fishing globally. It is notorious in South America. Nearly a third of its 3,000 ships operate in the region all year. Chasing migratory squid, they spend the first six months plundering the Atlantic waters off Argentina and the next six hoovering their Pacific catch near Ecuador and Peru, having gone around Chile's Strait of Magellan. The fleet is currently off Ecuador's coast. But some countries are fighting back. On September 30th Ecuador, Peru, the United States and 11 other countries concluded their latest exercise against IUU fishing, to practise intercepting ships.

In the past decade IUU fishing has depleted global stocks. It generates up to $36bn per year and accounts for one in every five fish eaten globally. That makes it the world's sixth-largest illicit industry (counterfeiting is the biggest at $1.1trn, while illegal drugs is second at $650bn). In South America IUU fishing strips countries of 8-15% of their annual catch, according to research by the American University in Washington. China accounts for three-quarters of foreign vessels in those waters.

The Pacific pushback began off Ecuador. In 2020 surveillance flights identified 340 Chinese trawlers and jiggers hauling up untold volumes of vulnerable species south of the Galápagos islands, a marine reserve. Lenín Moreno, the president at the time, vowed to defend the islands. Ecuador's first step was to ask China to stop illegal incursions. Peru soon followed suit.

For the past three years most Chinese vessels have stayed about 100km (60 miles) from both countries' waters. Ecuador and Peru have also built a coalition to address regional IUU fishing, recruiting Chile, Colombia, Panama and Costa Rica. These countries publicly condemned China's incursion in 2020. The next year they pledged to link their marine protected areas to form the world's largest reserve, twice the size of Britain. Their governments lobbied the World Trade Organisation for an agreement to cut fishing subsidies, which was adopted in 2022.

Both Donald Trump and President Joe Biden have backed South America's counter-attack, showering the Pacific with equipment and high-tech sensors. In 2020 the US Coastguard began patrolling with Ecuador's navy. Since 2022 the US State Department has drummed up nearly $30m for anti-IUU fishing programmes.

By contrast, in Argentina and Uruguay the situation is dismal. "Things have got worse in the Atlantic," says Milko Schvartzman, a marine conservationist. The number of Chinese boats in the Atlantic increased from 74 in 2013 to 429 in 2021. Alberto Fernández, Argentina's left-wing president, has refused to press for greater regulation. China is an ideological ally, and his country's top trading partner after Brazil. Meanwhile Uruguay's right-wing government wants China to sign a free-trade agreement. Each has bigger fish to fry. ■

Net profit

Gun-trafficking

One approach

MEXICO CITY

How to stop the flow of guns?

FEW COUNTRIES are as affected by arms-trafficking as Mexico. Its 3,200km (2,000-mile) border with the United States makes it easy to smuggle firearms into the country. Criminal groups wield these weapons to devastating effect. Over 30,000 Mexicans have been murdered each year since 2017, resulting in a homicide rate of around 25 per 100,000 people. In a novel approach, the Mexican government has taken legal action against the gun industry in the United States.

In 2021 and 2022 Mexico's government launched two cases north of the border: the first in Boston against a handful of gun manufacturers, the second in Arizona targeting gun-dealers in Tucson. The government alleges that people in the gun industry negligently, recklessly and sometimes unlawfully sell guns in full awareness that they are likely to end up in the hands of criminal organisations. The Mexican government is seeking compensation, mainly to incentivise the defendants to change their ways. It is unprecedented for a government to take such action, in the United States or elsewhere.

In March this year Mexico launched an appeal, after the first case was deemed inadmissible because of an American federal law that provides unique immunity from legal action to the gun industry. The result should come by early next year. The second case is awaiting a hearing.

Mexico's government is optimistic. It has made clear that the legal action is not against the American government or the second-amendment right to bear arms. President Joe Biden has said that "We're sending dangerous weapons...to Mexico." America's Bipartisan Safer Communities Act, which Mr Biden signed last year, has tightened industry regulations. But the American government is limited by a divided Congress and a powerful gun-industry lobby.

Last year the families of some of those killed in the Sandy Hook school shooting in 2012 settled a lawsuit against Remington, the manufacturer of the weapon used in the atrocity, for $73m. But that case was based on Connecticut consumer-protection law. Mexico will have to establish its own right of action. Governments of other countries afflicted by gun violence will be watching closely.

The other World Cup

Cricket as power

India's bullying behaviour in cricket is a troubling augury of its global rise

"CRICKET IS AN Indian game accidentally discovered by the English." The first line of Ashis Nandy's "The Tao of Cricket", published more than 30 years ago, seems truer than ever. India is hosting the quadrennial Cricket World Cup, which begins on October 5th, as by far the dominant power in the world's second-biggest game by viewership (after football). The sport is increasingly run according to the demands of Indian administrators, whether in India or the dozen-odd other countries where it is a front-rank pursuit. They are backed by the revenues generated by India's vast, cricket-mad TV audience. The six-week-long cricket World Cup, which will see the world's ten strongest national sides compete in the one-day format of the game, may be the richest, most watched and also the most overtly politicised ever held.

More than 712m Indians—roughly the number that watched televised cricket in 2018—are expected to tune in, especially if their team does well, as is predicted. Indian companies are vying for their eyeballs, with unicorns such as Upstox, a fintech firm, and Dream11, a gaming one, joining old stagers such as MRF Tyres among the event's 18 official sponsors. The World Cup will provide a tableau of India's economic emergence—and the disruption it is bringing to a game sometimes described as Indians' single shared passion.

Given that status, cricket has been long been considered illustrative of India, even as the country has changed. Mr Nandy's book, published in 1989, is remembered for its opening aphorism but not its argument. Which was that cricket's agrarian roots and leisurely rhythms presented a "critique of urban industrial society" acutely relevant to underemployed Hindus. If there was ever truth to that, it was already being swept away by a modest rise in India's economic prospects during the 1980s, in cricket and otherwise. The country's first hosting of the World Cup, in 1987, provided an early demonstration of this.

It also established a pattern. The tournament, by far the biggest international event India hosts, has returned twice to the country, in 1996 and 2011, each time providing a vivid account of India's progress. The rendition held in 1996 showcased the more impressive growth launched by liberal reforms passed in 1991. It is remembered for a fierce advertising battle between Coca-Cola and Pepsi, both recently given unfettered access to the Indian market.

The contest in 2011 marked another step-change. India's cricket industry had ballooned on the back of a new domestic tournament, the Indian Premier League (IPL), which uses an American-style franchise model. Also striking was a new confidence. When India's team went on to win the tournament, Indian commentators proclaimed a new era of Indian domination. What, in the light of these World Cup milestones, will the next six weeks reveal?

More growth, obviously. Advertising revenues for the tournament are projected to be between 20bn and 22bn rupees ▸▸

→ Also in this section

($240m-264m), at least 48% more than was generated by the previous World Cup, held in England. Such numbers explain the Indian cricket board's dominance. Last year it sold five-year broadcast rights to the IPL for $6bn. Its total revenues were 44% more than those of its closest rival, the England and Wales Cricket Board.

Cricket's popularity commands political attention, as the tournament will also show. It has indeed long been coveted by Indian politicians; Jawaharlal Nehru captained a Prime Minister's XI. Yet in recent decades, the growth of television—then smartphone—ownership, which took cricket from a few big cities to India's furthest corners, hugely increased its political potency. Among the politicians who piled in, Sharad Pawar, India's agriculture minister between 2004 and 2014, ran cricket in Maharashtra, India and, through the International Cricket Council, the world. As chief minister of Gujarat, Narendra Modi took over the state's cricket board in 2009. As prime minister he has achieved something new: a systematic takeover of cricket by his Bharatiya Janata Party (BJP).

The World Cup's opening game, pitting England against New Zealand, is in the 130,000-seat Narendra Modi Stadium in the Gujarati city of Ahmedabad. Completed in 2020, the world's biggest cricket stadium was first used to host a rally for Mr Modi and Donald Trump. It is the prime minister's Coliseum, a venue for Modi-themed cricket extravaganzas, BJP rallies or both. Ahead of a match between Australia and India there in March Mr Modi appeared alongside his Australian counterpart, Anthony Albanese, in a sort of golden chariot. The adoring crowd reportedly included 80,000 BJP workers, given free tickets.

If India makes it to the World Cup final there, on November 19th, Mr Modi will no doubt attend. So will his de facto deputy, Amit Shah, another former boss of cricket in Gujarat; and Mr Shah's son, Jay Shah, who runs India's cricket board. Cricket under Mr Modi, like so much else, has been centralised and co-opted.

As well as illustrating Mr Modi's flair for amassing power, his party's cricket management reflects its troubling use of it. Indian Muslims are fairly represented in cricket. Around 12% of professional players are Muslim, in line with their share of the population. Yet those who play for India are targeted by the Islamophobic trolls that have multiplied under Mr Modi.

Pakistan's cricketers are faring worse. Once superior to India's (elegant Indian batsmen struggled against fierce Pakistani fast bowling) cricket in Pakistan has deteriorated with the country. India is twisting the knife. The younger Mr Shah, who also runs the Asian Cricket Council, has helped throttle cricket ties between the two countries. Pakistan's players, in a gratuitous slight, were the last to receive their visas and schedule for the World Cup.

Such bullying Indian behaviour has been a feature of its rise in cricket, which has intensified under the BJP. The spread of private Indian cricket leagues is eroding the primacy of international competition, one of cricket's distinctive features, and weakening foreign cricket boards. India's cricket bosses are deaf to the complaints this is raising. Viewing cricket as an arm of national power, they are mainly intent on increasing their control of it. The ICC's media revenues were in the past split fairly evenly between cricket-playing countries. Between 2024 and 2027 India will pocket 39%. How it spends the cash is unclear. Most Indian cricket loot is handed to state-level boards, often run by politicians. Hardly any provide audited accounts.

Indian cricket bosses dismiss foreign criticism as sour grapes. In fact the cricket world has accepted the reality of India's dominance; no one disputes its right to enrich and reshape its game. Yet great power is supposed to bring more responsibility, which India's bosses seldom display. As an early demonstration of the power India is accruing in many fields, its behaviour in cricket is largely discouraging. ■

South Korean pop culture

Even better than the real thing

SEOUL

Virtual influencers look great and they don't bully their colleagues

SOUTH KOREAN television presenters have been causing trouble. Within the past year one was fired for swearing on live television and another for slandering a dead comedian. A third stands accused of abusing junior colleagues. A solution is to hand: virtual humans.

Increasingly common globally, computer-generated influencers are proving especially popular in South Korea. The country's first, Oh Rozy ("One and Only"), was created by a Seoul-based firm, Locus-X, and appeared on Instagram in 2020. She purports to be a beautiful 22-year-old who works as a singer, model and a sustainability champion. Appearing in adverts for companies including Calvin Klein and Tiffany, and in television shows, Rozy, as she is known to fans, is estimated to have made more than 2.5bn won ($1,8m) last year. She is perhaps best-known for an advert for an insurance company in which she danced across the rooftops of Seoul.

Ceci n'est pas un selfie

After Rozy's debut more than 150 other digital humans hit South Korea's social-media and advertising channels in less than three months, according to Baek Seung-yeop, the boss of Locus-X. Virtual K-pop singers are also becoming popular. This year the debut single of a computer-generated girl band, MAVE:, featuring four avatars called Siu, Zena, Tyra and Marty, racked up over 26m views on YouTube. South Korea's tourism board recently made Yeo Lizzie, another digital confection, its honorary ambassador, replacing Son Heung-min, captain of the national football team.

Generated with 3D-modelling technology and AI, the avatars are stunningly realistic. Rozy's 800 expressions are based on a human model. The technology has long been used in films and video games, both South Korean strengths, and is becoming more sophisticated. An even bigger change is the avatars' ability to interact with their audience. Rozy responds to social-media comments and holds Q&A sessions with fans. (Asked how she is so stylish, she answered that you need to know your body type and to have self-esteem.)

Apart from being cheaper, virtual celebrities have other advantages over human ones. "They don't complain" and firms "don't have to worry about them ruining their reputation", says Kim Sang-kyun from Kangwon National University in Gangwon province.

Rozy's success has spawned a sister and twin brothers. Lucy, a virtual face of Lotte, a conglomerate, has booked her first acting gig. South Korea's newest celebrities may not exist in flesh and blood, but their influence is all too real.

Kiwi politics

Left behind

SYDNEY

A right-wing coalition is expected to win New Zealand's coming election

KIWIS WERE living in happy isolation ahead of their general election three years ago. Even as covid-19 caused havoc overseas, they were safe behind closed borders, and so thankful to the then prime minister, Jacinda Ardern, that they gave her Labour Party the first majority in the history of New Zealand's system of proportional representation. Their gratitude has faded. Ms Ardern resigned in January amid plummeting ratings. Her successor, Chris Hipkins, lacks her sparkle. New Zealanders are expected to vote out his centre-left government in elections on October 14th, ushering in a coalition of right-wing parties.

The polls suggest Labour could lose half its support. In 2020 about 50% of New Zealanders voted for the party, its best result in over 70 years. Mr Hipkins, a former health minister, looks set to win about 26% of the vote. The centre-right National Party, which is led by a former boss of Air New Zealand, Christopher Luxon (pictured), is the main beneficiary, with 36%. Still far short of a majority, it will need to form a coalition with at least one and possibly two hard-right parties campaigning against woke-ism and the growing use of the Maori language in public life. That would mark a dramatic lurch away from Ms Ardern's warm and inclusive politics.

Labour are to some degree victims of the heady expectations she raised. Ms Ardern steered New Zealand deftly through crises, but failed to fulfil her promise of transformational change. Since she was elected in 2017, pledging to cut poverty and make housing more affordable, life has grown harder for many. House prices shot up by 40% during the pandemic and remain unaffordable, despite a recent correction. Inflation has eroded wages; interest rates have soared. Locals gripe about expensive rent and an understaffed health system. Newspapers are packed with stories of gang crime and violent robberies. "The absolute majority gave Labour every chance to deliver, and they spectacularly failed," says Sir John Key, a former conservative prime minister.

Mr Hipkins has tried to claw back support by scrapping "any policies which had a woke smell about them", as Matthew Hooton, a former adviser to the National Party, puts it. Plans to toughen hate-speech laws and lower the voting age have been ditched, and the focus has turned to more humdrum areas such as raising child-care subsidies and cutting public-transport costs. Yet Mr Hipkins' stint in power has been overshadowed by scandals. Five ministers have been sacked or quit this year, mostly for misconduct. One shared cabinet information with donors. The justice minister, Kiri Allen, crashed her car while drunk and then resisted arrest.

The National Party's Mr Luxon has pledged to "get our country back on track" by cutting taxes, cracking down on gangs and trimming the public sector. But New Zealanders do not trust his party to solve their problems either. Combined, Labour and National are likely to receive their lowest ever share of the vote, says Mr Hooton. Never before have both the two main parties been so unpopular. New Zealand's system of proportional representation is boosting minor parties on both sides.

To reach a majority of 61 seats in the country's unicameral parliament, Mr Luxon will need support from ACT, a growing libertarian party, and possibly an old stalwart, New Zealand First. Its 78-year-old leader, Winston Peters, lost his seat at the previous election, but is staging a comeback by stoking anger against a "cultural cabal" of "elite virtue-signallers". The two smaller parties disagree on most things, but both appeal to disaffected conservatives by pledging toughness on crime and thrusting race into political debate by promising an end to the so-called "Maorification" of New Zealand. Between them, they could win almost 20% of the vote.

A putative right-wing coalition would not signal that New Zealand is "moving into that brand of hard-right politics that we've seen in Italy and Austria," says Sir John. Its electoral system keeps politics relatively centrist and "punishes small parties who are in government that don't act as good, stable partners". Ms Ardern pioneered a cuddlier politics, but Kiwis now seem to want a spikier approach. ■

Chris Luxon is flying

Decentralising Japan

Capital flight

TOKYO AND YAMANASHI

Japanese firms are leaving Tokyo for the sticks

WHEN WATANABE KOTA was young, he moved to Tokyo hoping to make a name as a musician in the big city. He failed, eventually returning to his native Yamanashi, an area west of Tokyo known for farming and Mount Fuji. But decades later, Mr Watanabe found himself reacquainted with his passion in an unexpected way. In 2021 Amuse, a big entertainment firm that manages top-tier Japanese artists and singers, moved its headquarters from Tokyo to Yamanashi. Mr Watanabe now works there. "I couldn't believe a famous company like Amuse would move to such a sleepy place," he says.

A growing number of Japanese companies are leaving Tokyo for the sticks. Last year 335 companies moved out of urban areas to the countryside, an increase of nearly 40% from 2019. The trend got a boost during the pandemic, as remote work boomed and cheap land prices in rural areas started to look increasingly attractive to employers who found that their pricey offices were half-empty. Executives at Amuse also decided to move to Yamanashi in the hope of improving employees' work-life balance and boosting their well-being in a place with lots of nature.

The decentralisation of corporate Japan has long been a national ambition. During Japan's post-war boom, many of its citizens flocked to the growing capital. The authorities eventually started to view that as a problem, especially in the 1990s when the economy entered a period of stagnation. With depopulation a growing problem in rural areas, the government started to promote outward migration from Japan's cities, hoping to disperse employment and corporate-tax revenue. Under the banner of "regional revitalisation," central and local governments offer tax incentives and subsidies to encourage companies to move their headquarters or some office functions to less populous areas.

Mitigating the risk from natural disasters offers another rationale, especially in a country as prone to earthquakes as Japan. Experts reckon there is a 70% chance of a magnitude 7 or higher quake hitting Tokyo within the next 30 years. "Business continuity is the most important thing for us," says Iwata Hajime of AXA Life Insurance. He describes the earthquake and tsunami of 2011 in the northern Tohoku region as a turning point. The company, like some others, started mulling the idea of distri- ▸▸

buting its personnel and resources, since concentrating them in Tokyo felt too risky. In 2014 the firm opened its new headquarters in Sapporo, the capital of the northern island of Hokkaido.

Japan nonetheless remains too Tokyo-centric. Firms are not emigrating from the capital at the pace authorities would like. Though remote work has gained acceptance, in-person meetings remain an important aspect of Japanese work culture. Many workers therefore have to be in Tokyo to meet clients and business partners. And while some employees might enjoy life in the idyllic countryside, plenty prefer the conveniences of the capital. Those with children worry about losing access to high-quality schools and colleges.

Another problem has been a lack of planning and co-ordination among the authorities. Instead of creating new economic hubs, many relocation efforts amount to "simply scattering [firms] across the country", says Sato Motohiro of Hitotsubashi University in Tokyo. He believes that this is a hangover from Japan's bygone boom period, where officials promoted an idea of "balanced development" in which the country's thousands of municipalities were expected to grow at roughly the same pace. In recent years some alternative growth centres have emerged, though not enough to challenge Tokyo's dominance. Hokkaido has attracted enterprises with its vast spaces. Kyushu, the southern region where TSMC, a Taiwanese semiconductor firm, is building a factory, promotes itself as Silicon Island. "The government needs to think more about differentiating between areas that need investing in, and those that don't," says Mr Sato. "Otherwise, Tokyo will keep winning." ■

Banyan The man who fed India

M.S. Swaminathan revolutionised agriculture. Climate change threatens his legacy

His family wanted him to become a doctor. But the devastation of the Bengal famine of 1943, which killed between 2m and 3m people, put M.S. Swaminathan on a different path. A follower of Mohandas Gandhi, the young Tamilian renounced medicine for unglamorous agriculture. His role in newly independent India would be to ensure its poor had enough to eat.

Mr Swaminathan, who died in Chennai on September 28th at the age of 98, made an immense contribution to agricultural research and policy. He was instrumental in spreading high-yield varieties of rice and wheat, which helped turn India from a country so dependent on food imports that it was said to be living "ship to mouth" in the 1960s to self-sufficiency in rice and wheat by the mid-1970s. In later decades he used his stellar reputation to argue for food security in many developing countries. The world has made enormous progress in that regard. Yet as Mr Swaminathan warned repeatedly in recent years, the goal of adequate calories for everyone is coming under threat again, especially from climate change.

The Bengal famine that inspired Mr Swaminathan's work was chiefly a political, rather than a technical, failure. The British Raj had diverted food from India to supply allied troops fighting in the second world war. In independent India, racked by conflict and lacking capital, the main problem was low agricultural productivity, with insufficient grain to support the country's rapidly growing population. Doomsaying foreign experts predicted more famines and mass death.

Mr Swaminathan and his colleagues proved them wrong, chiefly by promoting new grain varieties that were better able to absorb fertilisers. Conventional plants, when given fertiliser, grew long stems that could not support their grains, causing them to tip over and spoil. New wheat and rice varieties developed by Norman Borlaug, an American agronomist, and scientists at the International Rice Research Institute were shorter and sturdier. Yields rocketed after they were introduced to north India in the 1960s, heralding what became known as the "green revolution". Without Mr Swaminathan, Mr Borlaug later wrote, "It is quite possible that there would not have been a green revolution in Asia."

These efforts helped transform India into an agricultural superpower. It has not experienced a major famine since independence. By 1974 it no longer needed imports to meet its rice and wheat needs. Today it is the world's biggest exporter of rice, in 2022 accounting for some 40% of the global market. It also exports a small amount of its wheat, of which it is the world's second-largest producer.

India's recent decision to ban the export of some varieties of rice and impose tariffs on others illustrates the threats to Mr Swaminathan's legacy. The growth of agricultural yields across the world has slowed in recent years amid rising temperatures and increasingly unpredictable growing conditions. India imposed the latest restrictions following an erratic monsoon. The rains arrived late, delaying the rice-planting season. When at last they came, they were so fierce that fields were inundated and crops destroyed, with some farmers losing what little they had managed to plant. The previous summer, heatwaves shrivelled as much as 15% of the wheat crop in some regions. Such extreme weather will become increasingly frequent as the Earth warms. India and the rest of South Asia are particularly vulnerable.

Even as he campaigned for women's empowerment and policies to improve nutrition in recent years, Mr Swaminathan sounded the alarm on what global warming would mean for food security. "Farmers can no longer rely on historical averages for rainfall and temperature," he wrote in 2011. Drought and floods may "spell disaster". His successors are developing wheat and rice varieties that are better able to cope with these threats.

Yet there are signs that such innovations may be insufficient, meaning vast swathes of arable land could eventually be abandoned. Other methods popularised during the green revolution have, meanwhile, fallen out of favour. Mechanical irrigation and intensive monocultures, for example, have turned out to degrade the environment by depleting groundwater and stripping the soil of nutrients. Yet they remain in widespread use in India and elsewhere, storing up vulnerabilities in the global food system. A new and greener revolution in food production is urgently needed.

The Communist Youth League

The young and the nationalist

The Communist Party's youth wing is being turned leaner and meaner

To mark China's National Day on October 1st the Communist Youth League sent a message to its nearly 18m followers on Weibo, a microblog platform. "Today, as protagonists of this era, we will write new legends on this sacred land!" it proclaimed. Attached was a music video, its lyrics suffused with patriotic rhetoric and interspersed with clips of speeches by Mao Zedong and the country's current leader, Xi Jinping. So far, so predictable. The surprise was the singer and his style: a rapper whose early songs about drugs and violence were deemed unfit for public airing. GAI, as he is known, has turned a new leaf. He is now the league's MC.

The Communist Party's youth wing is a vast organisation. With 74m members it is nearly as large as the party (98m), from which it is separate although some of its members have both affiliations. It plays a big role in China's political life. The league indoctrinates people aged between 14 and 28 in the party's ideology, trains potential party members and helps the party to identify talent that can be groomed for high office. It also has an outward-facing task: spreading the party's message among young people with no political ties. After he assumed power in 2012, Mr Xi worried that the league was not up to the job. Officials admitted that it had become out of touch with young Chinese.

For the party, China's youth are a growing problem. The economy is stagnating, unemployment is rife among the young and housing costs are sky-high. Late last year small youth-led protests broke out in several cities. They were aimed at Mr Xi's draconian "zero-covid" regime (subsequently abandoned). With extraordinary bravery, a few demonstrators in Shanghai even called on Mr Xi to step down. He will be mindful of the pro-democracy turmoil of 1989, when some of the league's officials joined the protesters. That period of upheaval across the communist world haunts Mr Xi. He often harks back to the Soviet Union's collapse, which he blames on a breakdown in ideological orthodoxy and discipline. "It doesn't matter if the Communist Youth League makes a thousand mistakes," he said in 2015, quoting Deng Xiaoping. "But one mistake it cannot make is to deviate from the party's track."

In June Mr Xi declared that since 2012 the organisation had acquired a "brand new image". But also that month the league's chief, A Dong, said that amid "profound and complex changes" at home and abroad, "the overall fighting spirit and capabilities of the entire organisation urgently need to be improved." This will involve pushing ahead with sweeping reforms that began in 2016. They range from cutting bloated management to expanding the league's grassroots presence and tightening controls over membership.

Honing the league's propaganda skills is also part of this effort. People like GAI, whose real name is Zhou Yan, are helping. In 2018 Chinese netizens speculated that, after GAI's rise to stardom on reality TV shows, his performing days on ▸▸

officially approved platforms might be numbered: that year the government reportedly ordered broadcasters not to use artists representing "hip-hop culture", or even sporting tattoos (GAI has plenty: "Badkidz" says one in English). "Hip-hop's prospects in China seem dim after Chinese rappers removed from TV shows", said a headline in *Global Times*, a staunchly party-loving tabloid. The story noted GAI's disappearance from the airwaves. But the newspaper's prediction soon proved wrong. The league began to turn to rappers, including GAI, to make itself appear more in tune with the country's youth.

Slick videos featuring these and other singers have been pushed out by the league through a plethora of social-media accounts. By August last year, the organisation's central administration was running 26 of these with a total of more than 200m followers, according to *China Youth Daily*, the league's newspaper. The league's main account on WeChat had a following of 110m, making it one of the biggest accounts on social platforms, the report said. Online, the organisation began referring to itself as *tuantuan* ("league-league"). In Chinese, doubling a syllable makes a name sound cuter—pandas' names are routinely formed this way.

Attack, attack

To Western ears, the rhetoric used by these accounts is often far from endearing. Mr Xi has pushed the new-look league to the front line of China's online nationalism, using it to flood the internet with criticism of the West and of anyone in China with negative views of the party. "Why can't we voice our opinions?" he asked the league's leaders in 2013. "Good prevails over evil. When positive voices online become powerful, the impact of negative public opinion can be reduced."

League accounts have been used to heap vitriol on Western journalists, sow disinformation and to attack dissidents suspected of trying to foment a "colour revolution". In 2021 the league promoted a conspiracy theory that SARS-CoV-2, the virus that causes covid-19, was developed in an American military lab. The hashtag the league created on Weibo to spread this story has been viewed about 1.5bn times—an average of more than once per person in China. In recent weeks the league's accounts have whipped up public anger against Japan for releasing treated wastewater from the Fukushima nuclear plant, which was destroyed by a tsunami 12 years ago—ignoring support for the plan among many scientists elsewhere.

There is no doubt that nationalist rhetoric excites many young Chinese. It is less clear, however, how much the league's online presence is helping it recruit the kind of people it says it needs to create "healthy and vigorous new blood" for the party itself. Of Chinese aged between 14 and 28, about one-third are members (the league's officials can be older). But official statistics show that membership has fallen by nearly 20% since Mr Xi became China's leader.

This may not reflect any change in young people's desire to join. Mr Xi's reforms have aimed to make the league more elite. Teachers have been told not to sign up entire classes, as once was common (and is still the accepted practice for the Young Pioneers, a league-controlled organisation for children aged six to 14). Schools have been given quotas for how many students they can recruit.

The league is not trying to raise the ratio of members to non-members in its target age-group. Indeed, it has set a cap of 30% for 2025, which suggests that it plans little change. But it is trying to expand membership in private firms and NGOs. Among China's 50m registered private firms, the league's presence is still tiny. Between 2018 and January 2022, however, the number of league branches in such businesses more than tripled to above 300,000. In Yinchuan this year, league officials announced a plan to establish branches in all of the firms in the western city's industrial parks by September. With the help of a recently developed database, known as Smart League Building, the organisation can keep much better tabs on such activity. All league members have to register their personal details on this system.

Mr Xi's eagerness to boost the league's influence may seem at odds with a common belief that at least part of his decade in power involved a struggle with senior leaders who had once served in senior roles in the league. Such officials are often referred to as members of the *tuanpai*, or "league faction". Under Mr Xi they have become far more marginal at the top of the party hierarchy. But there is little evidence that the league has operated as a factional bastion. More likely, Mr Xi prefers to surround himself with former colleagues, and he has never held office in the league. Jérôme Doyon of Sciences Po, a university in Paris, notes that the league's administration is still a big source of recruitment for leadership positions in the provinces.

As Mr Xi sees it, the league has a crucial role to play. Even a decade ago he was warning its officials of a global "clash of ideologies" involving ceaseless efforts by "domestic and foreign hostile forces" to Westernise and divide China. This was making it even more imperative, he said, to provide China's youngsters with "strong guidance" on their ideals and beliefs. Which is why, between occasional outings to revolutionary sites and performing good deeds in their neighbourhoods, recruits can expect plenty of time in the classroom, studying the thoughts of Mr Xi. ■

America, China and history

The cherished GI

CHONGQING

Why China has a soft spot for a second-world-war American general

A CURIOUS TOURIST attraction sits on a hillside overlooking the Jialing river in the south-western city of Chongqing. It features American weapons and military paraphernalia. Some rooms are decorated with American flags. A speech by President Franklin Roosevelt is engraved in stone in the courtyard. This is the Stilwell Museum, a site dedicated to the memory of Joseph Stilwell. The feather-ruffling American general served in China during the second world war.

Though he has been dead for nearly 80 years, Stilwell's name has been in the news lately. In August the Chinese embassy in Washington announced that China's leader, Xi Jinping, had replied to a letter from Stilwell's grandson, John Easterbrook. Weeks later it was reported that Mr Xi had also corresponded with two veterans of the "Flying Tigers", a group of mercenary American pilots who fought on China's side in the war. In both letters Mr Xi called for better relations with America.

Why is Mr Xi reaching out to these people? The Stilwell Museum provides some clues. It describes the general as "a great friend" to China. From 1942 to 1944 he served as commander of American forces in China, Burma and India, and as chief of staff to Chiang Kai-shek, leader of the Kuomintang (KMT) government in China. The museum is built on the grounds of Stilwell's residence in Chongqing, which was China's wartime capital (at that time the

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city's name was romanised as Chungking). The general's main task was to help the Chinese fight the Japanese invaders and to oversee the delivery of American military aid to Chiang's forces.

Nicknamed "Vinegar Joe", Stilwell had strong opinions about his allies—and was not afraid to air them. He clashed often with Chiang, whom he called "the peanut". In his diary he documented the KMT's corruption, dithering and incompetence. Acting on an appeal from Stilwell in 1944, Roosevelt wrote a letter to Chiang threatening to cut off aid if he didn't give the general unrestricted command of all Chinese forces. Stilwell hand-delivered it, writing in his diary: "The harpoon hit the little bugger right in the solar plexus and went right through him."

Stilwell's disdain for Chiang may help explain why such a museum is allowed to exist. The KMT, after all, had also been fighting Mao Zedong's Communists. Stilwell was instructed to get the parties to co-operate against Japan. The museum says he "made positive contributions" to Mao's forces and promoted a "better and correct understanding" of their cause. That may be overstating it, but Stilwell did support the American army observer mission sent to establish relations with the Communists. He also complained to Roosevelt that Chiang was hoarding supplies in order to use them against Mao's army after the Japanese were defeated.

Another reason for China's decision to open the museum in 1991—and why Mr Xi is writing letters—may be the Communist Party's evolving view of the second world war. After seizing control of the mainland in 1949, the party refused to acknowledge America's help during the conflict owing to its support for the KMT. But its attitude has slowly changed. Today it recognises America's role in helping China to fight Japan. Moreover, the party under Mr Xi has shifted from portraying China as a victim of the second world war to a victor. This reassessment has helped shape China's assertiveness abroad and rising nationalism at home, writes Rana Mitter, a British academic who specialises in Chinese history, in his book "China's Good War".

Some people are evoking Sino-American co-operation during the second world war to call for better relations today. In his letter to the pilots, Mr Xi said America and China "should and must achieve mutual respect". But there was little respect between leaders back then. In his diary, Stilwell described an urge to bite a radiator after noting that Chiang "sits on his hands and watches with great glee the fool Americans who actually get out and fight." Not long after he delivered Roosevelt's note to the KMT leader, the general was recalled. The relationship between Stilwell and Chiang had reached breaking point. ■

Public health

Viral slurs

BEIJING

Conservatism and nationalism are impeding China's response to mpox

GLOBAL HEALTH officials were spooked last year when mpox, a disease formerly known as monkeypox, began spreading beyond the parts of Africa where it is endemic. Its reach rapidly extended across Europe and America, mainly through sexual contact. Mpox can cause flu-like symptoms, painful blisters and, in very rare cases, death. This year cases have fallen rapidly in much of the world, thanks to vaccines and health education. But not in China.

In July and August the country said it had found nearly 1,000 new cases, more than half of the new infections reported worldwide in those months. This marked a sharp rise from zero infections early in the year. The mpox virus has spread across China, with 26 of the mainland's 31 provincial regions reporting infections. Some 80% of cases lack a clear chain of infection, health officials say, implying that many others are not being recorded.

There are several reasons why China is an outlier. One is anti-foreign sentiment. In September last year Wu Zunyou, China's chief epidemiologist, posted unhelpful advice on social media that the risk of infection could be reduced by "avoiding direct skin-to-skin contact with foreigners". Officials have not approved any of the effective foreign vaccines against mpox (just as they have not permitted general use of foreign vaccines against covid-19). This is despite advice from the World Health Organisation that high-risk groups and health workers who treat mpox patients should get a shot. An mpox vaccine developed by a Chinese company is still undergoing trials.

Conservatism is a problem, too. Almost all mpox cases in China and elsewhere have been among men who have sex with men. In other countries, support groups for gay people have proved invaluable in raising awareness of the virus and getting people tested. But for years China has suppressed such groups, deeming them threats to public morals and political stability. Guidelines released by local governments say that mpox poses little risk to "ordinary people".

On China's social media many people use homophobic slurs when discussing mpox. Surveys show that few gay or bisexual men in China are willing to tell doctors about their sexuality, which makes it harder for them to get needed advice. In August officials said five women had been found with mpox (China's previously declared infections had all been in men). Some netizens said the women had been tricked into marriage by "despicable" gay people.

China's response to mpox recalls its initial handling of HIV, the virus that causes AIDS. In the late 1980s Chinese officials dismissed HIV as a foreign problem caused by decadent Western lifestyles. But in the 1990s many people became infected with the virus while selling their blood plasma. Only after the scandal broke did a nationwide campaign against HIV gain traction and successfully reduce infections.

With mpox, too, there are signs of a shift in official thinking. On September 20th the government reclassified the disease, putting it on the same level as HIV. This should unlock more resources for tackling it. Also last month Mr Wu, the epidemiologist, co-wrote a letter to the *Lancet*, a medical journal, warning that "the global spread of mpox could be exacerbated if local transmission is not controlled immediately". He suggested that China should start using vaccines and try to reduce fears of the disease. Better late than never. ■

Sudan's civil war

The return of genocide in Darfur

ADRÉ

Survivors tell of mass slaughter, murdered babies and kill lists

HANAN KHAMIS just wanted to get to safety. In mid-June, after surviving weeks of gunfire and rockets directed at the Masalit, a black African ethnic group, she fled el-Geneina, the capital of the state of West Darfur in Sudan. Hoisting her 23-month-old baby boy, Sabir, onto her back she started walking towards Chad. Yet fighters wearing the uniforms of the Rapid Support Forces (RSF) soon surrounded them. They dragged men to the side of the road and told the women to run. Before she could do so, a gunman wrenched open the shawl on her back that covered Sabir. "No men can escape to Chad," he shouted. Then he shot her baby in the head.

In Chad a humanitarian worker identifies four other mothers who tell of similar horrors. One says she was stopped at a roadblock where Arab militiamen murdered the men in her group. When they saw her 15-month-old son strapped to her, they shot him dead as he clung to her. The bullet burst through his tiny body and into hers, where it remains lodged. "If that isn't a genocidal act, I don't know what is," says Mukesh Kapila, a former UN chief in Sudan who blew the whistle on massacres in Darfur 20 years ago.

Back in 2003, armed groups from black African tribes in Darfur rebelled against the Arab-dominated government in Khartoum, the capital. The government responded by arming Arab militias known as the Janjaweed ("devils on horseback"). They indiscriminately attacked villages inhabited by black Africans, not just rebels, torching houses and shooting residents. They also seized land, access to which is a continuing source of tension. In roughly the two years that followed, millions fled and perhaps 170,000 died, about 80% of them from hunger and disease.

America and several NGOs said that this amounted to genocide, though others disagreed. A report to the UN Security Council argued that "the crucial element of genocidal intent appears to be missing." In 2007 the UN and the African Union deployed a joint peacekeeping mission. Intermittent violence continued, but hopes rose of a durable peace in 2019 after the toppling of Sudan's longtime dictator, Omar al-Bashir. Few people were held accountable for the earlier war crimes and the peacekeepers were withdrawn in 2021.

In April this year war broke out between the Sudanese Armed Forces (SAF) and the RSF, a paramilitary formed by the government from the Janjaweed. The fighting has pulverised much of Khartoum. In Darfur it has triggered attacks on the Masalit by Arab militias and RSF fighters. This time the targeting of the Masalit is clear, says Kholood Khair of Confluence Advisory, a Sudanese think-tank. "Genocidal intent this time is much more explicit."

Ali Yagoub Idris recounts how from a hiding place he saw RSF fighters force eight people to lie down while shouting: "You are Masalit, you are not allowed in this town." Then they shot all eight of them. Elsewhere people lied about their ethnicity to survive. But speaking with a Masalait ac- ▸▸

→ Also in this section

cent could mean death. UN data appear to back up allegations that men are being singled out and shot when they try to leave, as only one adult man reaches Chad from el-Geneina for roughly every two adult women who do so. Arab militias also tried to hunt down particular Masalit leaders such as Hatim Abdallah El Fadil, a vocal civil-society activist. "I was on a list," he says.

Zahara Adam Khamis, a women's rights activist, weeps as she recounts how a 27-year-old university student she knows was gang-raped by five militiamen in front of her mother. "The baby will be Arab," they said as they finished.

The fighting in West Darfur also appears more one-sided than in 2003, when the conflict began with rebel attacks. This time, after skirmishes between the RSF and the SAF in el-Geneina in April, government forces quickly retreated as the RSF, aided by Arab militias, attacked Masalit neighbourhoods. Some Masalit descended on a police-weapons depot where policemen allowed the crowd to grab Kalashnikov rifles. Yet the Masalit were outgunned. No one knows exactly how many were killed, but the UN has credible reports of at least 13 mass graves. On June 14th the governor of West Darfur, a Masalit, publicly accused the RSF of genocide. Hours later he was gruesomely killed, reportedly by RSF forces, a charge they deny.

Even after people fled from towns they faced murder and ambush on the way to Chad. Bodies littered the road. One man, call him Khalid as he asked that we not use his real name, fled to Chad in 2003 without facing violence on the way. This time he tried to reach Chad safely by taking a route far to the south at night with a group of about a hundred people. Yet as they neared the border, headlights lit them up. Seconds later the firing started, killing around 20.

Today the RSF wields not just Kalashnikov rifles but also rocket-launchers and machineguns. The difference is grimly evident at a hospital in the Chadian town of Adré, close to the border with Sudan. Before Abdul Samad was hit by a rocket he hoped to be an electrician. Now the 19-year-old sits looking at the stump of his right leg and the mangled clump of burnt flesh that is all that remains of his left foot.

The RSF has heavier weapons thanks to foreign backers. The United Arab Emirates (UAE) is understood still to be shipping weapons to the RSF through Chad. A $1.5bn loan from the UAE to Chad seemingly smoothed the way. Evidence for this traffic is "pretty clear", says a Western diplomat. The *New York Times* reported that weapons are being shipped under the guise of an aid mission. The UAE has said its operation is purely humanitarian.

In parts of West Darfur there has been a lull in violence since the terrible peaks of June. That is partly because in some places fully 70% of the population has fled. More than 420,000 went to Chad. The mud of the rainy season also makes it difficult for the RSF to mount large attacks on other towns and villages. But the rains are ending and the chances of calm are fading, both in Darfur and between the RSF and SAF. "We will see a very distinct uptick in the level of violence," predicts Ms Khair. Many also fear there will be more air strikes by the SAF, which last month bombed a market in Nyala, the capital of South Darfur.

Some among the Masalit, meanwhile, are said to be training to fight and are trying to arm themselves in Chad. Ismat Adam Abdallah is a soft-spoken English teacher. But after 18 members of his extended family were killed, he has changed. "We will take it back by force," he says of their lost land. "We need weapons, we need vehicles." Would he fight? "Yes," he avers vigorously, "because I lost everything." ■

Peacekeeping in Somalia

Mission unaccomplished

NAIROBI

The withdrawal of peacekeepers is on hold as al-Shabab hits back

No peacekeeping mission anywhere has been as deadly, nor has any African-led one lasted as long. After almost 17 years of trying to stabilise Somalia and beat back jihadists, at a loss of perhaps 3,500 peacekeepers, the next phase in winding down the almost 18,000-strong African Union (AU) force had been greeted with high hopes. Yet plans to withdraw 3,000 troops at the end of September have just been shelved, *The Economist* has learned.

Ready or not

This is because of concerns that Somalia's army will be unable to hold territory that had previously been recaptured from al-Shabab, a jihadist group that America's military command for Africa has termed "the largest and most deadly al-Qaeda network in the world".

On September 30th the AU agreed to pause the drawdown for three months after a last-minute plea from Somalia's government, according to several people in the know. A statement may be released within days, possibly after a meeting between officials from the AU and the UN Security Council: an extension needs the approval of the council, which had previously said that the African Union Transition Mission in Somalia (ATMIS) should number no more than 14,626 from October and be completely withdrawn by the end of 2024. (In the first phase of the drawdown 2,000 went home in June.)

Unanswered, however, is the question of who will stump up the cash to keep the peacekeepers there. The European Union, which since 2007 has provided more than €2.6bn ($2.7bn) to ATMIS and its predecessor, AMISOM, has long been reluctant to keep paying for what some of its members saw as a never-ending commitment. Yet it is tightening its purse-strings at arguably the wrong time. After years of deadlock, the Somali army has made real progress.

Last year clans rose up against al-Shabab in central Somalia, where locals were angry with the militants for conscripting their sons and taking their livestock. The new president, Hassan Sheikh Mohamud, sent in the national army to support them, backed by American and Turkish air power. Together the soldiers and clan militias pushed al-Shabab out of a third of the territory it controlled. Lloyd Austin, America's defence secretary, recently said that more progress had been made in the past year than in the previous five. As Somali forces advanced, ATMIS secured bases and towns. When the peacekeepers leave, the national army will have to take their place.

Yet the national army is disorganised and poorly equipped. After 2,000 troops left in June, some of the bases ATMIS handed over were targeted by al-Shabab. The Armed Conflict Location & Event Data Project, which monitors violence, reports a surge in attacks along the border with Kenya. In August the militants attacked the Somali army in Galguduud region, forcing it to retreat from liberated towns. "We don't have the forces needed to hold on to those positions that will be vacated by ATMIS," says Ali Mohamed Omar, the state minister for foreign affairs. He says the government has recruited 10,000 new soldiers in the past year, but needs time to train more and stabilise the areas it holds.

Little of this is likely to change much before the end of 2024. Yet even if ATMIS ▸▸

leaves on schedule, foreign soldiers may stay on under different hats. Ethiopia and Kenya, which have both contributed troops, share borders with Somalia and worry about regional stability. The Somali government will almost certainly seek new arrangements with them to keep some boots on the ground, says Omar Mahmood of the International Crisis Group, a think-tank, though there are lingering questions about who would pick up the tab.

When it finally goes, the AU mission will leave a mixed legacy. In the early years it drove al-Shabab from the main towns and carved out a space for the Somali government to operate. But it could not do the politicians' job for them. Rather than uniting against the militants, Somali leaders have spent much of the past decade arguing over the division of power. Outsiders can help fight the war, but they cannot make the peace. ■

Egypt's election

Deaf on the Nile

DUBAI

A rushed election in Egypt shows that Abdel-Fattah al-Sisi is nervous

POLITICIANS CAMPAIGN in poetry, as the saying goes, even if they govern in prose. Rarely do they write verses about suffering. Last month Abdel-Fattah al-Sisi, Egypt's military dictator, tried out a bleak slogan for his upcoming election. "If the price of the nation's progress and prosperity is hunger and thirst, then let us not eat or drink," he said. With food prices up 72% over the past year, many voters are doing just that: *dulce et decorum est*, indeed.

On September 25th Egypt decided to hold presidential elections earlier than planned. Instead of voting in the spring, Egyptians will go to the polls on December 10th. The change was not unexpected. Mr Sisi is keen to get the election out of the way before he makes painful economic decisions such as devaluing the currency. In a democracy, this would be sound politics: beggaring voters is not a ticket to victory.

The logic may seem fuzzier in Egypt, where voters are props in a democratic farce. But Mr Sisi, who led a coup in 2013, is on wobbly ground. Victory would allow him to rule until 2030. The question that many Egyptians have begun to whisper is whether he will last that long.

There is no doubt that he will win. The previous election, in 2018, had just one "opposition" candidate—who until the day he entered the race had endorsed Mr Sisi. He finished third in a two-man race (spoiled ballots came second). Anyone who might have posed a real challenge was disqualified, detained or intimidated into dropping out.

Four politicians have talked about running this time. None has much support. One of them, Ahmed al-Tantawy, a former MP, says dozens of his backers were arrested after the government announced the election date. Citizen Lab, a Canadian cyber-watchdog, says Mr Tantawy's phone was also targeted with Predator, a sophisticated bit of spyware.

The president himself entered the race on October 2nd, after his allies bused thousands of people to post offices to sign petitions endorsing his candidacy (many were bribed or compelled). "As I responded to the call of the Egyptians before, today I respond to their call again," Mr Sisi said, striking a familiar pose: the reluctant leader pressed to service by an adoring nation.

There are no reliable polls on his popularity, but it is safe to say that few Egyptians still adore him. Ordinary citizens who cheered his coup in 2013 because they craved stability now curse his handling of the economy. The currency has lost half its worth in three devaluations since early 2022. Annual inflation hit a record 39.7% in August. A dollar shortage has left businesses struggling to pay for imports. External debt has more than doubled, from 17% of GDP in 2013, to 39% today.

Egypt signed a $3bn agreement with the IMF in December (it is the fund's second-largest debtor). So far it has received only the first $347m tranche of the loan. A review meant to be finished in March would have unlocked more money. It was delayed because Egypt had made little headway on two of the fund's main demands: sell state-owned assets and float the currency.

Mr Sisi's government has made half-hearted progress on the former. It sold stakes worth $1.9bn in the six months to June, barely missing its $2bn target, and hopes to shift another $5bn by June 2024. But it refuses to divest the army's economic empire, which is a big obstacle to growth because it crowds out a growing number of private firms. In August Mr Sisi held a meeting about how to grow Egypt's iron-and-steel industry. His only guests were uniformed generals; no businessmen were at the table.

Payback time

Egypt, external-debt repayments, $bn

Source: Central Bank of Egypt

Floating the currency will be harder. The black-market rate is still around 20% below the official one. A weaker pound will trigger more inflation (the IMF estimates it will hit 32% year-on-year in 2024, up from 24% this year). Even boosterish analysts at Egyptian banks doubt the central bank will get close to its 7% inflation target.

At the same time, Egypt will have to repay $29.2bn in external debt next year (see chart), up from $19.3bn in 2023. That is equal to 85% of its $34.4bn in foreign reserves, a figure mostly made up of deposits from wealthy Gulf states. Although they seem willing to roll over those deposits indefinitely, they are fed up with Mr Sisi and reluctant to offer him more money. ▸▸

Victory will be a breeze

So are private investors. Interest rates have more than doubled since early 2022, to 19.75%, but high inflation means real rates are negative. State-owned banks offer 9% interest on dollar deposits, returns that have a whiff of a Ponzi scheme about them. Moody's, a rating agency, has Egypt under review for a possible downgrade (it docked the country to a dismal B3 in February). JPMorgan Chase, a bank, may remove the country from its emerging-markets bond index because of concerns that investors cannot repatriate funds.

The current-account deficit has narrowed, but Egypt still registered a $5.3bn shortfall in the nine months to March. Goldman Sachs, another bank, estimates that Egypt needs an extra $11bn in financing over the next five years. Officials hope to plug the gap with state-asset sales, borrowing from Asian countries and the IMF loan. But the maths look daunting.

Mr Sisi offers nothing but empty talk. In June he insisted that he would not approve another devaluation; last month he said the "end is near" for the economic crisis. He also told young people they could earn a "respectable income" by donating blood every week. Mostafa Madbouly, the prime minister, brags that Egypt has spent 9.4trn Egyptian pounds ($300bn) on infrastructure projects over the past decade. Even if that is true, much of it has been wasted on white-elephant projects, from a vast, desolate new capital city in the desert to an expansion of the Suez canal that has fallen far short of revenue projections.

The never-ending story

This election should be Mr Sisi's last: the constitution forbids a fourth term. Then again, it used to forbid seeking a third. He fixed that in a sham 2019 referendum, creating a loophole that allowed him to run again. Some of his supporters see that as a mistake. Even before the last election, they urged him to stop at two terms. "I told him he could retire as the man who saved Egypt from chaos," one recalls. "Stand down and bring new ideas."

Friendly advice has turned to furtive scheming. Businessmen, politicians and some army officers have tried to enlist a real challenger. By rushing the poll, the president hopes to pre-empt such plots.

Again, though, this is democratic logic applied to an undemocratic country. Though remembered as a revolution, the ousting of Hosni Mubarak in 2011 could also be called a coup: the army turned on the ruler to preserve the ruling system. History could be repeated, especially if soaring prices spark unrest. At small protests on the night Mr Sisi announced his candidacy people chanted "*irhal*" (leave), a popular slogan from 2011. Mr Sisi will win a new six-year term, but there are no guarantees he will be allowed to finish it. ■

Egypt's subsidies

Give us this day

Egypt's appetite for wheat looks increasingly unsustainable

That in Egyptian Arabic the word for bread, *aish*, is the same as the word for life stresses the foodstuff's importance in the country. Nearly two-thirds of Egypt's 106m-strong population rely on subsidised bread. Partly as a result, they devour about three times the global average per head. But as its population grows and climate change makes wheat harder to grow, the government's determination to provide its people with cheap bread looks ever less sustainable.

Bread subsidies are already expensive. They cost $2.9bn in the past fiscal year, 2.6% of the budget. Only half of the grain Egypt uses is grown domestically; it is among the world's largest importers of wheat. That leaves it hostage to global price fluctuations. Russia's invasion of Ukraine caused a surge in prices last year, though prices have since fallen.

Meanwhile urbanisation is eating away at Egypt's scarce farmland. Arable land—most is in a fertile strip along the Nile—makes up just 4% of the country. Urban sprawl devoured a tenth of the farmland around Alexandria, Egypt's second city, between 1987 and 2015.

Local wheat yields are predicted to fall by 10-20% by 2060 as climate change further limits the country's ability to grow its own food. Rising sea levels will blight crops by making the soil of the Nile delta saltier. Higher temperatures and reduced rainfall could mean smaller harvests. The country's annual water usage already exceeds its renewable supply by more than a quarter. It makes up the shortfall partly by depleting its aquifers, which in turn reduces soil quality. And last month Ethiopia finished an upstream dam whose reservoir could in theory hold back 88% of the river's annual flow, allowing it to control how much water goes downstream to Egypt.

The population of Egypt is forecast to hit 160m by 2050. The World Bank reckons growing another 5m tonnes of wheat on top of the 20m tonnes the country now consumes each year would require an additional 5.5bn cubic metres of water, the equivalent of another 10% of the Nile's annual flow. Subsidising wheat means farmers have an incentive to grow it with scant regard for water's scarcity.

The government says it will spend $246bn on climate-mitigation and adaptation measures by 2030. That would represent nearly 10% of current GDP a year, a vast sum for a country in economic crisis. If Egypt, which is on the brink of not being able to pay its bills, wants even to start on its grand plans, it may have to rethink its pricey bread subsidy.

Replacing bread subsidies with cash transfers—which would be cheaper and reduce the incentives to grow wheat—would be economically logical but politically fraught. Attempts to reform the subsidy system led to riots in the 1970s. And given that annual food inflation hit 72% in August, it is not clear what Egyptians would eat in place of their daily government-sponsored bread.

The staff of life

The Economist

SPECIAL REPORT:
The world economy

October 7th 2023

Homeland Economics

Driving transformation when change is exponential

Razat Gaurav, CEO of Planview, the leader in portfolio management and value stream management, shares why bridging the strategy-execution gap is essential for transformation.

What is the biggest challenge organisations face when connecting strategy to execution?

The biggest challenge between strategy and execution is change–change from technology shifts, geopolitical shifts, demographic shifts and even generational shifts. It's not a new phenomenon. But what has changed is that the pace of change is exponentially faster. Companies must be able to quickly analyse and adapt or evolve their strategy–and how those changes are executed–while still driving important business outcomes.

Why is digitalisation a magnifying glass on the disconnect between strategy and execution?

Digitalisation is an imperative in almost every organisation in every industry today, and that's what's leading to more than $3trn of annual spending on it. The rationale behind digitalisation is sound, but studies show that much of that work is wasted–more than 40%, in some cases. This is largely due to the disconnect between strategy and what's being executed by teams across the business.

How do you envisage technologies like artificial intelligence (AI) affecting the strategy implementation gap?

AI has existed for years. What has really changed the game is how large language models can train on massive amounts of data with very sophisticated neural networks. And then, they can serve insights in a common language to people who know nothing about code or neural networks. This includes bringing key data and insights that impact strategy planning and execution across every organisational function.

Planview recently sponsored a survey showing that 86% of respondents think their organisations need to improve accountability for strategy implementation. What challenges do organisations face around measurement?

The key thing that gets in the way are data silos. Most organisations are swimming in data, yet most of that data is not usable to make decisions. Curating the relevant data to align with your priorities and objectives is critical to achieving accountability for strategy implementation.

How can organisations ensure a common understanding of strategic goals?

What we find is that many organisations have three major gaps.

First, organisations are measuring inputs or outputs, but they're not measuring outcomes. Particularly when dealing with digital transformations, the business and technology teams must work together to focus on the outcome.

The second gap is around creating a synchronised, connected approach to objectives and key results–what some organisations call OKRs. Is leadership in alignment with the way an individual contributor gets measured? And does the individual contributor understand how they impact their leadership's OKRs? That bidirectional synchronisation is key.

And then the last piece is how the different functions in the organisation–finance, manufacturing, sales, and so on–align their OKRs to help achieve the company's objectives and key results.

How can organisations effectively reallocate financial, technological and human resources in response to change?

Reprioritising in a data-driven way is a challenging task. But when you add a data foundation and create a system of record for the initiatives you're working on, you can create the visibility and transparency required to make decisions that optimise key outcomes. Companies today are able to do this even more quickly through a generative AI interface to gain insights on the most optimal way to reprioritise.

How can companies align their culture with their strategic business objectives?

Culture is a critical success factor in dealing with change and bridging the strategy-execution gap. It's defined by the reason a company exists, and it emerges from your organisation's purpose, vision for the future and core values. This is especially important as companies navigate the changes that come with digitalisation and transformation. They ultimately need to have a culture that allows for that transformation to happen and be successful. Companies need cultures that allow people to do their best work, experiment and fail fast to get through the learning cycles.

What should leaders do first to narrow the strategy-execution gap?

My first piece of advice would be, take a deep breath because change is constant. As organisations, as leaders, as individuals, we all have to be ready to adapt and change. But beyond taking that deep breath, there are three things I'd advise organisations to do.

First, figure out the three initiatives that will actually move the needle. Second, define OKRs and an incentive structure for the outcomes you're trying to achieve. Third, invest in systems that allow you to break out of those data silos to execute as one organisation, as one team.

Companies must be able to quickly analyse and adapt or evolve their strategy–and how those changes are executed–while still driving important business outcomes.

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Redividing the world

Governments across the world are rediscovering industrial policy. They are making a big mistake, argues Callum Williams

For a while, after the end of the cold war, it looked like the world really might be becoming a little bit more like the fabled global village. Motivated by a belief in the power of markets, globalisation took off in the 1990s. Governments loosened controls on travel, investment and trade. In 2001 China acceded to the World Trade Organisation, turbocharging trade between Asia and the West. The changes brought many benefits, reducing poverty and inequality, and were accompanied by a growing political freedom worldwide (see chart on next page).

They brought plenty of problems, too, and some people thought that the financial crisis of 2007-09 would provoke politicians into reforming the way things worked. Many believed that the crisis had demonstrated the dangers of free-flowing capital markets. Politicians talked about restraining housing booms, and of doing more to tame finance. Globalisation slowed; Britain voted for Brexit; then America and China embarked on a trade war. But fundamentally it continued much as before.

Now, though, a radical alternative really is taking shape. Some call it "global resilience" or "economic statecraft". We call it "homeland economics". The crucial idea is to reduce risks to a country's economy—those presented by the vagaries of markets, an unpredictable shock such as a pandemic, or the actions of a geopolitical opponent. Supporters say this will produce a world that is safer, fairer and greener. This special report will argue that it will, in large part, create the opposite.

Homeland economics is a response to four big shocks. First, the economy. If the financial crisis of 2007-09 broke confidence in the old model, the global recession of 2020 sealed the deal. During the pandemic, supply chains buckled, adding to inflation by raising the cost of imports. A system that had once seemed to deliver efficiency and convenience had turned into a source of instability. The pandemic also encouraged people to believe that governments should do more. Second, geopolitical shocks. America and China are sparring with increasing ferocity, using a variety of economic sanctions. Russia has launched the biggest land war in Europe since 1945. Gone is the notion that economic integration would lead to political integration.

That war, in turn, led to the third shock: energy. Vladimir Putin's weaponisation of his country's hydrocarbon supplies has convinced many politicians that they must secure alternatives, not just of energy but of "strategic" commodities in general. And then the fourth shock: generative AI, which may pose a threat to workers. This has compounded a sense that the modern economy is stacked against the average person. By historical standards, inequalities of income and wealth are high.

Homeland economics wants to protect the world from similar shocks in the future. It wants to keep the benefits of globalisation, with its emphasis on efficiency and low prices, but avoid the downsides: the uncertainty and unfairness of the previous system. This requires meshing national security and economic policy.

"I want to start by thanking all of you for indulging a national-security adviser to discuss economics." A speech by Jake Sullivan, in Washington, DC, in April, showed how much has changed since the hyper-globalisation of the 1990s. Mr Sullivan was signalling that control of the economy had shifted to the geo-strategists. Other leaders have made similar statements. Ursula von der Leyen, the president of the European Commission, boasts that the European Union (EU) is "the first major economy to set out a strategy on economic security". Emmanuel Macron talks of "strategic autonomy" for France; Narendra Modi, India's prime minister, likes economic "self-reliance".

What has globalisation ever done for us?
World

Sources: Boix et al., 2013; Lührmann et al., 2018; Our World in Data; Varieties of Democracy Project; World Bank; World Inequality Database; *The Economist*

*At 2017 purchasing-power parity †Before tax

To achieve this requires reaching back into the historical toolkit. Some, following the protectionist policies of the 1930s and President Donald Trump in 2018, are raising tariffs. Others are spending on R&D, hoping to recreate the government-funded research labs of the 1950s that helped win the cold war.

But the real focus is elsewhere. Drawing on the European experience of the 1950s and 1960s, many governments are hoping to build up national champions in "strategic" industries—not coal and steel, as before, but computer chips, electric vehicles and AI. They are implementing huge subsidies and domestic-content requirements to encourage production at home. Says Mr Sullivan, "The gains of trade...failed to reach a lot of working people"—best, therefore, to limit it. As in the cold war, Western governments are using economic tools to weaken geopolitical adversaries, including bans on exports and international investment, especially when it involves "dual-use" technologies, for civilian and military application. They have also pledged massive support for clean technologies in the fight against climate change.

A few pieces of legislation have grabbed the headlines. Under President Joe Biden, America has implemented the CHIPS Act, to help the domestic semiconductor industry, and the Inflation Reduction Act (IRA), which has less to do with inflation than with subsidising green energy. Both look to build up domestic employment and expertise. Both cost a lot. About 40% of all rich-country spending to support clean energy comes from America. But other countries are also spending big.

Chips with greens

The EU has responded to the IRA, launching its Green Deal Industrial Plan. It has its own version of the CHIPS Act. Recently 14 EU member states set up a scheme to support microelectronics and communication technologies. France is launching a fund to produce critical minerals. The EU wants 40% of key technologies needed for its green transition, and 20% of the world's semiconductors, to be made in the bloc.

India has set up a big "production-linked incentives" scheme for many sectors, including manufacturing of solar photovoltaic modules and advanced batteries. Under the K-CHIPS Act, South Korea offers tax breaks to semiconductor firms. Taking inspiration from the "Made in China" scheme begun in 2015, there is now "Made in America", "Made in Europe", "Make in India", "Made-in-Canada plan" and "A Future Made in Australia".

Researchers are quantifying these trends. A new paper, by Réka Juhász of the University of British Columbia, Nathan Lane and Emily Oehlsen of Oxford University, and Verónica C. Pérez of Boston University, tracks industrial-policy interventions over time. They find a surge in 2021 and 2022 (see chart overleaf). In contrast to the past, when poor countries used industrial policy as a development tool, now rich countries have the lion's share of industrial policies. According to our analysis of data from the Manifesto Project, a research effort to collect information on political manifestos, interest in industrial policy is soaring.

Money is sloshing around in huge quantities, as governments try to persuade companies to locate or expand activity in their country. In the first quarter of 2023, we estimate that firms across the rich world received about 40% more subsidy cash than was normal in the years before the pandemic. In the second quarter America spent $25bn on subsidies. According to UBS, a bank, governments in seven big economies have earmarked up to $400bn for the semiconductor industry over the next decade. Since 2020 governments have allocated $1.3trn to support clean-energy investment. America's spending on industrial policy, relative to GDP, is likely to remain some way behind that in communist China, but it is already rivalling that of France. Britain's Labour Party, if it wins power, wants to lavish billions on green handouts which, as a share of GDP, would be ten times more than America's.

"The project of the 2020s and the 2030s is different from the project of the 1990s," said Mr Sullivan in April. Over time the new industrial policy is likely to expand. If all the cool kids have a CHIPS Act, then why not a SOLAR Act or an EARTHS Act? Policymakers are turning their attention to AI and quantum computing.

Corporations are responding to the changing political winds. On earnings calls, executives mention "reshoring" production to their home country more frequently. Others say they are moving from "just in time" to "just in case". This means keeping higher stocks of raw materials and finished goods, which can be drawn on if supply chains fail. Other companies are leaving China.

Investors think more is to come. Since the start of 2022 the average share price of American firms "perceived to benefit from additional infrastructure spending" rose by 13%, compared with a 9% decline for the overall American stockmarket, according to data from Goldman Sachs, a bank. Silicon Valley investors are going all in. Under its "American dynamism" initiative, Andreessen Horowitz, a big venture-capital fund, promises to back "founders and companies that support the national interest".

A lot about homeland economics sounds reasonable. Who could be opposed to making supply chains resilient, helping left-behind regions, rebuilding energy structures and standing up to

China? "There are strong theoretical and economic justifications for industrial policy," argue Ms Juhász, Mr Lane and Dani Rodrik of Harvard University in a new paper. These policies will create many winners, from the bosses of firms receiving payouts, to investors in those firms, to local areas which benefit from a new factory.

This special report will, however, show that homeland economics will create billions of losers. Beneath the apparent reasonableness, there is a deep incoherence. It is based on an overly pessimistic reading of neoliberal globalisation, which in fact held great benefits for most of the world. The benefits of the new approach are at best uncertain. Meanwhile, attempts to break free economically from China are likely to be partial, at best. The benefits of green subsidies for the fight against climate change are also less clear than their proponents admit.

The costs, by contrast, are clear. Research by the IMF considers a hypothetical world which has split into America- and China-led blocs (with some countries remaining unaligned). In the short run, global output is 1% lower, and in the long run 2% lower. Other estimates put the global GDP impact at over 5%. It is as if the entire world decided to Brexit. The historical experience of industrial policy is not encouraging. Governments are going to waste a lot of money—not a good plan, given the demands from health care and pensions, and already-large deficits.

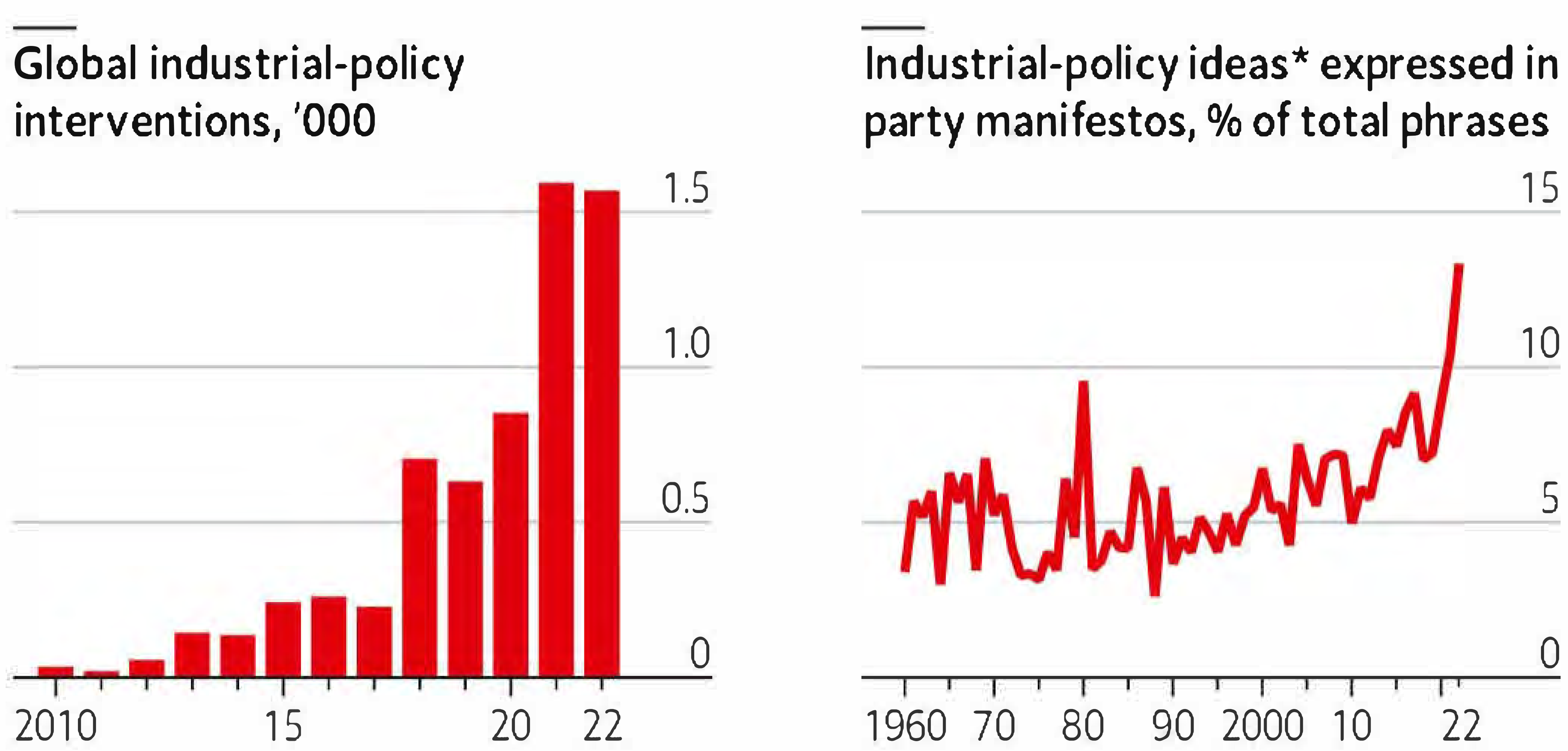
Hidden damage

Drawing on analysis from a range of mostly rich countries, this report will argue that homeland economics will struggle to make supply chains more resilient and is unlikely to help the economy. It will argue that the new policies will do little to reduce inequality, and not enough to deal with climate change.

Faced with these findings, believers in market economics nonetheless face an uphill struggle. The benefits of the new economic model, however concentrated and partial they may be, will be easy to see and so politically salient. Governments are already boasting about the successes of their subsidy regimes—whether it be Tata's new automotive battery plant in Britain (rumoured fiscal cost: £500m, or $612m), or the new Rapidus chipmaking plant in Hokkaido (with billions of dollars' worth of support from the Japanese government). The damage, in the form of lower incomes and less efficiency, will be diffuse, harder to see, and easy to ignore.

But not for ever. By promising things which they cannot deliver, politicians are storing up trouble. In ten years the West will probably be roughly as reliant on China as it is today, and as unequal and as slow-growing. What then? Do politicians double down on industrial policy, believing its only weakness was that it was applied with insufficient enthusiasm? ■

Coming to an industrialised country near you



*Importance of science and tech, training and research and public spending on infrastructure

Sources: "The who, what, when, and how of industrial policy: a text-based approach", by Juhász et al., 2022; Manifesto Project; SSRN; *The Economist*

Supply chains

Demand for supplies

Attempts to make supply chains more "resilient" are likely to fail

Napoleon Bonaparte did not have semiconductor supply chains in mind when he suggested that "the torment of precautions often exceeds the dangers to be avoided". But his comment still rings true 200 years on. Governments and companies now say they want to protect themselves from disruptions, whether the vicissitudes of global markets or deliberate weaponisation by leaders like Vladimir Putin. They fear that at any moment China could try something similar, cutting the West off from crucial goods or components. In practice, however, the drive to rework supply chains will have vastly more costs than benefits.

A battery of buzzwords describes the plan. Some politicians want to "decouple" from China. Others speak of "derisking", focusing efforts instead on the one-third of total trade deemed to be "strategic". "China-plus-one" is a new boardroom mantra, which says that a business should supplement a Chinese supplier with a non-Chinese backup. "Friendshoring", in some cases via "nearshoring", can help achieve these goals.

These plans seek to rework a global trading system which, in the years before the pandemic, had focused relentlessly—and successfully—on efficiency. In Britain, the average cash price of durable goods such as televisions and tables, which are largely imported, fell by 15% from 2001 to 2016. Cheaper consumer goods raised real incomes, especially for the poor. Trade also massively expanded the variety of goods on offer.

Received wisdom says efficiency came at the expense of resilience. This is, at best, a partial story. Before the pandemic, supply chains actually looked increasingly resilient. *The Economist* looked at the prices for about 300 American imports from 2005 to 2019. Price volatility, as measured by how much the cost of something jumps around over a six-month period, was falling.

Did this resilience break down during the pandemic, as commonly argued? In 2020 and 2021 many goods, from computer chips to natural gas, were in short supply, causing prices to soar. Some firms had a hard time sourcing materials. "As global supply chains have become...leaner and more efficient," said Christine Lagarde, the president of the European Central Bank, last year, "they have also become extremely vulnerable to disruptions in the face of global shocks that affect multiple sectors at once."

That view is, however, mostly wrong. It is important to distinguish true supply-chain failure from delays caused by an unprecedented surge in demand. Take hand sanitiser. Perhaps no other commodity saw such a rise in demand during the lockdowns. In 2019 Britain imported 16,000 tonnes of the stuff, with businesses paying $2.90 a kilo. In early 2020 there were shortages. But markets responded fast. Within days, factories were churning it out by the gallon. Over 2020 as a whole Britain imported 86,000 tonnes, with the average price rising only to $3.50.

In 2021 global semiconductor companies shipped 1.2trn units, 15% up on the year before. In 2021 America's physical imports of semiconductors were up by 30% over 2020. Was there really a supply problem, or did the industry respond reasonably efficiently to an extreme, unpredictable surge in demand? Meanwhile, a bumper wheat harvest in 2022 quickly brought down the price of food, which had jumped following Russia's invasion of Ukraine. Europe quickly switched away from Russian gas to alternative supplies, ▸▸

after Mr Putin had caused prices to soar.

The Economist looked at 17,000 different commodities which America imported from 1989 to 2022. For each year, we counted the number of commodities where the physical quantity of imports declined from the previous year. This measure hints at situations where a supply chain genuinely "fails". In 2020 the failure rate, we estimate, was only marginally above average. Even in the midst of a once-in-a-generation pandemic, the vast majority of supply chains flowed normally.

Autocracies are doing better out of friendshoring than democracies

So much for covid. Many fear that the Chinese Communist Party is willing to weaponise its dominance of supply chains to achieve political ends. Imagine that China invades Taiwan, forcing a shutdown of the island's semiconductor factories (which make two-thirds of the world's chips). The price would rocket.

Even without invading Taiwan, China has a chokehold on many industries. It accounts for about 80% of the production of the raw materials used to manufacture solar cells, but also the cells themselves, and the modules into which they are assembled. *The Economist* looked at export data for 120 global manufacturing industries. In 2005 China was ascendant (defined as a share of global exports of more than a third) in 10% of them. In 2020 that hit 30%, a record. Today China has a chokehold—defined as a 50% global market share or more—in about 20 industries, including communication equipment and optical instruments.

Helped by subsidies, Western firms are trying to reduce their China exposure. One option is to reshore production. In America construction spending in the manufacturing sector, relative to GDP, is up (see chart). Australian real spending on non-residential construction is 10% higher than a year ago. Britain is producing new industrial facilities 50% faster than it was in the 2010s.

Another option is to move from a "just in time" to a "just in case" mode of production. In the past year firms in the rich world have bought inventories, such as spare parts, worth about 1% of GDP, twice the rate before the pandemic, giving themselves an insurance policy in case supply chains fail. Others talk of "vertical integration", buying up suppliers to ensure a steady supply of materials. Tesla, a car company which recently broke ground on a lithium-refining facility in Texas, is one example. Vertical integration across the rich world's manufacturing sector, as measured by the share of gross output that is generated within that industry, is rising, having bottomed out in 2012.

The most action, however, is taking place on the international stage. Firms are finding new, non-Chinese trading partners. From 2018 to 2021 "strategic" imports from China to the West (including weapons systems, computer parts and optical products) fell from 33.5% of the total to 31.9%. Chinese imports are today worth 6% of the cost of goods sold in the S&P 500, down from 8% in 2018. Some analysts believe that before long Apple will have shifted 20% of iPhone manufacturing from China to India.

These trends will continue as Western firms shift their focus away from China. In 2022 China took just 1% of global "greenfield" foreign direct investment—ie, money to build real things, like factories—down from 9-13% in the late 2000s and early 2010s. Some countries, including Germany, are actually pulling FDI money out of China on net. In August President Joe Biden issued an executive order to establish an outbound-investment screening regime, to stop technological transfer to China in important sectors.

But even if you buy the argument that decoupling or derisking is necessary, the rich world will encounter three big problems as it pulls away. First, the task is enormous. Like Germany, Australia is divesting enthusiastically from China. Yet on current trends, it will take 35 years to pull out just half of the total FDI that it has there. It will take a long time to wean Western consumers off Chinese-made supplies. Chinese tech, meanwhile, still infuses the West, especially in Europe.

The second problem is that many alternatives to China are also unpalatable. In 2022, for the first time, Thailand and Vietnam combined received more greenfield FDI than China. Goods exports from Vietnam to the rich world are up by 50% since 2019. But both are undemocratic places. Democracy in India, another beneficiary where inward FDI is soaring, is also under threat.

Solid Western allies have done less well out of shifting supply chains. Trends in inward greenfield FDI to Mexico are unimpressive. "Domestic factors", including low productivity, "are delaying a more compelling case for friendshoring" there, says JPMorgan Chase, a bank. Manufacturing employment is rising no faster than it was before the pandemic.

On average, autocracies are doing better out of friendshoring than democracies. Since 2019 exports from non-Chinese autocracies to the rich world have risen by 30%, but by just 25% from democracies. From 2018 to 2021 (the latest available data), companies in democracies increased their stock of FDI in non-Chinese autocracies by 16%, but by just 8% in other democracies.

And there is a third problem. Direct imports have fallen, but the West is importing a lot more from countries which rely ever more heavily on Chinese exports. America spends three times as much on imports from the Vietnamese computer industry as it did in 2016. Over the same period, though, Chinese imports to Vietnam of machinery used to make computers rose by three-quarters.

The recent history of supply chains reveals an important truth. When bad things happen, markets can adjust fairly well. By contrast, as Napoleon realised, planning for the worst is likely to be costly. To guarantee the resilience of any supply chain, you would need to be able to foresee what could happen to demand, and then have the capacity to meet it immediately. And you would need to make sure your enemies could not disrupt it at any point. The upshot is that, despite talk of a supply-chain revolution, the world will remain largely interdependent. The more noticeable change will be the rising cost of doing business. ■

Build it and they will build it

United States, factory construction, % of GDP

Source: Bureau of Economic Analysis

Economic growth

State v market

Homeland economics will make the world poorer

IN 1987, INDUSTRY bigwigs and civil servants noted that American semiconductor manufacturing was struggling. Japan was stealing market share and jobs, threatening national security and economic growth. In partnership with industry, the government pledged \$100m (\$250m in today's money) in annual subsidies to form an R&D consortium called Sematech, to boost production.

The plan, in large part, did not work. Research by Douglas Irwin of Dartmouth College and Peter Klenow of Stanford University, published in 1994, "cannot find any evidence that Sematech changed investment plans in the semiconductor industry". But it holds lessons for politicians today. Once again they are keen on chips, with governments across the rich world offering subsidies worth \$400bn in the coming years to boost capacity. The EU wants 20% of global chip manufacturing by 2030. Governments also want to incentivise production of rare earths, batteries and solar panels. These ambitious plans will soon collide with reality. It is hard for governments to create viable industries, and the economic costs of industrial policy tend to be high.

The history of "industrial policy", a sometimes poorly defined concept that encompasses everything from tax breaks to training, gives some hope to the boosters. DARPA, a government organisation which engaged in groundbreaking research after the second world war, was a clear success. Or consider the case of Kia, a South Korean car firm which, with a lot of government help, opened a car plant near Atlanta in 2009. The gleaming factory has workers from all walks of life, from young black women to grizzled Trump voters. Areas near the factory still have their rough parts, but it is the sort of place where you see young men pushing buggies, and a variety of good, cheap Korean food is available.

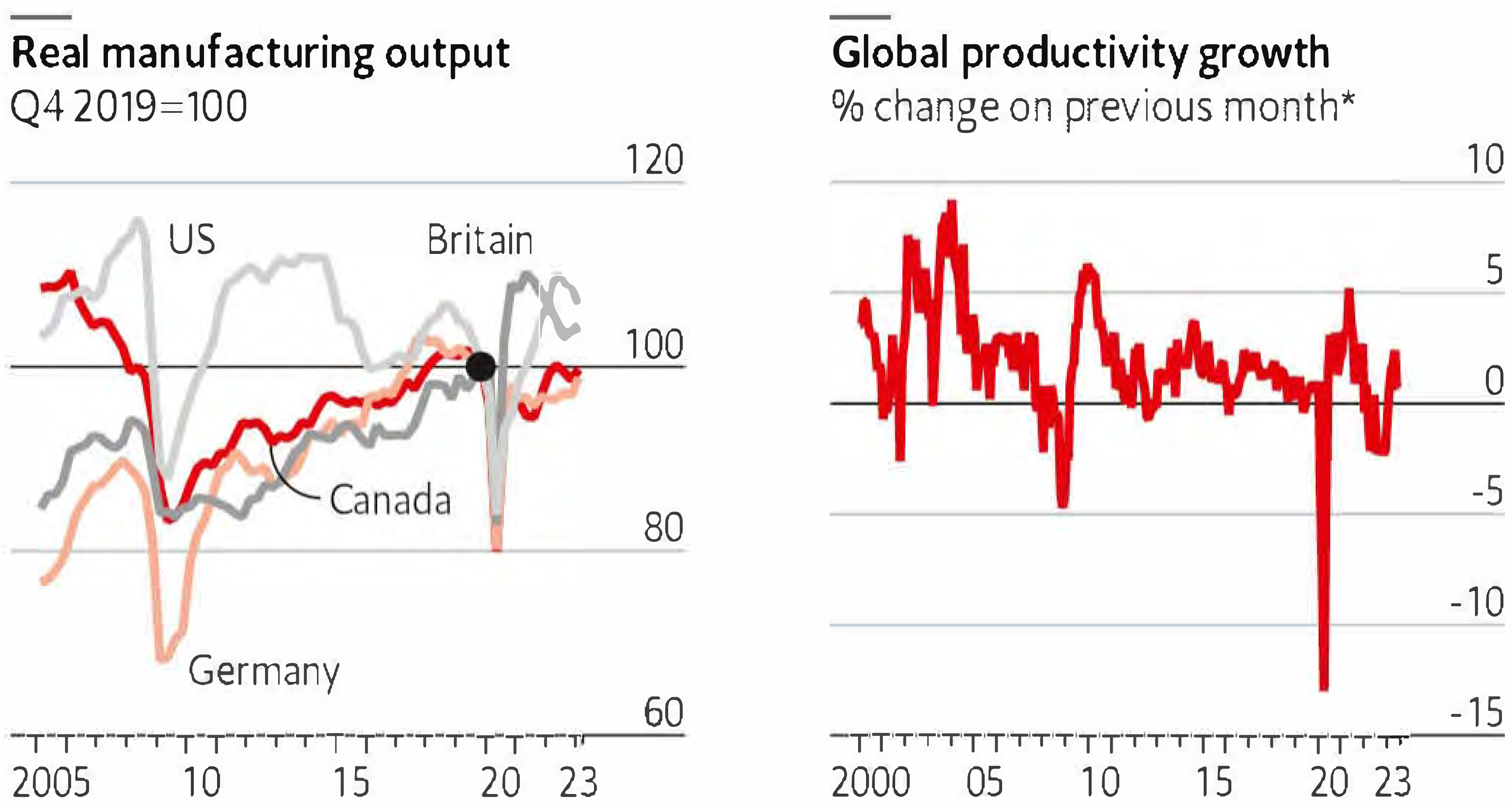
Let it flow

On the whole, however, industrial-policy successes are few and far between. There is no other way to interpret a paper published by the Peterson Institute, a think-tank, in which Gary Hufbauer and Euijin Jung review American industrial policy between 1970 and 2020. Its record outside America is similarly spotty. "Attempts to create competitive advantage through government direction and support were generally unsuccessful," Geoffrey Owen of the London School of Economics argues in a review of post-war European industrial policy. It is no coincidence that during the 1950s, when Britain embraced that approach most enthusiastically, it fell a long way behind the rest of Europe.

Boosters say that industrial policies can work if appropriately designed. They point to South Korea. In a new paper Nathan Lane of Oxford University studies the impact of South Korea's seminal industrial push—the Heavy Chemical and Industry (HCI) drive of 1973-79, in which the government introduced policies including cheap credit to boost production and exports. Mr Lane compares industries which received help with those that did not, and concludes that "intentional industrial policies likely played a critical role in creating the modern South Korean economy." In the 20 years after 1973 South Korean real GDP per head rose by 349%.

The study is well crafted, signalling the start of a new and more sophisticated chapter in the analysis of industrial policy. Yet it is not the final word on the subject. "It is possible" that for the initial ▸▸

Where's the pay-off?



Sources: Bureau of Economic Analysis; JP Morgan; OECD; *The Economist* *Annualised

stages of industrialisation "government efforts had a significant role", according to a review published in 2003 by Marcus Noland of the Peterson Institute and Howard Pack of the University of Pennsylvania. But old-fashioned, solid macro policy, including limited deficits and stable exchange rates, also take much credit.

Other pundits point to a more recent example of supposedly successful industrial policy: China. Since 2015, under Xi Jinping and his "Made in China" project, the Chinese state has played an even more activist role in directing economic activity. Government subsidies as a share of the profits of Chinese-listed companies rose from 3% in 2012 to 5% in 2020. The number of tax measures supporting high-tech industries has jumped, according to a paper published in 2021 by Goldman Sachs, a bank. Has this helped the Chinese economy? Kind of. The country now has a global monopoly in many industries. Subsidies have allowed firms to slash prices, putting foreign competitors out of business.

It is less clear whether China as a whole has benefited from industrial policy. A recent paper by Lee Branstetter and Guangwei Li, two economists, looks at "Made in China 2025". Examining listed firms, they find "little statistical evidence of productivity improvement or increases in R&D expenditure, patenting and profitability" in firms which received help. Another paper using Chinese data, by Jun Du of Aston University, suggests that helping one firm with subsidies tends to harm others.

This could be because subsidies allow the survival of inefficient firms, making the industries they are in less competitive. Firms may focus on securing subsidies, which removes resources from productive use. As a result, the overall economic effect of subsidies on productivity is uncertain, and possibly negative. Total factor productivity (the amount of output per unit of labour and capital) across China has probably fallen under Mr Xi.

Can today's wave of industrial policies avoid the pitfalls of the past? Governments believe so, and are quick to point out perceived successes. Barely a day goes by without a hard-hatted politician opening a new manufacturing facility. In a recent blog post, economists at America's Treasury boast about the country's surge in factory construction. These are, on the face of it, encouraging trends. Yet there are plenty of concerning developments, too.

Take, for instance, India's "production-linked incentives" (PLI) scheme, which pays manufacturers a sum for every unit produced (say mobile phones). Supporters boast that, following the introduction of the scheme, exports of mobile phones soared. Indeed they did. But in a recent paper Rahul Chauhan, Rohit Lamba and Raghuram Rajan, three economists, point out that mobile-phone imports also jumped. Perhaps producers were simply re-exporting phones via India in order to get the subsidy.

This year Lightyear, a Dutch solar-car company backed by the government and the European Commission, hit the financial buffers and stopped production (though it has since restarted and says it is continuing "its mission of clean mobility for everyone"). Britishvolt, an electric-battery company that the British government loudly pledged to support, has also collapsed.

As in the 1990s, government attempts to boost their chip industries are running into trouble. Morris Chang, the founder of TSMC, a big Taiwanese producer, told Nancy Pelosi, a senior Democrat, that American efforts to rebuild chip manufacturing at home were doomed. The firm says that production at its first plant in Arizona will be delayed until 2025 due to a shortage of specialist workers.

Economic costs are emerging from another direction: as a result of retaliation. Some of the most aggressive measures have come from China. It recently imposed export controls on gallium and germanium. China produces 98% of the world's raw gallium, a key ingredient in advanced military technology. In February China placed Lockheed Martin and a unit of Raytheon, two American arms-makers, on an unreliable-entities list after shipping weapons to Taiwan (which China regards as part of its territory). The companies were blocked from making new investments in China and from trade activity, among other restrictions.

Governments are also finding that their promises of money today create expectations of more money tomorrow. In May Stellantis, a carmaker, paused construction at an electric-vehicle battery plant in Canada amid talks with the federal government about its support for the factory. (Stellantis's largest shareholder, Exor, part-owns *The Economist*'s parent company.) Intel is probably going to get higher subsidies for a project in Germany after complaining about rising energy and construction costs. In private, chipmakers are pretty clear that they will need subsidies for the long haul if they are to make their new Western factories work.

Flatlining

It is, of course, early days, but in the data it is hard to see much payoff from homeland economics. You might think that lots of global equivalents to "Made in America" would boost manufacturing output. No such luck; across the rich world it is flat (see chart). Nor is there much sign of an innovation boom. Global investment in "intellectual-property products", which includes R&D spending, is below its pre-pandemic trend. *The Economist* has estimated global productivity growth in real time by using data on purchasing-managers' indices. In recent months it has been well below the pre-pandemic norm (see chart).

There are already questions about value for money. Mr Chauhan and his co-authors, discussing India, "cannot reject the possibility that [the PLI scheme] is an enormous and possibly misdirected transfer of public resources to large domestic and foreign firms". A report by Britain's National Audit Office, a watchdog, noted that "governance and delivery mechanisms" behind £4.2bn ($5.2bn) of net-zero funding need to be improved, and that "there is a risk that the government will not achieve its carbon and economic objectives, or secure value for money". With an average budget deficit of 4% of GDP across the rich world, can anyone afford such mistakes?

Promises of money today create expectations of more money tomorrow

Perhaps, as Jake Sullivan argues, growth is less important. In April Joe Biden's national-security adviser disagreed that "all growth was good growth", focusing on its distribution. If governments can reduce inequality and boost the fortunes of blue-collar workers, then perhaps it does not matter if real GDP increases less quickly. Yet the progressive potential of homeland economics remains overstated. ■

Inequality

Missing the point

The new policies will make the world more unequal

On top of defanging China, firming up supply chains and saving the planet, politicians say that homeland economics will reduce inequality. On both left and right they blame the globalisation of the 1990s and 2000s for widening disparities in income and wealth, as manufacturing jobs withered in the face of the "China shock". Both sides want to bring back these jobs and restore the industrial working class. Democrats hope this might dissuade people from voting again for Donald Trump. Both sides are likely to be disappointed.

In recent decades old-style jobs have disappeared in large numbers. In 1990 about 30% of workers in the rich world were in industrial jobs, broadly defined. Now about 20% are. Over the same period, pre-tax income inequality rose sharply. Especially from the 1990s, so-called "deaths of despair", involving overdoses from opioids, began to soar—most dramatically in America, but elsewhere too. Improvements in life expectancy slowed. "Left-behind" places, offering their residents few prospects, proliferated.

Many economists blame this, at least in part, on an almighty surge in trade, especially trade with China. In the decade to 2008 exports from China to the rich world rose at an average annual rate of 17%. In some countries, a China shock followed, where ultra-cheap imports from the world's second-largest economy destroyed the manufacturing base of a number of local areas.

David Autor of MIT, and colleagues, looked at America between 1990 and 2007, and found that rising imports from China "cause higher unemployment, lower labour-force participation and reduced wages in local labour markets" that were particularly exposed. João Paulo Pessoa of the São Paulo School of Economics found that British workers in industries exposed to high levels of import competition from China spent more time out of work than those in other industries.

This research has provided intellectual ballast for policymakers looking to undo globalisation. But it should not. For one thing, though the China shock is real, economists tend to exaggerate it. As Mr Autor and his co-authors' paper shows, many areas facing the biggest rise in import exposure in the 1990s and 2000s were thriving cities such as Boston, Dallas and Los Angeles. Top of the list was San Jose, right in the middle of Silicon Valley. The area does not exactly lack jobs. Downtown San Francisco may no longer have a factory producing Levi's jeans—Chinese import compe-

tition forced its closure in 2002—but how much does that matter?

Macroeconomically the China shock is also insignificant. A plausible upper limit for American jobs lost in this way from 2000 to 2015 is around 2m. That is a small fraction of the size of the workforce (130m in 2000). Over that period people left jobs about 900m times (many people more than once). The vast majority found work again quickly. And it is highly likely that the China shock also created some jobs, as production costs in other industries declined. Across the OECD the working-age employment rate is currently around 70%, probably the highest reading ever—hard to reconcile with a generalised loss in employment thanks to import competition. "Despite some localised hardships, the China shock is really a rounding error for the US workforce overall," says Adam Posen of the Peterson Institute, a think-tank.

Still left behind

"China's trade expansion seems not to be the main cause of the decline in US manufacturing employment during the same period," concludes a new paper by Lorenzo Caliendo of Yale University and Fernando Parro of Penn State. The long-term decline in manufacturing employment is largely to do with technological improvements, not trade. Because machines are better than they were, they can do more with fewer people. So it is not surprising that, despite the surge in factory construction, manufacturing jobs are not coming back. Using a sample of 11 countries, we estimate that manufacturing employment in the rich world remains 2m below its pre-pandemic peak. Meanwhile in India, which is pursuing state-led manufacturing development with enthusiasm, the best estimates suggest that the schemes have so far created just 20% of the additional employment that was promised.

In a handful of rich countries, including Canada and France, the number of manufacturing jobs is above the pre-covid trend. But research suggests that these new posts are likely to cater to highly skilled workers—those who design and monitor whirring machines, or who service their clients' requests—not members of the "left-behind" working class. America's manufacturing workforce is far likelier to have a degree than the overall average. Or consider the Dutch region of Utrecht, known for its high-tech manufacturing sector. Two-thirds of its workers aged 25 to 34 have tertiary education, a higher share than in almost any other region in the EU. A state-supported expansion of the manufacturing sector would, in that sense, have regressive effects.

Against these uncertain gains for rich-world workers, those in the poor world are likely to lose out. During the golden age of globalisation global poverty and inequality fell sharply. According to a recent paper by Pinelopi Goldberg of Yale University and Tristan Reed of the World Bank, "The consensus among economists is that the opening of long-closed borders, the growth of trade between countries, and the establishment of the modern global trading system played an important role" in these trends. During the 1990s and 2000s, Western companies which opened factories in the poor world often came under criticism. Yet these jobs usually paid above-average wages, and with better conditions.

Some aspects of homeland economics may help the global poor. At a summit in Hiroshima in May, members of the G7 reaffirmed their commitment to the Partnership for Global Infrastructure and Investment, a $600bn investment splurge. This is, in effect, a counterweight to China's Belt and Road Initiative, an infrastructure programme trying to pull poor countries into China's economic orbit. Others point out that the rush to secure supply chains and boost clean energy will increase demand for commodities, helping exporters. Indeed in 2022 exports from the world's very poorest countries were about 35% higher than in 2019, a faster increase than the global average.

The costs of a more closed trading system, however, will outweigh these bonuses. The poor in China could suffer. The country's integration into global markets had helped it pull 800m people out of extreme poverty by 2021. But now politicians in the West are trying to hobble the country's economic growth. It is not hard to imagine a situation where poverty in China stops falling or even rises as a result—not that anyone in the corridors of power of Brussels or Washington, DC, would care very much.

The poor elsewhere are likely to suffer, too. Attempts by rich countries to produce more at home will deprive developing economies of lucrative employers. They will reduce the transfer of more efficient management practices and technologies from the rich world to the poor—an important source of income growth in the past. A related concern is that poor countries could be forced to choose between supplying the West and supplying China, meaning they lose one trading partner. One paper published by the WTO points to GDP losses of as much as 12% for the most affected countries under full decoupling between the West and the East.

These are not the only problems. Poor governments do not have the fiscal firepower to offer subsidies on the scale of America or the European Union, so they are likely to lose out on trade and investment. A recent paper published by the World Bank finds that "A shift toward global reshoring...could drive an additional 52m people into extreme poverty by 2030." Most of these people would probably be in sub-Saharan Africa.

There is one way in which homeland economics could have benefits for all. New investments in clean technologies, politicians say, will push the world closer to a net-zero future. ■

Climate change

Second-best

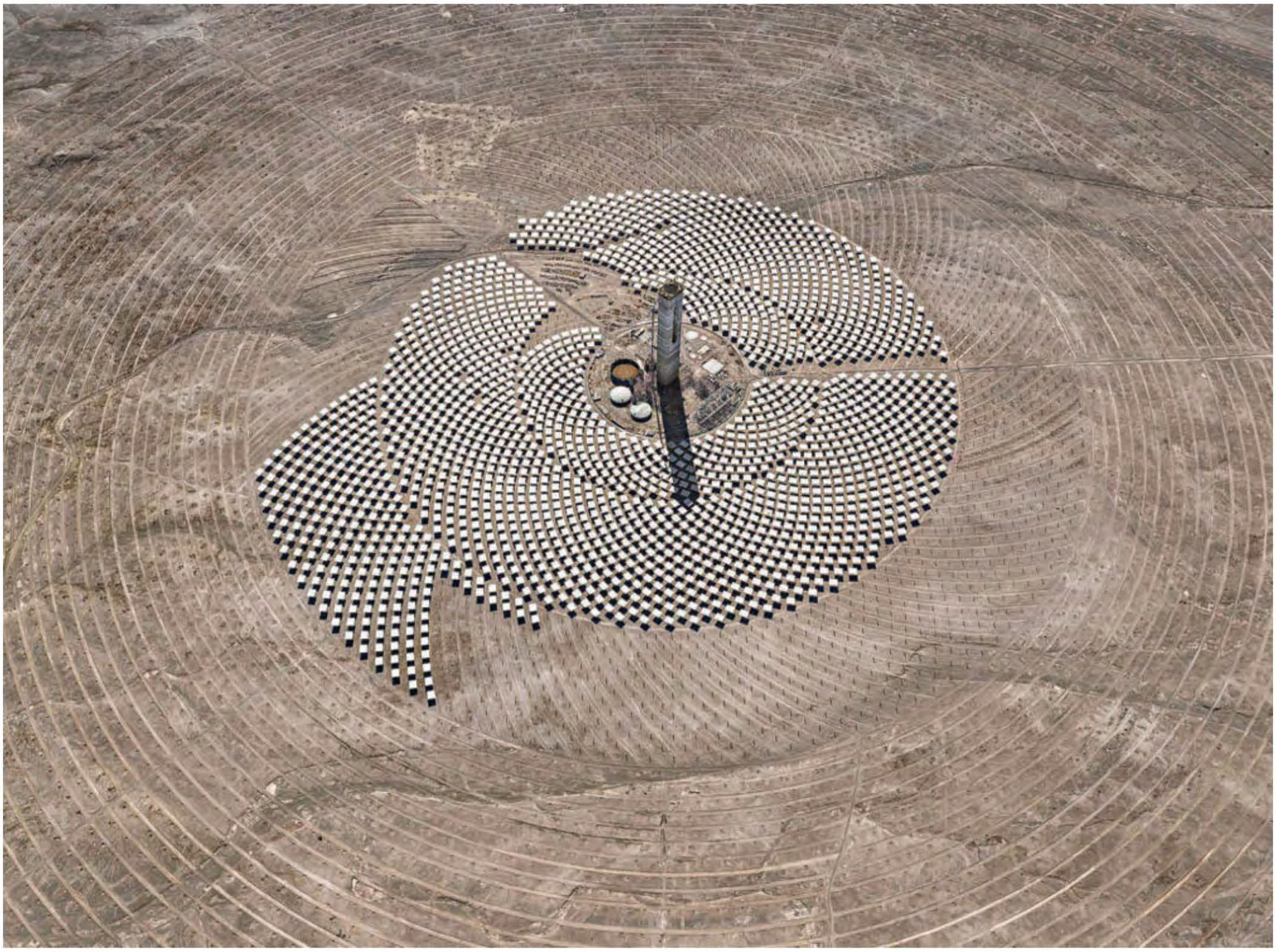
Green protectionism comes with big risks

POLITICIANS THINK they have cracked it. The old proposals for dealing with climate change, including carbon taxation, have proved insufficient. Average global temperatures are thus on track to rise more than 2°C above pre-industrial levels. Hence the one genuinely new part of homeland economics. Industrial policy is being tasked not just with firming up supply chains and redistribution, but also with accelerating the green transition.

The solution is subsidies. Already these exist at scale, and with some success. Since Germany brought in generous subsidies for solar power in the early 2000s the price of solar generation has tumbled as a result of learning effects, economies of scale and Chinese industrial policy. In the past decade the amount of solar energy generated in Germany every year has doubled.

The subsidies today are somewhat larger, and more are on the way. America's Inflation Reduction Act will provide $400bn-$1trn over the next decade to support solar power, large-capacity batteries, hydrogen-production equipment and other types of renewable energy. Japan wants to put $150bn-worth of subsidies towards its Green Transformation policy. Governments have announced over $1.3trn worth of clean-energy subsidies since 2020, according to the International Energy Agency.

The new subsidies differ from those that triggered the solar revolution. Germany hoped more solar power would mean more manufacturing jobs, but it did not structure the subsidies that way, and got the panels without the jobs. The same has been true for most subsidies; they have been aimed at installation, not



manufacture. The new ones are aimed at both, and it is possible that they will slow rather than speed the transition to net zero.

The subsidies contain vast numbers of "domestic content requirements". For an American buyer to receive the full $7,500 credit for an electric vehicle (EV) under the IRA, a lot of the car needs to have been made in North America. Canada is writing cheques for EV manufacturers which set up shop there. Many countries in Latin America are spending big in an effort to jump-start their local green-hydrogen industry. More is likely to come. Britain's opposition leader, Sir Keir Starmer, promises that, in power, the Labour Party's green policies would create 200,000 jobs, part of an attempt to marry climate policy with social policy.

The climate case for capacity-plus-jobs subsidies is, on the face of it, compelling. Any plan to free an economy from fossil-fuel dependence will create losers. To succeed politically, it must therefore mobilise groups of winners more powerful and passionate than those losers. Millions more people working in clean energy could mean millions more people with an economic incentive to resist attempts by fossil-fuel interests to roll back the clock.

Yet green subsidies come with huge risks. New research on the IRA by economists at the European Central Bank (ECB) lays bare some of the concerns. An issue arises when foreign companies are blocked from supplying a domestic market. As foreign companies lose customers, they may lose economies of scale. They may also lose imports which have been redirected to the domestic market. In addition to the loss of access to the American market, there is little room for trade diversion of such goods to other foreign companies. The ECB research quantifies the winners and losers of the IRA. Green sectors in America, unsurprisingly, benefit. But producers in other countries lose out so much that "the IRA could slow the green transition at global level". That is an astonishing result. Add in the subsidies and domestic-content requirements implemented by other countries and the drag could be even bigger.

Slow burn

The ECB paper does not take into account another concern: time. The world needs to decarbonise fast. Yet it will take years for countries to build up domestic capacity in green energy and transport, notes Samantha Gross of the Brookings Institution, a think-tank. You cannot build a battery factory overnight. "So far, officials [in America] are signalling that they prefer building as much domestic industry as possible over decarbonising as quickly as possible," argues Dan Wang of Gavekal Dragonomics, a consultancy. Then there is the issue of innovation. If domestic firms are insulated from competition, they may try a little less hard to discover the latest, cleanest ways of making solar panels.

Do the pros of the new green subsidies outweigh the cons? It is hard to say. Perhaps they will create powerful green interest groups, who can beat fossil-fuel lobbyists at their own game. But subsidies can be inefficient—and there are lots of them on offer. So the plans are very much a second-best policy. But on climate policy, perhaps that is as much as the world can hope for. ■

The future of globalisation

In search of a problem

Prospects for economic and political stability are bleak

THIS REPORT has argued that a profound shift in economic policy is under way. For years politicians have paid lip service to industrial policy and protectionism, and in some cases implemented those policies. But now they are going full tilt, pursuing homeland economics with enthusiasm. Across the rich world, governments are implementing more than ten times as many such policies as they were each year in 2010-15. If their manifestos are anything to go by, politicians plan a lot more in the coming years—to achieve dominance in renewable energy, electric transport and generative AI. It is the biggest policy shift in a generation.

Governments say that these policies hold great promise. Imagine a world where nothing disrupts supply chains. Supermarkets would never again run out of toilet paper; supply-side inflation would be a thing of the past. Imagine a society that was not only more equal, with blue-collar workers employed in rewarding and well-paid jobs in industry, but also greener. For the first time workers would have a clear economic incentive to favour green energy, preventing backsliding on climate goals. Homeland economics might even shift the world out of its productivity slump.

The world will come to regret this shift. It is built on a surprisingly weak intellectual structure. The globalisation of the 1990s and 2000s did not really "fail". During the pandemic, supply chains held up reasonably well, responding to a huge, unpredictable surge in demand. Even as China, the world's workshop, was in a strict lockdown, and even during Europe's largest land war for 75 years, the number of supply chains that failed was only marginally higher than normal. That has been a remarkable achievement.

Globalisation did not produce the political harmony that its boosters in the 1990s had expected. China seems ever further from becoming a democracy. Its actions in Xinjiang are abhorrent, and it continues to menace Taiwan. Yet it is optimistic to believe that this could somehow have been avoided if the West had excluded China from globalisation. The history of great-power competition is clear: rising powers assert themselves in ways that incumbents do not like. Could the situation today really have been different?

Overall, globalisation had positive effects for the world's poor. The opening of global markets caused the fastest decline in global poverty ever. Trade agreements were often predicated on poor countries agreeing to improve labour and environmental standards. Under the neoliberal global order, the rate of fatal occupational injuries outside the rich world fell from over ten per 100,000 in the year 2000 to a little over three.

Yes, globalisation did "fail" some people, including those in America's left-behind areas. And the economies of the rich world are, in many ways, not in great shape. Inequalities of wealth and income within countries are high by historical standards. Productivity growth in the rich world is weak. And yet the fault lies not with globalisation per se, but elsewhere: badly designed welfare states, a lack of retraining, and restrictive planning systems which prevent the construction of new housing or commercial space. Mr Biden's "daily direction" to his staff "to more deeply integrate domestic policy and foreign policy", as Jake Sullivan, his national-security adviser, puts it, is thus badly misconceived.

Others say that politicians in the West needed to do something, anything, about globalisation. Just as almost everyone agrees that the banking system needs some regulation, haven't the past three years shown that globalisation also needs guardrails? No longer do you hear people talk about free trade with the certainty of Toby Ziegler, a political adviser in "The West Wing", a television show in the early 2000s: "Food is cheaper. Clothes are cheaper...It lowers prices, it raises income...Free trade stops wars."

In today's geopolitical world, it is quite reasonable for politicians to focus on national-security concerns, says Paul Kwan of General Catalyst, a venture-capital firm. "I think most trade and investment relationships between America and China are best left to private decisions," says Matteo Maggiori of Stanford University. "But it would make sense to restrict trade and investment in some highly sensitive areas, such as port infrastructure and defence." This would reduce, though not eliminate, the potential damage that China could do if it turned truly hostile to the West. Economists including Mr Maggiori are working on models to inform politicians about which sectors should be protected, and how.

Target practice

That legitimate goal should lead to narrow, targeted restrictions on what is genuinely dual-use technology. In practice it is producing a free-for-all of industrial policy and protectionism. Politicians have adopted such a capacious set of goals for the new economic paradigm that, as a consequence, supply chains are likely to become less, not more, resilient. Growth in productivity and GDP is, on balance, likely to slow. Poor countries will not be able to match the industrial-policy fiscal power of richer places. Excluded from global supply chains, they will grow more slowly and so will take longer to reduce poverty. It is also risky to presume that Western efforts to "decouple" or "derisk" from China are going to make China behave more co-operatively.

The costs of the shift are likely to compound over time. The erosion of the multilateral trading system and Western countries' loss of credibility as champions of free trade will encourage more protectionism. There are also the fiscal consequences of lower productivity. We are in the early stages of this unravelling. On both sides of the political divide, the politics of globalisation are now toxic, laying the groundwork for more protectionism and industrial policy. One silver lining is that the subsidies may speed up the transition to a less carbon-intensive economy, though it is not clear by how much.

Overall, globalisation had positive effects for the world's poor

Eventually Western policymakers will have to face up to these mistakes. When it is clear that industrial policy and protectionism have not achieved their objectives, what next? Already opposition parties, such as Britain's Labour Party, say they will go in harder and faster on industrial policy. Donald Trump has promised "total independence from China", and would bring in big new tariffs. The year 2024, packed with elections, could mark a turning-point in Western economic history, and not a good one. ■

ACKNOWLEDGMENTS A list of acknowledgments and sources is included in the online version of this special report

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Poland

Prelude to a brawl

WARSAW

A messy, brutal election campaign approaches its climax

ELBLAG, A GRITTY port where the air stings from factory soot, is not exactly full of latte-sipping cosmopolitans. In Poland's bitterly divided politics, urban voters mostly back liberals; in Elblag in 2019 the ruling hard-right Law and Justice (PiS) party came first. Yet when Donald Tusk, the centrist running to unseat PiS, arrived for a rally on September 28th, the hall was jammed. For years, he cried, PiS had packed Poland's courts and bickered with the EU. Mr Tusk (pictured), who served as prime minister from 2007-14 and then as president of the European Council, promised to end all that: "Europe is freedom, the rule of law, the fight against corruption." PiS was trying to brainwash Poles, he said, just as the communists and Nazis had.

If Mr Tusk's language was harsh, the rhetoric at a PiS gathering outside Warsaw a day earlier was acid. Jaroslaw Kaczynski, the party's leader, claimed that in a war with Russia Mr Tusk would surrender half of Poland's territory. The group Mr Tusk heads, Civic Coalition (KO), would help the EU ship in illegal migrants. Mr Tusk wants to instil "German order" in Poland, Mr Kaczynski said, just like the Nazis. The speech was only slightly less rabid than one in August when he called Mr Tusk "pure evil" and said the opposition should be "morally exterminated".

Polish politics has always been rough, but the campaign for this year's general election, scheduled for October 15th, is setting records for vitriol. The government is scared: after years of scandals, it has a good chance of losing power. The opposition, for its part, fears that with one more term PiS could so cement its hold over the state that democracy would become a sham, as it has in Hungary under Viktor Orban. Both sides are piling on the stakes.

The question is whether undecided voters are listening. Polls show a tight race. PiS's hold on its mostly older voters is solid, but may be near its peak. Younger Poles tend to back the opposition, but they also tend not to vote. Many find none of the parties appealing. Mr Tusk is 66, Mr Kaczynski 74; they have been in the political arena for decades. This contest will probably be the final one between these duelling icons of Polish populism and liberalism. But it may be decided by a new generation that cares for neither of them.

PiS will almost certainly come first. But polls give it perhaps 37%, well below the 44% it won in 2019 and far short of a majority. When PiS came to power in 2015 it introduced a hugely popular child-benefit scheme and lowered the retirement age, but its second term has been plagued by misfires. In 2020 an animal-welfare bill (Mr Kaczynski's pet project) was binned after farmers revolted. A court ruling later that year banned abortion except in cases of rape, incest or to protect the health of the mother, leading to months of protests (the "Women's Strike") and alienating some of PiS's own female voters. Earlier this year ▸▸

PiS had to water down a bill to investigate Russian influence on public figures that was clearly aimed at producing dirt on the opposition. To pacify angry farmers the government blocked imports of Ukrainian grain, sparking a diplomatic crisis.

Finally, in September, a bribery scandal erupted in the foreign ministry. Hundreds of thousands of visas may have been improperly issued to Asians and Africans. (In one case a group of Indians pretended to shoot a Bollywood movie in Poland, then flew on to Mexico, where they tried to cross into America.) The scandal hurts PiS in one of its core issues: immigration.

Many voters give PiS credit for Poland's prosperity. GDP grew 3.2% per year in the decade to 2021, and the government has invested in poor regions, especially in the east, where PiS is strongest. Slow roads and trains have been replaced with fast ones. The government has reopened hundreds of police stations closed when Mr Tusk was in power. Outside the eastern city of Lublin, Robert, an IT worker, says he wishes PiS "stole less", but prefers it to the opposition because it spreads the money around. Andrzej Zybertowicz, a sociologist who advises Poland's president, Andrzej Duda, thinks even voters who dislike PiS may fear that a new team would disrupt their benefits. Rural voters viscerally distrust Mr Tusk, recalling his raising of the retirement age in 2012. He is seen to have abandoned Poland for glitzy Brussels. But KO has done little to change their minds, tailoring its message to urban voters.

PiS's control of the state apparatus is the root of its power. Orlen, a state company that owns most of the country's petrol stations, has kept prices low before the election—so low that many pumps have run out of fuel. The government will reward counties for high election turnout with money for fire stations, but only in rural areas (which tend to vote for PiS). Parliament has refused to update electoral districts to reflect population changes, so liberal cities have too few MPs. The Election Observatory, a watchdog, estimates that Warsaw should have 34 seats rather than its current 20. Meanwhile, the government will stage referendums alongside the election on questions such as whether to tear down Poland's border fence, falsely implying that the opposition supports this.

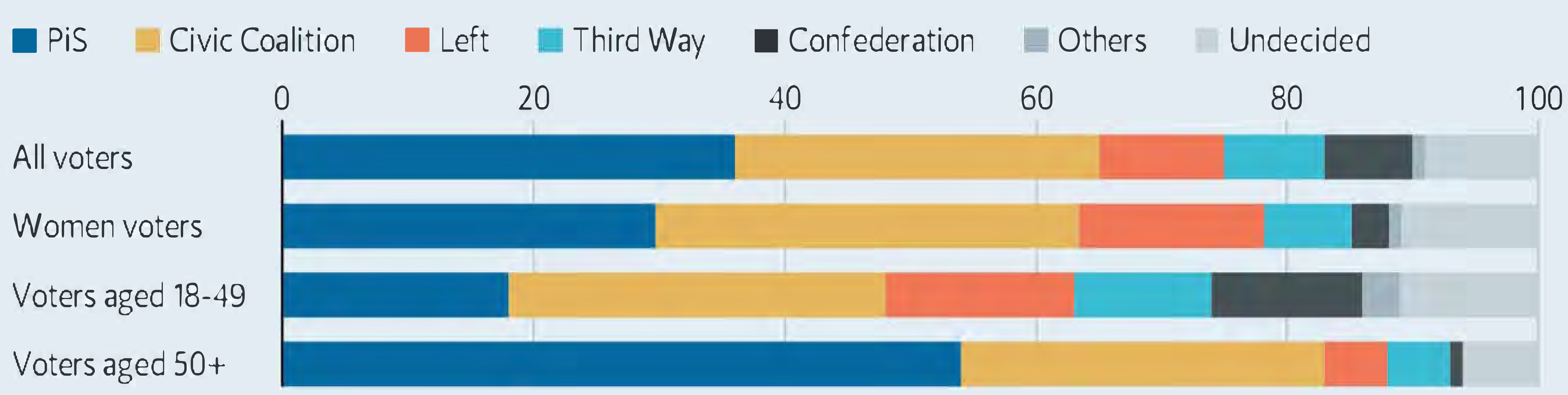
Yet trying to capture the state has hurt PiS, too. Its efforts to give the government control of the judiciary have been ruled illegal by the European Court of Justice. The EU is withholding €35bn ($37bn) in covid-recovery funds until more of the changes are rolled back. (Mr Tusk notes that this means Polish taxpayers are in effect funding German infrastructure.) The government has made moves to comply, but these are "just for show", says Ewa Wrzosek, a prosecutor and rule-of-law activist. Meanwhile PiS's power-grabs have touched off a rule-of-law movement that has mobilised support for liberal goals. The women's movement catalysed by PiS's abortion ban plays a similar role. "There's been a huge political backlash on women's rights," says Monika Chabior, deputy mayor of the city of Gdansk, who got her start as an organiser during the Women's Strike.

Young people are often concerned with issues that do not line up with nationalism or liberalism. Many are frustrated by sky-high housing prices. Others worry about depression and mental health. On the left they gravitate to the Lewica (The Left) party. On the right they may embrace Confederation, a boozy far-right libertarian group that bashes PiS's spending on welfare (and on Ukrainian refugees). Both were recently polling at about 10%, but the gender split is huge: Confederation draws three times more men than women. In the past few weeks it has been hurt by racism scandals and poor debate performances. Some of its voters may shift to Third Way, an alliance of two centrist parties, one headed by a former journalist and reality-TV host.

No coalition option looks secure. Confederation intermittently vows not to govern with PiS, and would be a fickle partner anyway. KO, Lewica and Third Way may together scrape a majority. But President Duda, who comes from PiS, could frustrate their efforts to govern—as could courts controlled by PiS appointees. That might mean new elections soon. But the opposition's spirits are high. On October 1st it drew an estimated 600,000-800,000 people to a march in Warsaw. State television, controlled by PiS, did not cover it live. ■

Depends on who you ask

Poland, voting intention, % polled September 22nd-25th 2023



Source: Ipsos/OKO.press

Slovakia

Guess who's back!

BRATISLAVA

A pro-Russian populist is set to lead a new coalition government

"GUESS WHO's back!" wrote Viktor Orban, Hungary's prime minister, in a happy tweet. Robert Fico, twice prime minister of Slovakia, fell from power in 2018 after the murder of a journalist investigating high-level corruption, which led to mass protests. Now he looks set to lead his country once again. Mr Fico's Smer party took 23% of the votes, coming first in an election on September 30th. So he may lead a coalition government including a party that once split from his own, plus an extreme right-wing party whose leader has long been one of Russia's staunchest fans.

Slovakia's EU partners will fret. Allies of Mr Fico, including senior intelligence officers and a former police chief and Smer politician, have been convicted of corruption or indicted for it. Last year Mr Fico himself was charged with leading a "criminal organisation" that controlled the police. The case was later dropped amid controversy; Mr Fico strongly denies corruption. But a former close associate says his main aim in returning to power is "that he will not be prosecuted".

Fellow EU members particularly worry about Mr Fico's attitude to Ukraine. In three decades in Slovak politics Mr Fico tacked left on domestic policy, while foreign affairs were a lesser priority. He was a pragmatist who played with nationalism, says his former associate.

A new Fico-led government can be expected to ally itself in the EU and NATO with Mr Orban—a prickly, conservative, pro-Russian nationalist. Slovakia's defeated government has staunchly backed Ukraine, handing over a Soviet-made S-300 air-defence system and 13 MIG fighters. Mr Fico has pledged to stop sending arms.

But all this is not yet guaranteed. Back in power, Mr Fico may shrink from alienating the EU and NATO. If he were to reappoint Miroslav Lajcak, his former foreign minister, now an EU official, to his old job, that might signal that he does not want to stray too far from Europe's mainstream.

Much depends on his partners in government. Peter Pellegrini, who split from Mr Fico to found Hlas ("Voice") in 2020, has not taken pro-Russian positions, but in 2021 he shared Mr Fico's hostility to a defence deal with America. A former prime minister, Mr Pellegrini might be offered the foreign ministry as a lure to join the government. Some even see him leading a coalition government. Another potential ▸▸

partner is the extreme pro-Russian Slovak National Party, led by Andrej Danko. In 2019, after meeting Sergey Lavrov, Russia's foreign minister, he said "I bow to everything Mr Lavrov does" in global relations.

Polling shows that Mr Fico's voters and those with pro-Russian views tend to be older and less well-educated. Younger, better-educated ones favour the newish Progressive Slovakia party, which came second with 18%. Its views on everything from Ukraine to gay rights echo west European liberals—but are not to most Slovaks' taste.

Surveys by Globsec, a Slovak think-tank, reveal a distrust in institutions, a yen for conspiracy theories and a deep anti-Americanism. Though 40% agree that Russia is primarily responsible for the war in Ukraine, 51% believe either that the West provoked Russia, or that Ukraine did so by "oppressing" Russian-speakers.

Dominka Hajdu of Globsec explains that modern Slovak identity still stems from 19th-century pan-Slavic ideas that envisioned Russia as a protector. Many Slovaks still believe that "Russia is this big actor and we are poor, small Slovaks, and we have to do what they say because they're so big—and we cannot do anything." ■

Ukraine's energy

The battle against General Winter

KYIV

Ukraine prepares for the cold again, as Russia targets its power grid

It was a close-run thing, says the power station's director, as he thinks back to last November. The Russian missile was heading straight for the turbine hall but instead hit some of the plant's many power lines, throwing it off course a split second before impact and thus sparing the heart of the operation. It was one of eight missiles to have struck the plant since last year's invasion. Now Ukrainian officials are jumpy. The director's name and the station's site cannot be revealed, they say, nor the location of factories rushing to fulfil orders for new equipment to replace what has been damaged or destroyed. The officials make no secret of their fear that, in terms of energy, the coming winter could be worse than the last one.

In the switching yard, where the plant's electricity is distributed, workers are busy installing new insulators, replacing shattered Soviet ones from the 1960s. The cables above buzz softly. An ancient high-voltage transformer, larger than a locomotive, is being connected to the system to replace one destroyed in another attack. Two exhausted engineers nap in the shade

The Russians will keep trying to hit him

nearby. Sand-filled bastions protect key machinery, but in the event of a direct hit, says the director, nothing can be done.

Ukraine's engineers have been widely praised for preventing the collapse of the country's energy system last winter, when it came under sustained Russian attack. They ingeniously moved both electricity and equipment around the country. Before the invasion Ukraine could produce a lot more energy than it consumed, so it had a buffer as parts of the system were knocked out. Recent modernisation also meant that it had many old but only recently retired transformers, which could be reconnected during the war. Even so, between early October and late December the average household had no electricity for a cumulative period of five weeks.

The Russians inflicted immense damage trying to freeze Ukrainians into submission. The UN Development Programme reckons that by April this year Ukraine's power-generating capacity had fallen by 51% since the invasion in February of 2022. Nuclear power accounts for the largest part of Ukraine's energy output. While the three working nuclear stations under Ukrainian control have not been directly attacked, Russia's capture of the Zaporizhia plant, Europe's largest, has reduced Ukraine's nuclear generating capacity by 44%. With financial and on-the-ground help from Ukraine's allies, its engineers have been working around the clock to repair what they can in time for the coming winter. But it is a slow process.

A hundred new high-voltage transformers have been ordered, half to be produced domestically and half procured abroad, but attacks on Ukrainian factories mean that few have been made on home ground. The foreign ones will be kept safe in Poland and Romania until needed.

German Galushchenko, Ukraine's energy minister, concedes that the country is more vulnerable than it was last year. Much of the money stumped up by Ukraine's allies is sent through international financial organs, so procurement for equipment is very slow. He is asking them for "a martial-law approach" to speed things up. A big post-invasion bonus is that Ukraine is now linked to the European grid, so can import power if needed.

Ukrainians now have the experience to cope with heavy attacks, says Mr Galushchenko, adding that he expects the Russians also to have learned from "failing to destroy the system". A further key requirement is more air-defence systems. On September 21st, for the first time since the spring, Russia sent a wave of drones to attack Ukraine's power grid. Four-fifths were shot down.

DTEK, a private company, produced around a quarter of Ukraine's energy before the war. Since then it has lost more than 20% of its capacity, says Dmytro Sakharuk, its executive director. Of its pre-war workforce of 60,000, some 5,000 are now in the army. So many have gone to fight that 250 women are now working underground in DTEK's coal mines (before the war, women did not work in the pits). The most frustrating thing, he says, is that when DTEK crews repair damaged equipment the Russians simply attack it again. "It's like being a hamster in a wheel."

Mr Sakharuk says that cyber-attacks could be an even bigger threat this winter than missiles and drones. A successful assault "can paralyse the whole system" and that can be "much more dangerous than physical damage". Ever since the invasion began, says Mr Sakharuk, DTEK and Ukraine's cyber-warriors have been battling Russia's hackers. This, he says, is "a game of cat and mouse". Once you develop a new way to protect yourself, the hackers find a new way around your defences. "You are always in motion," he says. ■

Spain

Blackmail or deadlock?

MADRID

Spain's Socialists may have to kowtow to separatists to return to power

THE PRESIDENT of the Basque Country, Iñigo Urkullu, said it best. As Pedro Sánchez tries to return as Spain's prime minister, Mr Urkullu said he would need "all the votes of all the parties all the time".

July's elections left no party alliance with a majority. Alberto Núñez Feijóo, leader of the centre-right People's Party, failed in a parliamentary vote to be installed as prime minister on September 29th. That leaves Mr Sánchez with a request from the king to try to forge a majority of his own. But Mr Sánchez's Socialists and a left-wing ally, Sumar, are even farther from a majority than Mr Feijóo was. They need the support of five regional parties that want independence from Spain.

That includes two Catalan parties that in 2017 supported an illegal referendum on independence. Some of the organisers of that drive were jailed, and have already been pardoned by Mr Sánchez. But now he is negotiating an amnesty that would wipe out criminal charges for around a thousand people—most notably Carles Puigdemont, the region's former president, now a fugitive in Belgium. He has made an amnesty a precondition for offering the support of his party, Junts per Catalunya ("Together for Catalonia").

Opponents of an amnesty say it would grievously harm the rule of law, locking people up for ordinary crimes while letting them off for political ones. Public opinion is 53% against, 37% in favour. Mr Sánchez, though he stayed silent about amnesty negotiations before the king asked him to seek a governing majority, has talked of a chance to "turn the page" on Catalonia.

That would be quite something. But both of Catalonia's main separatist parties say they are as committed as ever to independence. And Junts and the other party, Esquerra Republicana ("Republican Left", or ERC), are fierce rivals to lead the nationalist cause. Between them they are bidding up the price to be asked of Mr Sánchez. Pere Aragonès, the regional president, who comes from the ERC, has directly contradicted the "turn the page" narrative, saying that an amnesty in itself would solve nothing. ERC and Junts pushed a declaration through the regional legislature calling on Mr Sánchez to "commit to working to make effective the conditions for the holding of [another] referendum".

Through all the weasel words, it is clear that Mr Sánchez wants to get on with running Spain while parties whose support he needs are keen to get back to breaking it up. The Socialist Party fired back at the separatists, saying that their statement was unhelpful and that any agreement must respect the constitution (which guarantees the territorial integrity of Spain).

Muddle in the middle

Spanish parliament, September 2023

Seats in the lower house

*Seven other parties: Esquerra Republicana (7); Junts (7); EH Bildu (6); Basque Nationalist Party (5); others (3)

Source: Congress of Deputies

The constitutional court could anyway strike down a deal. An amnesty would enrage many Spaniards. And Mr Sánchez would still have to send round a begging bowl—to Basque and Galician nationalists as well—in order to pass laws. But he may prefer that to holding yet another election to break the deadlock. ■

Ireland's economy

Splurge or hoard?

DUBLIN

The government isn't sure what to do with its huge budget surplus

BLOATED BY THE offshore profits of global corporations, the Irish economy has long been prone to manic mood swings. In 2016 Paul Krugman, an economist and commentator, coined the phrase "leprechaun economics" to describe a surge of 26% in Ireland's GDP that was later found to have been caused largely by accounting changes at Apple, one of several American tech and pharma giants that book much of their global profits in Ireland.

In Irish folklore, leprechauns were grumpy sprites who hoarded pots of gold at the ends of rainbows. Some wily mortal would invariably trick the little chap out of his stash. Boosted by corporate tax from overseas companies, the Irish government faces a budget surplus of €10bn ($10.5bn, or 3.5% of GNI) this year and maybe €16bn the next. Yet this bonanza puts Ireland's finance minister, Michael McGrath, poised to unveil his annual budget, in a quandary.

With GNP up by 11% in this year's second quarter and unemployment at only 4%, the economy is churning at full capacity. Any splurge of spending or tax cuts would probably drive up inflation, already running at 6.3%—far above the euro-zone target of 2%. Even so, the two centre-right parties that dominate the ruling coalition have been hinting at cuts in income tax. Fine Gael (led by the prime minister, Leo Varadkar) and Fianna Fail (led by a former prime minister, Michael Martin) may be eyeing elections, which are due within two years. A sovereign-wealth fund for a rainy day, to cover future pension and welfare liabilities, is also being considered.

Yet opinion polls suggest that the Irish people want the windfall to be spent on longer-term investment, particularly infrastructure, and most of all on housing. The Celtic Tiger's housing bubble of the 2000s produced a big surplus of new homes before it burst in 2008, leaving the Irish on the hook for an $89bn international bail-out loan. Lean years followed. Soaring rents and a shortage of properties now leave many young people with no affordable place to live; homelessness is rising. IBEC, a lobby group for businesses in Ireland, says that lack of housing for workers is harming economic growth.

So far Ireland's government, understandably cautious, has resisted calls for a big state-led programme of house-building. Ireland has had a patchy record in this respect. A new 380-bed children's hospital, originally priced at €650m, is now projected to cost €2.2bn. An underground railway project for Dublin, mooted decades ago, has so far seen €300m spent on planning and consultants but has yet to break ground. Its estimated cost has soared from €3.5bn 20 years ago to as high as €12bn.

Meanwhile, the money that flows in so easily from the likes of Apple, Google, Meta and Pfizer can all too easily flow out again. The EU and America dislike Ireland's low corporate tax rate of 12.5%. The Irish government knows there could be a crock of something at the end of the rainbow, but fears it may not be gold. ■

Safe as houses?

Charlemagne | The migrant paradox

Europe is stuck in a need-hate relationship with migrants

A SURGE OF small boats is arriving on Europe's southern shores, brimming with migrants willing to work, for example doing low-skilled jobs in construction or caring for the elderly. In entirely separate news, Europe has a mounting shortage of workers, especially in low-skilled sectors such as construction or taking care of the elderly. To some, that may suggest a solution about as complex as slotting the last piece into a jigsaw puzzle. Alas, migration is not amenable to such reasoning. Countries have borders for good reasons; economic needs are often subservient to political imperatives. Still, the end result is that Europe is nuttily deploying barbed-wire fences and "workers wanted" banners at the same time. Meanwhile, thousands are drowning as they try to reach a place that may soon realise it needs them.

So migration is, alas, back at the forefront of EU politics. The bloc is on track to receive over 1m asylum applications this year, the most since a rush of arrivals in 2015-16. Back then, in the midst of turmoil in Afghanistan and Syria, the mood was fairly welcoming: Angela Merkel, Germany's chancellor, had pronounced that in the wake of a large inflow of migrants "*Wir schaffen das*"—we can manage this. Now Europe no longer feels it can *schaffen* quite as much. Whether liberal or conservative, northern or southern, the feeling is of a continent at its limits. Millions of Ukrainians fleeing war into the EU have strained resources—and sympathy—that might have gone to those from farther afield. Countries that took lots of migrants in 2015 have not fared well: Sweden is calling in the army to help deal with a surge in gang violence, much of it related to its previously porous border. Migrant-hating populists have surged there, as they also have in Germany.

If one thing unites politicians in the EU, it is the certainty that a botched policy on migration will cost them their jobs. The continent anyway suffers from old divisions. Southern European countries such as Italy and Greece complain that they bear the brunt of EU rules which force countries where migrants arrive to bear the expense of processing them, even though most migrants want to end up in places such as Germany and Sweden. Those rich countries think southerners are flouting the rules by failing to intercept migrants as they set foot in the EU. One solution mooted for years is a pan-European grand bargain, whereby countries beyond the front lines of migration agree to take in some of the huddled masses. Such a deal was struck in June, and continues to be haggled over. But under the weight of new arrivals it seems to be wobbling. Another element was an agreement with Tunisia, which many migrants from across the world are using as a stepping stone before crossing the Mediterranean into Europe. The autocratic regime there was in essence to be bribed with EU cash to deter smugglers using its shores. A similar deal with Turkey helped stem the flow in 2016. But that too is not working well.

A meeting of EU leaders on October 6th, after *The Economist* went to press, was meant to cool mounting tempers. For there have been spats aplenty of late. Italy is fuming at Germany about its government funding for NGOs that succour small boats in the Mediterranean. What in Berlin is deemed a "moral duty" to save imperilled migrants is decried in Rome as a "pull factor" for asylum-seekers; a politician in Giorgia Meloni's hard-right ruling coalition has compared the arrival of migrants to the German invasions of the second world war. Schengen, the passport-free travel area, is shrinking by the day as country after country brings back border controls. On September 27th Germany reimposed some passport checks on Poland, in part as a result of authorities there having been busted selling visas in Asia and Africa.

Nobody quite knows why the migrant numbers are surging. Some are fleeing persecution, though most arriving in Europe are ultimately deemed to want to move for economic reasons and will thus be denied refugee status. Yet economic migrants are just what many countries in the EU are looking for, amid tight labour markets and dire demographic projections. Italy has announced it will issue 425,000 work permits to non-EU nationals by 2025. Germany needs 400,000 foreign workers a year as baby-boomers retire; as it happens, that is roughly the probable number of this year's asylum requests. Both Greece and France are mulling ways to regularise undocumented migrants willing to work in industries struggling to recruit. Even central Europe, long reluctant to accept migrants, is bringing in lots. Hail an Uber in Warsaw these days and it is likely to be driven by an Uzbek or a Turk.

Workers of the world, migrate

It does not naturally follow that a shortage of job applicants in Europe would best be filled by whoever is willing to pay smugglers to get them there. But surely better ways exist to reconcile the hole in European labour markets with the bulge of migrants willing to fill it. "Europe is already in the midst of a global battle for labour that will only get fiercer as time passes," says Michael Spindelegger, head of the International Centre for Migration Policy Development in Vienna. America, one of Europe's rivals for willing hands, has a "green-card lottery" system to allow in over 50,000 people a year to work legally. Millions apply—and may thus be dissuaded from trying their chance illegally, though plenty of others do. Opening such legal channels in Europe would at least provide competition for the smugglers preying on human misery.

A dose of such self-interested generosity would allow the EU to emerge from its migrant-repelling with its moral credentials (nearly) intact. Meanwhile the situation is the worst of all worlds, with little prospect for improvement. So far this year at least 2,500 people have died or are missing having tried to cross the Mediterranean. That is a stain on a continent that likes to consider itself a force for good in the world. In its battle against illegal migration, Europe should not forget that tomorrow it may be politely inviting in much the same people it is today letting drown. ■

Politics

The after-party

MANCHESTER

The Tory conference offered a glimpse of the post-Sunak Conservative Party

RISHI SUNAK launched his bid to become the leader of the Conservative Party in the summer of 2022 as a mild-mannered technocrat who would tell hard truths about Britain's public finances. Then, as Liz Truss, his rival, pulled ahead during that contest, he switched gear, turning himself into a red-blooded culture warrior who would defend "our history, our values and our women".

Ms Truss won that race, but Mr Sunak soon took over as prime minister and is now trying a similar sort of reinvention. A year of comparatively cautious, administrative government has only modestly repaired the damage Ms Truss's tenure did to the party's poll ratings. Defeat beckons in the next election, due by January 2025.

Labour has a 19-point lead, according to a poll released by Savanta on October 4th. At 86%, the proportion of Britons who think the country "needs a fresh team of leaders" is ten points higher than in March 2010, shortly before Gordon Brown's Labour administration was ejected from office, according to Ipsos. Only 21% of voters think the Tory party is "fit to govern". Tom Tugendhat, the security minister, observed that support for his party among 18- to 24-year olds had fallen to one in 100. "I know that a lot of us have aspired to the 1%, but that isn't the 1% that we've aspired to."

And so Mr Sunak is switching gears again. After 13 years of Tory government, Mr Sunak will fight the next election insisting that the Conservatives are agents of transformation. "It is time for a change and we are it," he declared at his party's annual conference in Manchester. Out with HS2, an expensive and much-delayed rail project. Out with smoking, with the legal age to buy cigarettes set to ratchet up each year. Out with the current post-16 school curriculum, perhaps. Before the conference Mr Sunak had junked deadlines for households to meet net-zero targets.

Few in Manchester had much expectation of this transforming their prospects. The best that loyalists are hoping for is a hung parliament. Indeed, the bars and fringes were strikingly unfussed by how to fight the election. Another topic dominated: the battle for the party that would follow defeat. Its shape is already discernible.

The party has been trending to the right on culture for years, ever since Brexit, but Mr Sunak's new strategy has made it more strident still. Notwithstanding the prime minister's ambitions to write the global rule book for artificial intelligence, his science secretary's speech was billed by Tory HQ as "kicking woke ideology out of science". Notwithstanding the fact that one of the government's five priorities is NHS waiting times, the health secretary focused on sex-based terminology in health care.

A cabinet full of former accountants and management consultants attempted to peddle lines from online conspiracies. Mark Harper, the transport secretary, promised to halt what he termed the "sinister" spread of "15-minute cities"—an urban-planning concept that cranks see as an ▸▸

instrument of government oppression. Claire Coutinho, the environment secretary and a protégé of Mr Sunak, claimed without basis that Labour would introduce a meat tax, noting that Sir Keir Starmer, the opposition leader, doesn't eat it.

Suella Braverman, the home secretary who openly manoeuvres to succeed Mr Sunak, thrilled members with a dark and swirling address that warned of a "hurricane" of migration, and of a political class "too squeamish about being smeared as racist to properly bring order to the chaos". British cities could "go the way of San Francisco or Seattle", she said, an allusion that may be lost on Britons without access to Fox News. Ms Braverman is a standard-bearer for leaving the European Convention on Human Rights, which will become a litmus test for the next Tory leader, and which may split the party as Brexit did. Rhetoric is a ratchet; norms that are set in a weekend can take years to unwind.

The Conservative Party is becoming more strident, then. The next election is also likely to leave it more English and more southern. Using a model built by Ben Ansell of Nuffield College, Oxford, which applies a uniform national swing and allows for tactical voting, *The Economist* has looked at a series of election scenarios ranging from a Conservative majority of one to a repeat of the party's polling during the Truss meltdown, which would reduce it to just 72 seats.

Even a less cataclysmic defeat would reduce the sprawling coalition built by Boris Johnson, which stretched from Cornwall to Aberdeenshire, to its safest English seats (see chart). If the current Labour poll lead of 19 points came to pass at the next election, the share of Tory seats in southern and eastern England would rise from 54% of its MPs to 59%. MPs in Scotland, Wales and northern England would shrink from 24% of the party to 9%. (Boundary changes are liable to compound these effects.) The Northern Research Group, a faction of Tory MPs from the north of England, would fall from 38 listed members to just three.

But even if the Conservatives tilt right and become more concentrated geographically, the uneasy factional balance that characterises the modern Tory party would not be resolved. The evidence from the conference is that the fragmentation of the party into veto-wielding groupings is not abating. Since moderates and hardliners are sprinkled fairly evenly between marginals and safe seats, no election outcome is likely to make one faction dominant.

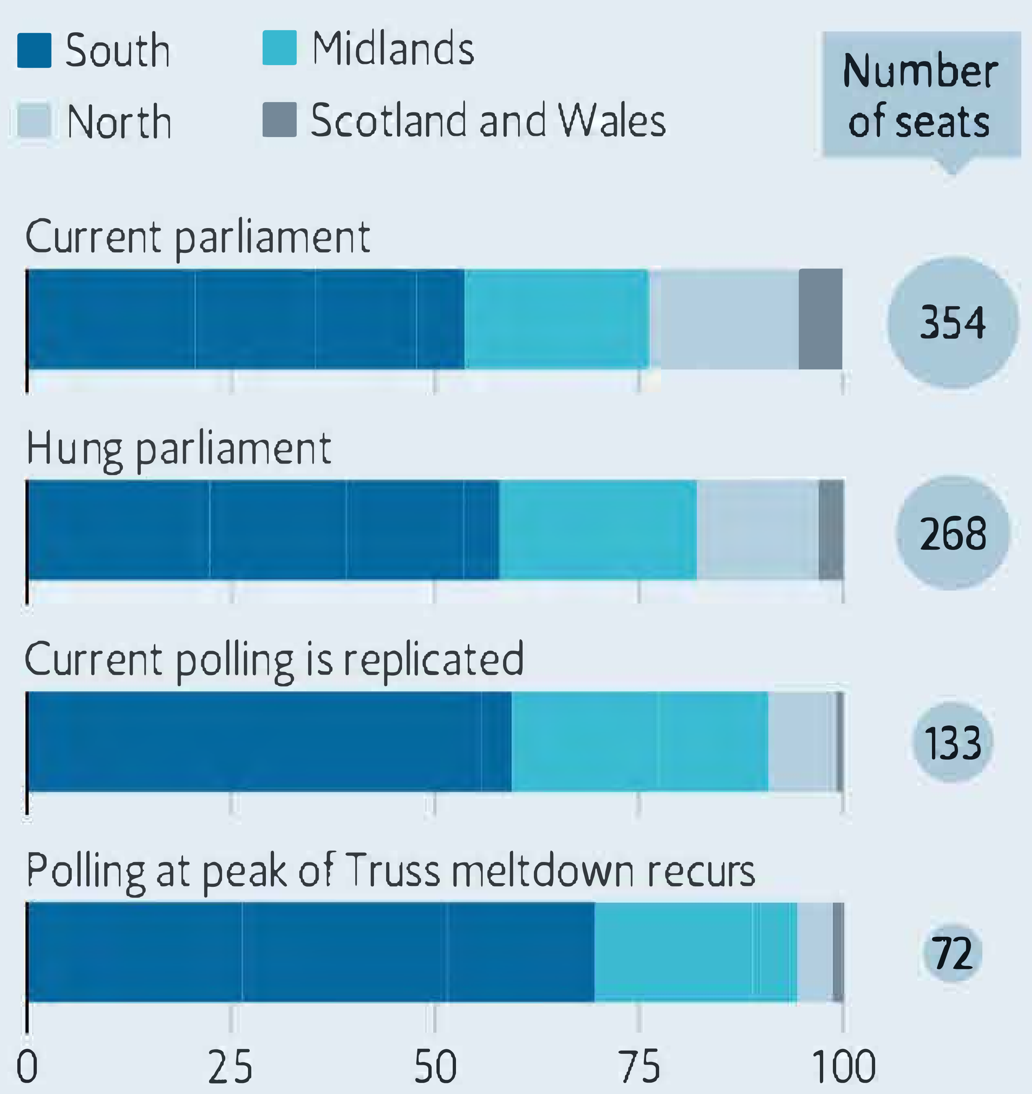
As part of our modelling, we mapped likely seat losses in various scenarios against Tory MPs' declared support for current factional groupings. Once departing MPs are accounted for, members of the pro-Brexit European Research Group (whose leading lights have backed a new, socially conservative faction known as the New Conservatives) would still constitute between 22% and 25% of the party. The proportion of socially liberal One Nation Groupers would amount to between 9% and 15% of the party. Members of the Conservative Environment Network, a green-tinged faction, are set to comprise more than a third of the party in all scenarios.

A new three-worded group is also on the march. Sunakites were confident, after Ms Truss's calamitous mini-budget a year ago, that fiscal orthodoxy had re-established its primacy. They underestimated her. She emerged to a cheering fringe event at the conference to restate her wish for rapid corporation-tax cuts (Britain's rising borrowing costs went unmentioned).

Her faction—the Conservative Growth Group—claims to have 60 backers. Sir Jake Berry, another Tory MP, declared he has the supporters to form a "blocking majority" that would prevent the tax burden breaching its current high of 37% of GDP. All this jockeying would make for a gory spell in opposition. However unlikely, it would mean an even gorier fifth term in office. ■

Heading south

Britain, Conservative Party seats under different election outcomes by region, October 2023, %



Sources: Ben Ansell, House of Commons Library; *The Economist*

Political fashions

Silk ties and drunken expressions

MANCHESTER

Impressions of a first-time visitor to the Conservative Party conference

THIS YEAR'S Tory party conference raised many troubling questions. What would happen to HS2, a high-speed-rail-project? What to do about inflation? Above all: why do so many Tories still wear ties?

The tie, which has elsewhere largely fallen out of favour, was there in abundance. There were spotted ties and silk ties; floral ties and faded ties; a pheasant tie (its owner likes to eat them—pheasants, that is) and paisley ties. Some were worn on principle ("Got to keep up the high standards"). As midnight looms, a drunk Tory appears in a slightly askew bow tie. Conference, he slurs, is "good fun". Behind him, a man in a stripy tie wobbles towards a flower bed.

People who have not been to the Conservative Party's annual conference might assume that the "conference" bit is what matters. For Tory members, though, it is all about the party. A conference does take place. In airless auditoriums people in lanyards give ill-attended speeches; in the nearby exhibition hall, people mill around the Alzheimer's Society stall and the Tory merchandise one (the Thatcher water bottles were selling well).

But all that is a sideshow. The real action goes on in between sessions, as people in blue suits, blue shirts and brogues go to parties, drink white wine and use words such as "thus" in conversation. Above all, they freely express the love that dare not speak its name—Conservatism. Even impending political apocalypse (the Tories are far behind in the polls) cannot dampen their ardour; Liz Truss, the members' choice to be party leader last summer, could still generate an enthusiastic crowd with an unironic speech about making Britain "grow again".

En masse, Tory party members are a striking breed. The men (and almost all Tories in Manchester seemed to be men) tend to have smart haircuts, polite smiles and look as if they are probably called Hugh. Tory females have the air of women who would know their way around a horse's withers. Stand in the conference centre and the (relative) diversity of Tory cabinets starts to feel not just laudable, but more like a minor miracle.

Tories themselves bridle at the suggestion that they are not diverse. A young party member in a bow tie, pointing at a pink-cheeked friend, says that he is even from Scotland. Many are much less upper-crust than they seem; it requires a lot of effort and aspiration to appear this out of touch. Then again, some really are just posh. In the queue for an event one woman looked irritated when they could not find her name on the list. Look for me, she says, under "Lady" instead.

Bagehot | Tories, naifs or liars?

The question that hangs over Labour's fiscal policy

WELCOME TO THE Great British Politics Quiz. Round one: match the politician to the quote. Politician a) Rachel Reeves, Labour's shadow chancellor; b) Jeremy Hunt, the chancellor; c) Liz Truss, a former Tory prime minister; and d) Sir Keir Starmer, the Labour leader. Quote 1: "I want lower taxation. We're not looking to the lever of taxation, we're looking to the lever of growth." Quote 2: "After a once-in-a-century pandemic and the biggest energy crisis in a generation, the level of tax is too high." Quote 3: "I don't see the way to prosperity as being through taxation." Quote 4: "[The] unprecedentedly high tax burden is one of the reasons our economy is stagnating and why we need to cut taxes to help make Britain grow again."

Do not worry if you did not score well (a=3, b=2 c=4, d=1). When it comes to tax, it is hard to tell Britain's two main parties apart. Consensus rules British fiscal policy. Each party laments a tax burden that is near a post-war high. Each longs for tax cuts. Labour has ruled out any increase in income tax, national insurance or VAT, which account for the bulk of government revenue. Ms Reeves has rejected the idea of new wealth taxes. Her planned revenue-raising measures are piddling. Labour's pledge to put VAT on private schools would raise £1.6bn ($1.9bn)—a rounding error in a £1trn government budget. Likewise, if the Conservatives do unveil income-tax cuts before the election, Labour will be tempted to match them.

Labour's fiscal policy has three possible explanations. The first is that the party does not want to raise taxes. The second is that it does not need to raise them. The third is that it will raise them and is denying it for now. A simple question faces British voters on Labour and taxes: are they closet Tories, naifs or liars?

Copying the Conservatives on tax is a long-standing Labour tactic. Under Sir Tony Blair, Labour bound itself to Tory spending plans in the run-up to the 1997 general election. This tactic has become less of a sacrifice now that the Conservative Party has been dragged to the left on tax. Under Jeremy Corbyn, Sir Keir's predecessor, Labour pledged to crank up taxes to 37% of GDP—a level that will be reached in 2024, according to the plans of Rishi Sunak, a self-proclaimed low-tax lover. What was once painted as borderline communism is now cross-party consensus.

Take Labour at its word and extra revenue on top of that is not needed. The public services may be straining at the seams. But it is a fundamental tenet of Sir Keir that they need better management rather than more money. Reform is the watchword. Whitehall has been distracted by leaving the European Union since 2016, and a carousel of Conservative prime ministers meant that the task of grinding out improvements was forgotten.

A few supply-side reforms, such as loosening planning rules, would result in improved public finances, argues Labour. Since taxes are already much higher than they were, even a little economic improvement involves much more money flowing towards the public services. At the start of this parliament the state snaffled only 33% of GDP in tax. "Why have we got such a high tax regime?" asked Sir Keir this summer. "It's because we've got low growth. That's why I call it a doom loop."

Higher growth can help in the long term. But when schools are crumbling, ready cash is needed quickly. And pretending that public services can be improved without extra cash—believing in the Reform Fairy—is not serious. Labour is caught in what Mark Blyth, an academic at Brown University, calls a credibility trap: "The more it promises to not spend any money, the less credible its other promises sound." Labour's claim that it can improve public services without spending is as plausible as the Conservative Party's insistence in the austerity era that it could squeeze them without doing any harm. Each idea crumples as soon as it makes contact with reality.

All political parties are, at times, economical with the *actualité*. Voters say they want honest politics, with politicians being straight about the messy compromises inevitably involved in governing. Take polls at face value and a decent majority of voters are happy to pay higher tax for better public services. But recent history shows that voters are happily taken in by charlatans who promise the world. Being honest with voters is the first step towards being punished by them.

Labour's extreme caution is, therefore, understandable. Its leaders know that they lose general elections when voters do not trust them on the economy. They have bound themselves to fiscal rules that ban borrowing for day-to-day spending and require that debt falls over the medium term. "There will be no exceptions", wrote Ms Reeves last month. In public and private, it is a point repeated to absurdity. If an asteroid struck Britain, all that would remain would be a few cockroaches and Labour's insistence that debt falls over the medium term.

Show me the money

Dishonesty lurks at the heart of both parties' proposals. The Conservatives' spending plans beyond 2025 are make-believe, with swingeing real-terms cuts to public services pencilled in that no one in Whitehall expects to happen. Likewise, Labour expects to be able to radically improve Britain's public services without raising taxes or bursting out of its fiscal girdle. Neither will admit otherwise before an election.

So which is it? Is Labour a bunch of Tories, naifs or liars? It is a mix of all three. Fiscal conservatism combines with naivety and deceit. If Labour wins, it is likely to find its Panglossian plans scuppered by reality. Expecting new management to improve Britain's exhausted public services is naive at best and dishonest at worst. It will take money to stop schools falling down and to drag the NHS into the 21st century, even if Labour refuses to admit it. The bill will come due. Labour will have to pay it, somehow. ■

The coups will continue

Africa's broken politics

CAPE TOWN AND DAKAR

Graft, insecurity and stagnation stir discontent. More radical change may follow

FOR MANY years, coups in Africa seemed a thing of the past. But in the 2020s they are back with a vengeance: the nine this decade account for more than a third of successful African putsches this century. At this rate there will be more of them in the 2020s than in any decade since the 1960s.

Aside from the latest one, in Gabon on August 30th, the seizures of power have been in the "coup belt". It is possible, if inadvisable, to walk some 6,000km from the Atlantic coast of west Africa to the shore of the Red Sea and stride only through countries where there have been coups in the past three years (see map on the next page). The trek from Guinea to Sudan would cross the Sahel, the region south of the Sahara where there have been two coups each in Mali and Burkina Faso since August 2020, and one in Niger in July.

Africa—which covers an area larger than America, China, India, Japan and western Europe combined—is more than its coup belt. Yet the takeovers are part of a broader political crisis. The most recent surveys by Afrobarometer, a pollster, find that in 24 of 30 countries approval of the idea of military rule has risen since 2014.

Contingent support is higher. On average across 36 countries more Africans (53%) would be willing to consider a military government than would rule it out (42%) "if elected officials abused their power"—which they often do (see chart 1 on the next page). Just 38% expressed satisfaction with "democracy", the lowest share since at least 2014. The backing for potential strongmen or deep dissatisfaction with democracy was common across the coup belt, but also in relatively stable places, including Botswana and South Africa (see chart 2 on the page after next). Afropopulism, for want of a better phrase, is an increasingly potent force.

Why is there such widespread discontent? Africans are frustrated with the sham that passes for "democracy" in most countries. They are also fed up with flimsy states that provide neither security nor prosperity. Around two-thirds of them, as well as majorities in 28 of 36 polled countries, feel their countries are heading in the wrong direction. Should this continue, many Africans, especially younger ones, may be tempted to reconsider shabby social contracts—and look for radical change.

The most important failure is the provision of security. African states are often strong in areas where they ought to be weak and weak where they ought to be strong. Many regimes are adept at beating or locking up opponents, but inept at stopping their citizens from being robbed or killed. As a consequence, those promising to restore security, however ruthlessly, can gain support from ordinary citizens.

Although some African wars in the late 20th century were much deadlier, the overall number of African conflicts is rising, according to a paper published last year by the Peace Research Institute Oslo. It noted that small conflicts caused more deaths in 2021 than at any point since its data began in 1989. The number of conflicts in which at least one side is a state was higher in 2021 than a decade earlier.

Mounting chaos

Since 2021 things have become only bloodier. In Burkina Faso, Mali and Niger, a trio of countries where jihadists linked to al-Qaeda and Islamic State run riot, deaths in conflict have risen from under 800 in 2016 to over 10,000 in 2022. It is no coincidence that all three have gone from being largely democratic to suffering coups in the 2020s. Putschists have sought to justify their takeovers and gained support by pointing to insecurity under democracy.

As the jihadist chaos spills into coastal states, political chaos could follow. Togo, ▸▸

for example, has a dynastic dictatorship like the one recently toppled in Gabon: the Gnassingbé family has run the country for 56 years. And it faces growing jihadist insecurity—at least 140 people have been killed since July 2022.

In Nigeria, Africa's most populous country, jihadists terrorise the north-east, gangs kidnap hundreds at a time in the north-west and armed separatists pillage the south-east. Clashes between farmers and herders in the centre add to the bloodshed. More than 10,000 people died in conflict in the country in both of 2021 and 2022. This year will be almost as bad. ACLED, a conflict-tracking group, rates Nigeria as having the fifth-most extreme violence globally, behind Ukraine.

Nigeria's political class, lounging in well-guarded mansions, is out of touch. Turnout in this year's election was 29%, the lowest ever. More than 40% of Nigerians think it would be legitimate for the armed forces to take over in the event of abuses of power by elected leaders. Before the election senior Nigerian political figures told *The Economist* they had heard of coup-plotting. That is a troubling development, given that the country was run (abysmally) by military dictators for much of the second half of the 20th century.

Harsh ingredients

Other large countries are riven with conflict. Though the civil war centred on Ethiopia's Tigray region may be over, clashes in Amhara and Oromia spiral on. Resurgent violence in the east of Congo has caused almost 3m people to flee from their homes since March 2022. In April 2023 Sudan plunged into civil war. All three countries are among Africa's ten most populous. In every place people will seek protection where they think they can find it.

Insecurity is felt beyond war zones. In a poll of 30 countries around the world released last month by Open Society Foundations, an NGO network, four of the five countries with the highest share of respondents fearing political violence were African: Kenya, Nigeria, Senegal and South Africa. The latter's murder rate, among the highest in the world, is rising again. Lawlessness increases support for populists and vigilantes. And 72% of South Africans would swap elected governments for a crime-bashing strongman. One former cabinet minister, who campaigned against apartheid, praises Paul Kagame for Rwanda's apparent lack of crime (but says less about its abuses of human rights). "Kagame has the right idea: sometimes you need to crack the whip."

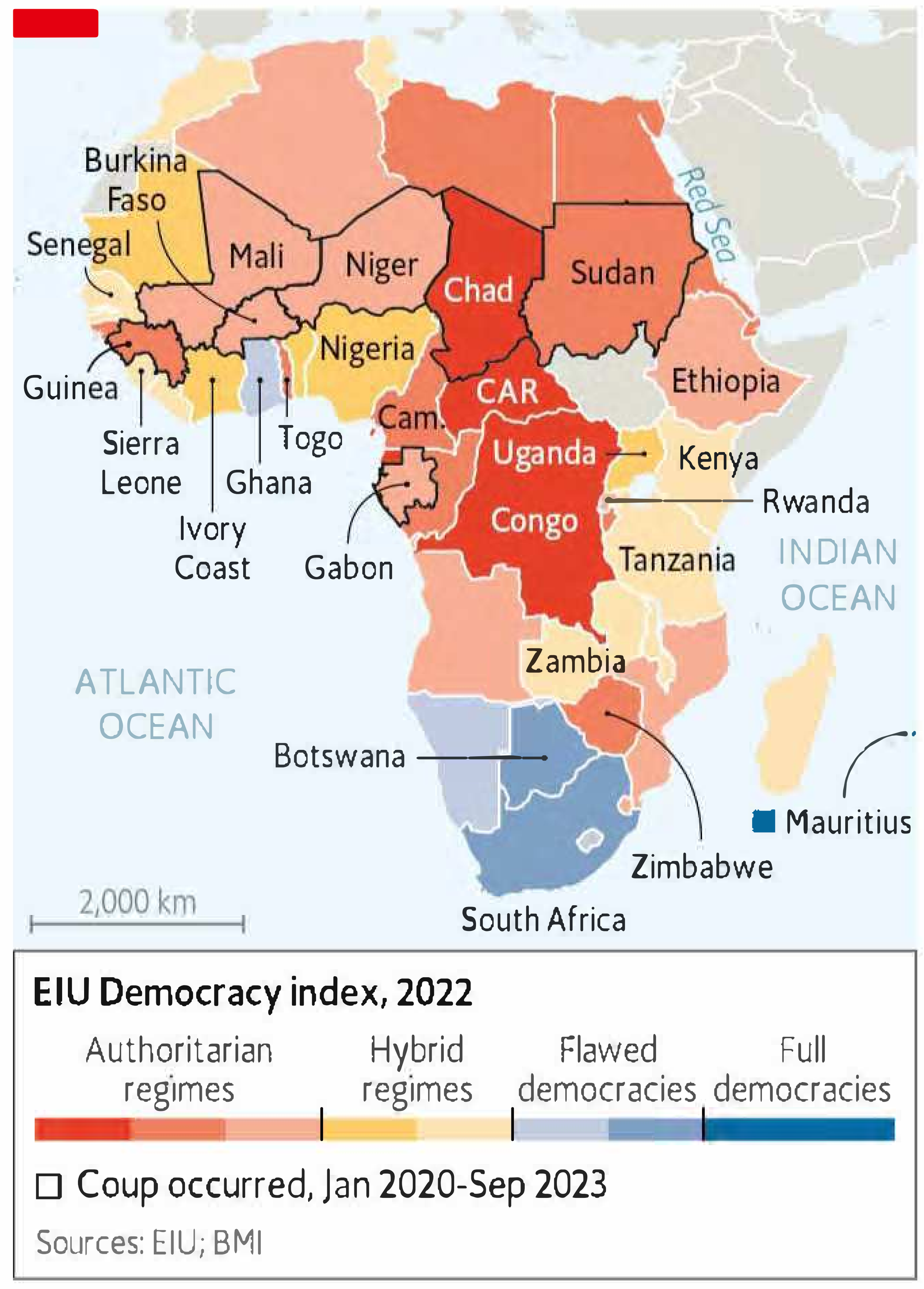
Economic stagnation compounds the political crisis. From 1990 to 2018 the number of people living in extreme poverty in sub-Saharan Africa rose from 284m to 433m, as population growth often outstripped the economic sort. The region has lost another decade: real GDP per person was lower in 2022 than ten years earlier.

Households and governments are also facing a tightening financial squeeze. The median inflation rate in sub-Saharan Africa has more than doubled since the start of the pandemic. In a region where food makes up 40% of consumption, there is double-digit food-price inflation in 80% of countries. Some 17% of government revenues will be spent on servicing external debt this year, the highest share since 1999.

"Job creation" is by far the most-cited priority by 18- to 35-year-olds in Afrobarometer polls. The Mo Ibrahim Foundation, a British NGO, reckons that 18m formal jobs must be created annually to absorb the numbers entering the labour force; the current figure is 3m. Almost half of 18- to 24-year-olds in 15 countries surveyed last year by the Africa Youth Survey, a poll by a South African charity, said they were thinking of emigrating. Young Nigerians talk of "adulthood na scam" and hunt ways to *japa*, Yoruba slang for to emigrate.

Earlier this year Hakainde Hichilema, whom the West sees as a rare liberal on the continent, warned his outside champions that African democrats need to secure material results or they will face political consequences. "[Y]ou can't eat democracy," argued Zambia's president in an opinion piece urging foreign creditors to speed up debt restructuring. "Human rights may sustain the spirit, but not the body."

The desperation to meet basic needs partly explains why Africans may be relatively willing to consider strongmen. The Open Society poll asked whether authoritarians would produce better results in ten policy areas, such as creating jobs and fighting crime. In eight cases the sub-Saharan African average was higher than the



global one. "Invariably, juntas that promise better material conditions will show up and win enough people's hearts and minds," notes Ken Opalo of Georgetown University in America.

Nevertheless, Africans' faith in what passes for democracy is plummeting not just because of the insecurity and poverty their governments deliver, but also because of the nature of politics itself. In the 1990s and 2000s most African countries ditched one-party systems and embraced multi-party elections. The pageantry of elections, however, obscures the fact that much of Africa has only the patina of democracy. EIU, our sister outfit, classifies just one African country (Mauritius) as a "full democracy" and six as "flawed". Between 1990 and 2019 sitting presidents won 88% of the 112 elections they ran in.

Nine leaders have kept power for more than 20 years. These include Uganda's Yoweri Museveni; Cameroon's Paul Biya, who spends much of the year in a Swiss hotel; Equatorial Guinea's Teodoro Obiang, the longest-serving president of any country; and Mr Kagame. All fear fair elections; all may be grooming a son for office.

Even relative newbies abuse the law, entrenching frustration. In August Zimbabwe's main opposition party did not contest yet another dubious election because it sees the courts as biased. A month earlier the Central African Republic's president won a referendum he rammed through the courts that will end term limits. In 2020 Alassane Ouattara, president of Ivory Coast, won a third term after controversially tweaking the constitution so he could get around the two-term limit. Senegal's Macky Sall this year opted against a similar move after violent protests. But any goodwill earned was undermined by the arrest of hundreds of opposition-party members, including a presidential candidate.

On average in Afrobarometer polls only 13% believe that no one in their country's presidency is corrupt. Transparency International (TI), a watchdog, finds that sub-Saharan African countries are on average seen as less clean than El Salvador, where graft is so endemic that a millennial authoritarian has promised to build a huge jail specially for white-collar criminals. On average, perceptions of corruption in sub-Saharan Africa were slightly worse in 2022 than they were a decade earlier, reckons TI.

The Open Society poll found that corruption was the gravest national issue for voters in Ghana and Nigeria. Voters also fret about it in South Africa, where "state capture" became ubiquitous under Jacob Zuma, president from 2009 to 2018. The looting of state institutions remains a problem in South Africa today—and in many other countries. "The capture of democratic political systems by private power networks is arguably the greatest threat to civil liberties and inclusive development in Africa," argues Nic Cheeseman of the University of Birmingham in Britain.

Youth and experience

Putschists exploit anger at graft—and it works, at least initially. In a poll before the first coup in Mali, 58% of people thought most or all the people in the presidency were corrupt. Two years and a second coup later, just 25% did. In Guinea the share before the coup was almost 50%. After it the share fell to 28%.

Why doesn't dissatisfaction with sham democracy spur Africans to try to obtain a better version of it? There are several reasons. For a start it is fiendishly difficult to oppose dictatorships. The bad guys usually have the guns. Ruling parties also often co-opt NGOs and youth groups. Many activists have tried to improve democracy and to vote out authoritarians. Yet after decades of failing, some may be concluding that only more radical methods, even coups, can end stagnation and state capture. Guinea's main opposition leader, for example, told *The Economist* of his "relief" immediately after the coup that ousted Alpha Condé, then president, in 2021.

Second, there is reason to believe that support for liberal democracy is softer than its champions would wish. In Mali, for example, support for the idea of military rule had been flat for years at just under 30% before the first coup. Now almost 80% of Malians say they approve or strongly approve of rule by military men.

Although outsiders may point out that liberal democracy has never really been tried in Africa, that is not always the view of Africans. Last month Olusegun Obasanjo, a former Nigerian president, said: "We have seen that the liberal type of democracy as practised in the West will not work for us." Mr Kagame has argued similarly. ("The West does not define democracy in Africa.") In the Africa Youth Survey just 39% of respondents said that Africans should emulate "Western democracy"; 53% said Africa needed to find its own version.

Indeed, too much is often expected of young Africans. Many of them are apathetic when confronted with the façade of democracy. They are more than twice as likely to say they did not vote in the last election as the over-56s. In Nigeria's election this year young voters helped Peter Obi to the best-ever result for a third-party candidate but he still came only third. In South Africa's last general election only 30% of eligible 20-somethings voted—from apartheid to apathy in a single generation.

Support for military rule if elected leaders abuse power is highest among the young. On average 56% of 18- to 35-year-olds would contemplate it, versus 46% of those aged 56 and older. It is young men who rally in support after coups, complicating potential efforts by African countries or the West to reverse takeovers.

Not that outsiders' commitment to African democracy is especially strong—the third reason for its feebleness. The continental organisation, the African Union, is weak and ultimately the creature of its mostly authoritarian members. Regional hegemons such as South Africa carry less weight: economic stagnation means it has less hard power, while endorsing rigged elections in Zimbabwe and elsewhere means it has less soft power. Meanwhile, China skews aid towards corrupt autocratic regimes, as the Chinese Communist Party preaches its model to Africa's ruling parties. Russia, whether through the notorious Wagner Group or via arms sales, props up juntas and authoritarians. Newer players such as Turkey and Gulf countries will not promote democratic norms.

The West offers half-hearted help and hypocrisy. It sometimes speaks out when elections look sketchy, as was the case this year in Zimbabwe and Sierra Leone. But America decided to whitewash dodgy results in mineral-rich Congo in 2018. Britain is unlikely to criticise Mr Kagame given that it wants to fly asylum-seekers to Rwanda. France rails against coups in countries where it stands to lose influence, such as Niger, but says little when the putschists are in tune with Paris, as was the case with Chad's coup in 2021.

Françafrique—the term given to how France has maintained influence in former colonies by propping up autocratic elites—is coming back to bite Paris. In Mali a survey in 2021 found that more than a fifth of Malians believed that France's armed forces in the country were in league with jihadists or separatists. In Burkina Faso the new president, 35-year-old Captain Ibrahim Traoré, says that he is restoring sovereignty. It is the free choice of his junta, like Mali's, to ask Russia for help. After Niger's coup, the junta quickly scapegoated France, which had troops fighting jihadists in the country. Crowds waved Russian flags and decapitated a rooster painted in French colours. In Senegal, protesters against Mr Sall's flirtation with a third term burned down French-owned supermarkets and petrol stations. Half of Ivorians say that France is the country they trust least, according to Premise Data, a pollster.

Winter of discontent

So long as Africans see—and experience—"democracy" as a charade played by corrupt elites with the help of foreigners, then many will consider other options. What those look like will vary depending on the context. In South Africa frustration at meagre progress since apartheid is opening up space for Julius Malema, a hard-left black nationalist, and for ethnic-based parties. In Nigeria the efforts of Nnamdi Kanu, a separatist, to resuscitate the dream of an independent Biafra rely on charisma, populism, disregard for the truth and violence.

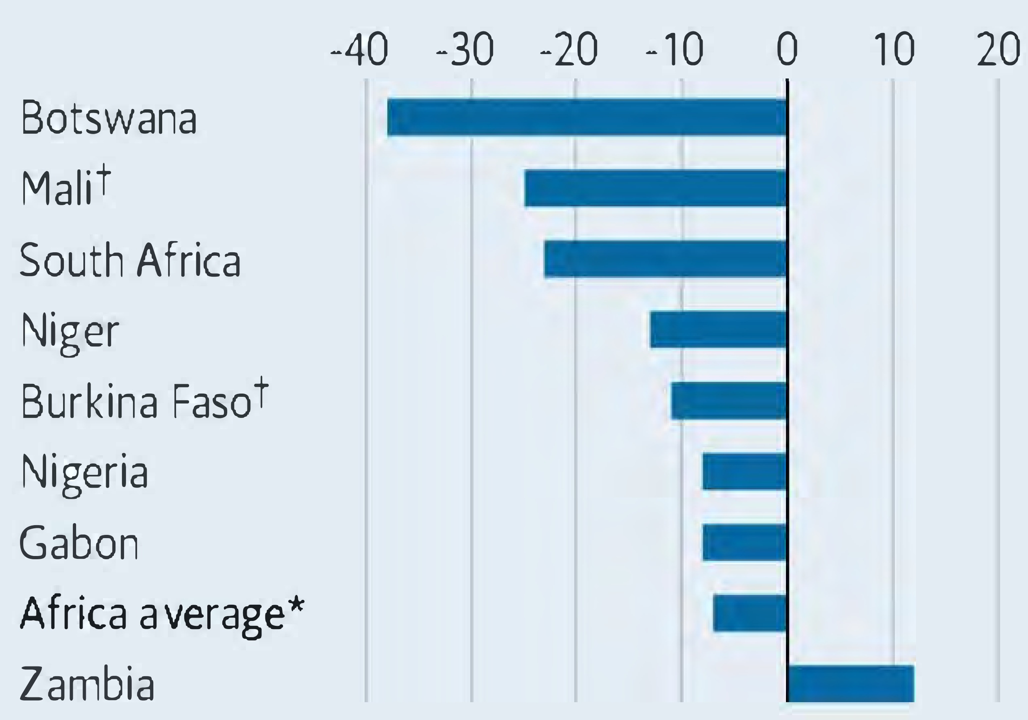
Elsewhere populist military men may prove appealing, at least temporarily. In Burkina Faso Captain Traoré chooses deliberately to mimic Thomas Sankara, a revered former socialist leader often referred to as Africa's Che Guevara. He came to power in a coup in 1983 aged 33 before being gunned down four years later. France has been a butt of both men.

There is a well-intentioned desire to see Africans, especially younger ones, as a latent progressive force. But it is also patronising to deny, given the present circumstances amid what passes for democracy on the continent, that many Africans will be tempted by authoritarians. They are no more immune to populism than Americans are to Donald Trump, or Turks are to Recep Tayyip Erdogan. They will gravitate to those who seem to meet their needs—or at least offer a change from those who manifestly do not. ■

The happy few 2

Respondents "fairly" or "very satisfied" with the way democracy works in the country

Percentage-point change, 2015-22



*30 selected countries

Source: Afrobarometer †Polled after at least one recent coup

ECONOMIST IMPACT

Scaling sustainability solutions, city by city

How would one design the world's most sustainable city—with carbon emissions near zero by 2050—and how could one be sure it deserved that accolade? While it's easy for urbanists to daydream of combining Amsterdam's cycling infrastructure with Singapore's rainwater capture and Vienna's bountiful social housing, the cumulative effect of such policies remains difficult to measure, let alone manage. This shouldn't be the case.

Cities may be unique in their cultures and legacies, but they are built from the same materials, traversed by the same kinds of vehicles, and populated by more than half of humanity (and growing). Scoring, sharing and scaling up the best policies among them is essential to achieving the targets of the Paris agreement in time to limit future global warming to below 1.5°C.

"With less than seven years left to achieve the 2030 Sustainable Development Agenda, establishing a gold-standard measure of urban sustainability performance is an urgent priority," says Maimunah Mohd Sharif, executive director of UN-Habitat. Without such a standard for calculating the impact of urban innovations, along with advances in deployment, public-sector leaders are left guessing which pathways to pursue—and private-sector investors remain hesitantly on the sidelines.

To address these challenges, UN-Habitat has worked with Economist Impact to develop the Urban Performance Index (UPI), a tool for comparing and contrasting the policies and progress that participating cities have made towards the Sustainable Development Goals (SDGs). Based on the UN's Global Urban Monitoring Framework, the index will measure performance across such variables as well-being, safety, inclusive growth and governance, as well as the environment. Beginning with five self-reporting pilot cities (Dhaka, Lisbon, Mombasa, Tijuana and Toronto), the aim is to scale to 80 cities in the second edition of the index, and over time to more than a thousand—all learning from each other and striving for excellence.

Cities are both the largest source of the climate crisis and the likeliest bearers of the climate disaster, now and in the future.

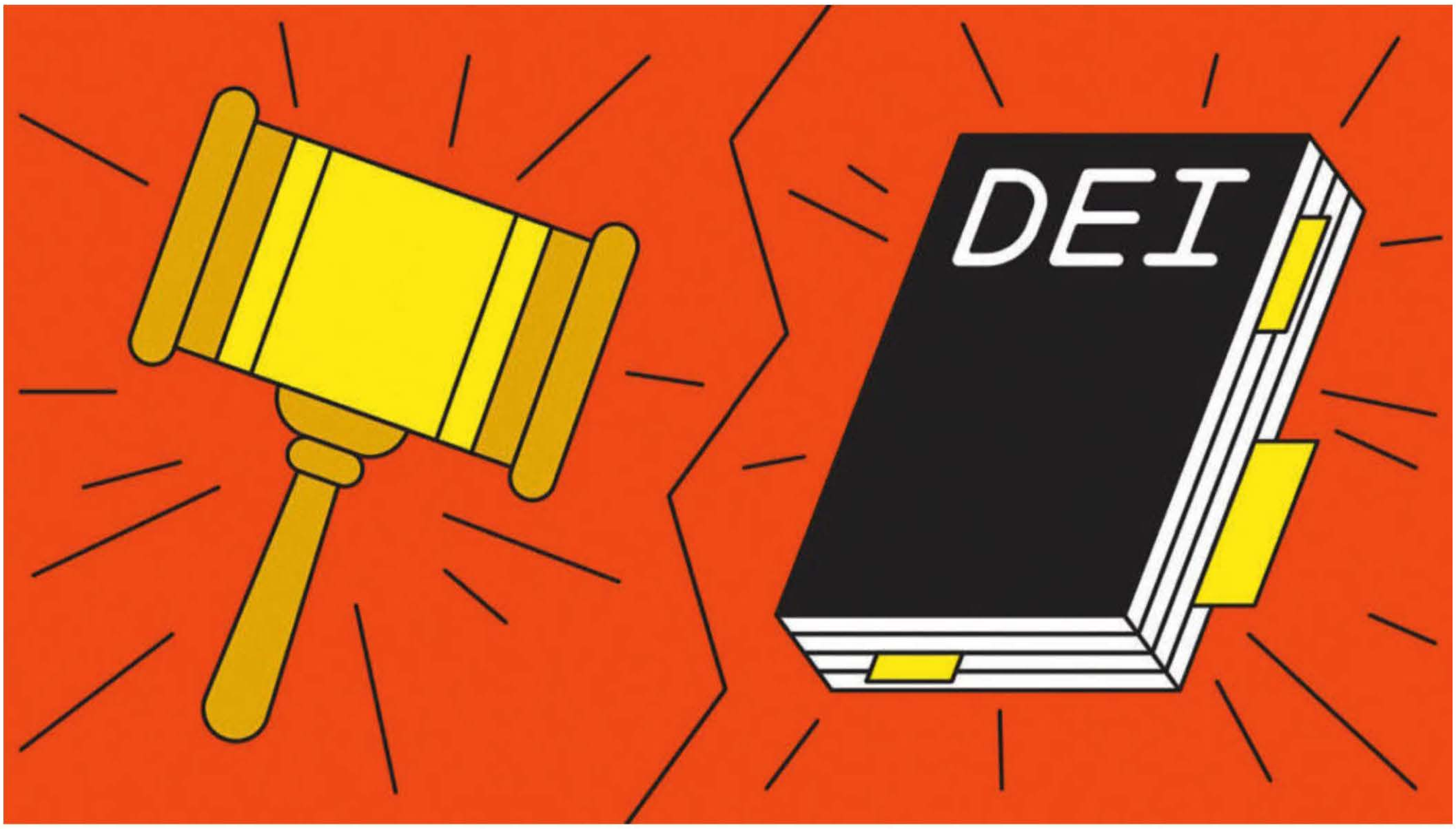
> **Around 70% of global cities already suffer from climate impacts ranging from steady coastal flooding and erosion to extreme weather events.**

They contribute more than 70% of global greenhouse-gas emissions—an outsized share relative to their populations, and one that has only grown since 2015. The construction sector alone accounts for almost 40% of global resource demand, including commodities such as steel and concrete. Conversely, around 70% of global cities already suffer from climate impacts ranging from regular coastal flooding and erosion to extreme weather events that force an estimated 20m people from their homes each year.

Trillions of dollars are needed annually to finance urgent mitigation, adaptation and rebuilding efforts, yet cities only received an estimated $384bn in climate finance in 2018—less than a tenth of the necessary amount. One aim of the UPI is not only to document which cities are succeeding in growing their economies while meeting the SDGs, but also to demonstrate the return on investment of technologies and infrastructure, ranging from rooftop solar panels to passive house construction to dedicated cycling lanes. The hope is to redirect private capital towards proven sustainable urban development that is still seen as risky in the absence of an index. "Businesses have always been instrumental in scaling and monetising solutions," says Ms Sharif. "This is where they can come in and deliver impact."

While one can dream of cities of the future, local leaders must meet the needs of the people they serve today. They must change the narrative about cities and show that cities offer solutions. This requires collaboration—learning, copying and financing what works as quickly as possible. "As the African proverb says," notes Ms Sharif, "if you want to go fast, go alone. But if you want to go far, go together."

UN-HABITAT



Business and society

Why DEI won't die

NEW YORK

America's bosses grapple with threats to diversity policies

On June 29th America's Supreme Court ended 45 years of affirmative action in university admissions. The decision did not change the laws that govern companies' hiring and firing decisions. But it did put wind in the sails of those who think efforts by firms to increase the racial diversity of their workforces have already stepped beyond the rules. Bosses and their lawyers have since scrambled to make sense of the judgment's implications. One big law firm, Morrison Foerster, wrote a memo to clients after the ruling, counselling them to ensure their diversity policies do not create "unlawful preferences".

The firm is now alleged to have ignored its own advice. In August American Alliance for Equal Rights (AAER), an organisation run by Edward Blum, the activist who brought affirmative action to the Supreme Court, sued Morrison Foerster. AAER alleges that one of the firm's programmes for law students, a highly prized fellowship open only to applicants from "under-represented" groups, illegally discriminates on the basis of race. Days later the law firm broadened the requirements of its fellowship in online advertisements.

Morrison Foerster is not alone. In the most recent quarter chatter about diversity on big American firms' earnings calls dropped by more than a third, compared with the same period last year, according to data from Bloomberg. Annual general meetings have lost their revolutionary zeal: support for proposals on social issues declined this year, and companies faced a record number of "anti-woke" proposals. Haranguing from progressives has eased ever since Joe Biden replaced the race-baiting Donald Trump in the White House in 2021. And bosses, confronted by higher interest rates, labour unrest and souring geopolitics, hardly need a lawsuit over their hiring practices.

Companies are, then, less vocal about their diversity, equity and inclusion (DEI) initiatives, a brew of policies aimed at making workforce demography reflect more closely that of the country as a whole. Such policies are under their sternest scrutiny yet. But a closer examination suggests that businesses are not disavowing such schemes. For all the remonstrations, DEI is not about to die.

Although the idea of DEI has been around for years in America, it gained prominence after the murder in May 2020 of George Floyd, an unarmed black man, by the police in Minneapolis. This outrage led to anti-racist protests across the country, and to a gasp of condemnation from C-suites. DEI became the toast of boardrooms, shareholder meetings and employee town halls.

Companies rushed to disclose more details about the composition of their workforces and set public targets for the ethnic and gender mix of their workers, managers and boards (see chart 1 on next page). CEOs shelled out on "racial equity audits", where a law firm tells a company how racist it is. Wannabe chief executives studying for an MBA at the University of Pennsylvania's prestigious Wharton School could major in DEI studies. A survey of several big economies in May by EY, a consultancy, found that 73% of 18- to 26-year-olds would prefer to work at a firm that cares about DEI. ▸▸

→ Also in this section

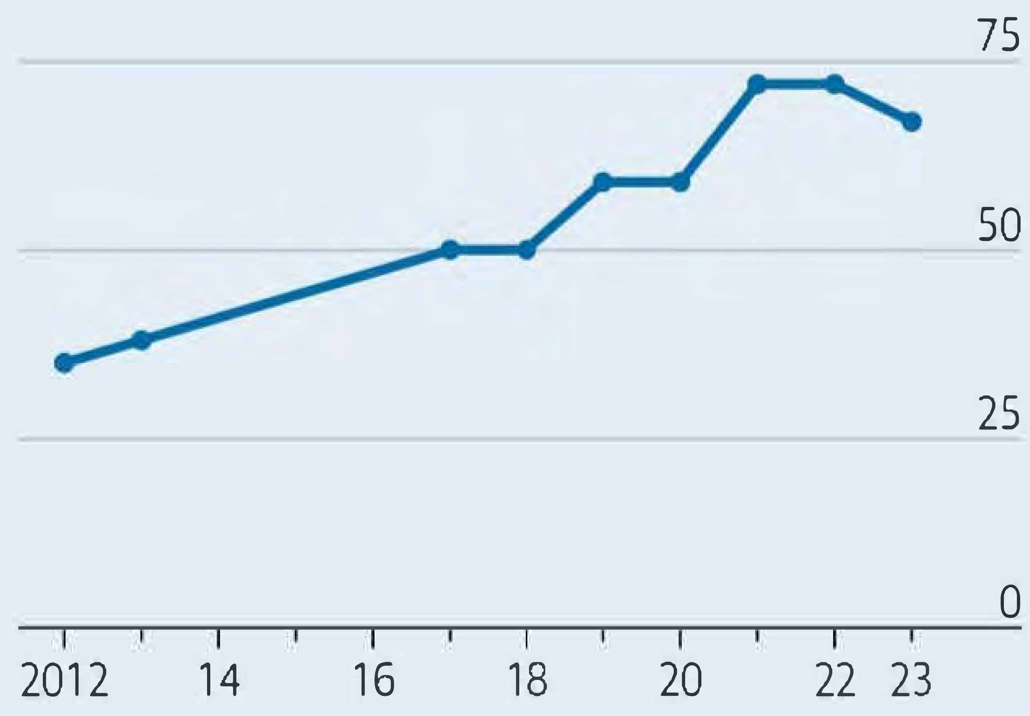
Russell Reynolds, a headhunter, found that by 2022 three-quarters of big firms in the S&P 500 index had a "chief diversity officer". More than half of large businesses link bosses' compensation to hitting DEI targets. According to McKinsey, a consultancy, 82% of *Fortune* 200 firms have a formal diversity programme for choosing their suppliers. Since 2020 around seven in ten new appointments to the boards of S&P 500 companies have been "diverse", which is to say not straight white men. That is up from 50% in 2018 and 38% in 2013, according to Spencer Stuart, another recruiter (see chart 2). By the end of this year, firms listed on the Nasdaq exchange are required to nominate, or explain why they have not nominated, at least one "diverse" director (rising to two over the next few years).

Three years on from Floyd's killing, DEI initiatives are facing challenges on two fronts. The first, as illustrated by Morrison Foerster's predicament, is legal. Racial-discrimination cases have been a headache for companies' general counsels for years. On September 28th America's Equal Employment Opportunity Commission sued Tesla, a carmaker, over alleged harassment of its black employees. Today cases alleging that DEI initiatives are guilty of "reverse discrimination" are as likely to keep executives awake at night. On September 30th, for example, an appeals court granted AAER's request to block a venture-capital programme open only to firms owned by black women, overturning a lower-court ruling last month that went against Mr Blum's organisation.

Mr Blum now foresees "a renewed enthusiasm to end these racial quotas". America First Legal, which is run by a former adviser to Mr Trump, has filed complaints against more than a dozen large American companies. Two weeks after the Supreme Court ruling ended affirmative action at universities, Republican attorneys-general from 13 states penned a letter to the chief executives of America's 100 biggest firms, chastising companies including Microsoft and Goldman Sachs for their DEI initiatives and threatening "serious legal consequences".

Directional improvement 2

S&P 500 companies, new director appointments from under-represented groups*, %



*Women, ethnic minorities and sexually diverse groups

Source: Spencer Stuart

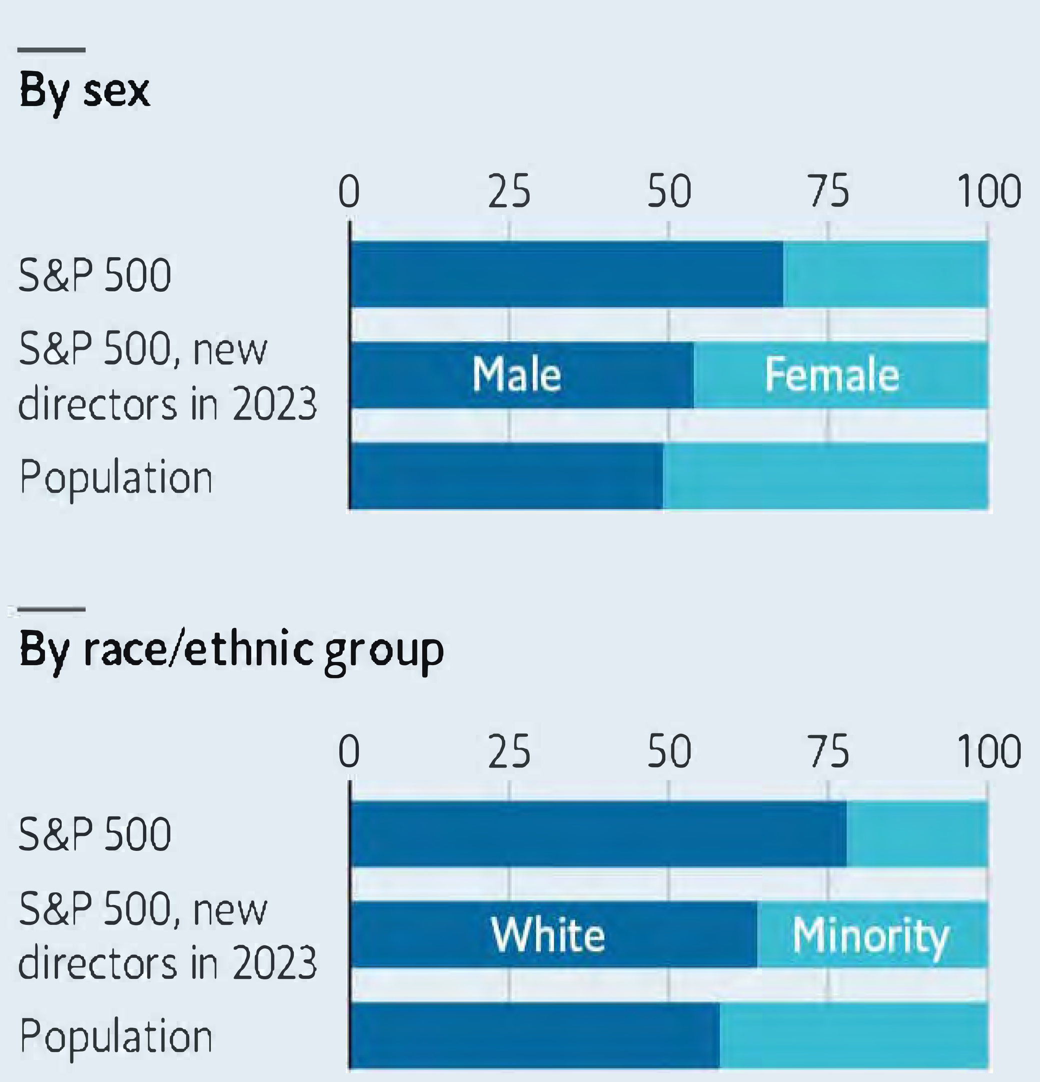
Ishan Bhabha of Jenner and Block, a law firm, says that the DEI schemes most likely to face such consequences involve the setting of quotas. The more specific a firm's DEI targets, and the more explicitly they are linked to executives' earnings, the bigger the risk that they look like an actual quota. Many companies' targets do look quite specific. A recent study by Atinuke Adediran of Fordham University analysed hundreds of DEI policies. It found that those which aim to achieve goals by a certain date (as when State Street, a financial firm, vowed in 2020 to triple its "Black and Latinx leadership" over three years) outnumber those which lack a clear time horizon (Procter & Gamble, a consumer-goods giant, says it wants "40% representation of multicultural employees" at every management level).

The threat of lawsuits may lead companies to adapt their DEI policies, not least by giving general counsels a greater say in crafting them, rather than ditch the initiatives outright. And any legal challenges will anyway take years to rumble through America's courts. In the meantime, observes Esther Lander of Akin Gump, a law firm, companies are insisting in public that they will not allow the anti-DEI backlash to thwart their efforts, even if they are "quietly wondering whether any of their initiatives are problematic".

Another challenge is a slowing economy, which might be expected to have a more immediate effect on companies' diversity programmes. In leaner times shareholders usually prioritise profits above all else. Employees, including young ones who profess to caring about DEI, may also put material concerns ahead of moral ones if the job market tightens.

Pale comparison 1

United States, composition of company boards and the general population, April 2023 or latest, %



Source: Spencer Stuart

There is some evidence of trimming in DEI-land. Data from Revelio Labs, a workplace-data firm, show that hiring for roles administering DEI programmes at S&P 500 firms has slowed by half since last year. Churn among workers in such roles, both voluntary and involuntary, is around twice what it is for other positions. Other executives are feeling the pinch, too. This year uncertain "macroeconomic conditions" led Alphabet, Google's parent company, to slash the "ESG bonus" it awarded senior staff by 50%, to (a still juicy) $775,000 apiece. Half of the bonus scheme's potential payout is related to meeting the tech giant's DEI goals (as laid out in its 115-page "diversity annual report").

This belt-tightening does not, however, amount to a fundamental rethink of DEI policies. Although some chief executives find the moral case for greater racial and gender diversity a good enough reason to pursue it, and some of their shareholders agree, the more common justification for DEI is its purported effect on the bottom line. Many companies invoke a series of studies by McKinsey, which found that businesses with greater ethnic, racial and gender diversity are likelier than less diverse ones to enjoy higher profits than their industry average.

Race to the top

The reality is more complicated. McKinsey acknowledges that "correlation does not equal causation" and that "greater gender and ethnic diversity in corporate leadership doesn't automatically translate into more profit". Plenty of scholars who have looked for a causal link have failed to find one. A paper by Jesse Fried of Harvard Law School examines the research on which Nasdaq relied to justify its board-diversity requirements. The exchange, Mr Fried writes, focused on studies like McKinsey's while ignoring others that showed a negative effect on firms' performance.

Regardless of such scholarly reservations, much of corporate America has persuaded itself that diversity is a driver of profits. A group of 69 of America's biggest companies submitted a brief defending affirmative action to the Supreme Court as it weighed the practice's fate at universities. In it the authors declared that "racial and ethnic diversity enhance business performance". In support, they argued that racially diverse teams make "better decisions". The HR Policy Association, an organisation which represents human-resources professionals, said in its own friend-of-the-court submission that it was not aware of any credible argument that commitments to diversity "should not be vigorously pursued". The rest of America Inc seems to agree, even if that agreement may be the result of the very groupthink that DEI is meant to avert. ■

Business and geopolitics

The world on a string

Inside the opaque industry of geopolitical advice

THESE ARE anxious times for the bosses of Western multinational companies. After decades of being wooed by governments the world over, many now live with an ever-present fear of being caught in the crossfire of fraying geopolitical relations. An increasingly assertive China has now taken to slapping exit bans on the executives of foreign firms. The latest example came on September 29th, when a Hong Kong-based restructuring consultant at Kroll, an American advisory firm, was reported to have been barred from leaving the mainland.

Doing business in China is far from the only source of worry. American chief executives are contending with the regulatory zeal of Brussels just as their European counterparts are dealing with a more interventionist America. Both groups are trying to tap the cash gushers of the Gulf without appearing to cosy up to its authoritarian rulers. A diplomatic spat between Canada and India over the alleged assassination of a Sikh activist on Canadian soil will have sent shivers down the spines of many Western business grandees. Trouble, it seems, is everywhere.

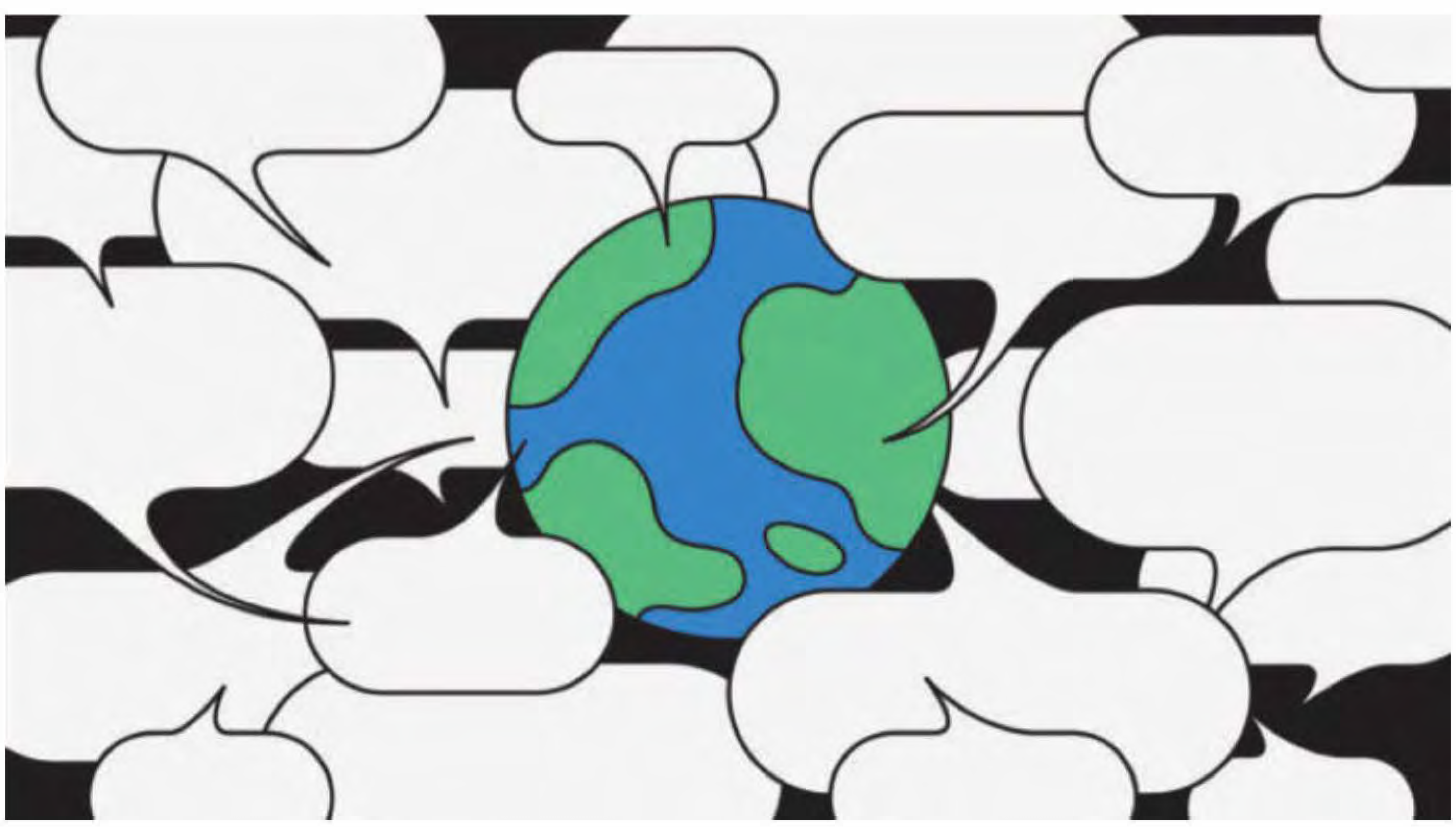
Luckily, an industry of consiglieri is at hand to help multinational firms traverse these treacherous waters. Although geopolitical advisers have existed for decades, demand for their services is now soaring, thanks to the growing complexity of doing business abroad. Bankers, lawyers and management consultants are pouring into the field. What was once a niche and secretive business is entering the mainstream of professional services.

Retiring statesmen have long sought to cash in on their knowledge and foreign connections. In 1982 Henry Kissinger, previously America's secretary of state, set up Kissinger Associates to that end. Later administrations produced their own equivalents, from McLarty Associates and Albright Stonebridge Group to WestExec Advisors and plenty more. All are packed full of former government luminaries.

Lee Feinstein, a one-time ambassador who now works for McLarty, notes that many clients value advice from those who have been "in the room where it happens". The exact services these firms offer are opaque and vary between them, but generally range from gauging the policy intentions of foreign governments to helping open doors for companies that want to sell or manufacture in a new market.

Spooky action at a distance

Such "formers" are not the only source of specialist counsel available to multinationals. Geopolitical consultancies like Eurasia Group and Oxford Analytica rely less on retired bigwigs and more on professional analysts who monitor global affairs and provide briefings to clients. (EIU, *The Economist*'s sister company, competes in this business.) Another flavour of service is provided by Hakluyt, a firm founded in 1995 by former British spooks. It sources intelligence from a global network of associates with connections in high places, and offers clients the inside scoop on anything from a regulator's opinion of a possible takeover to the probity of a potential supplier. Geopolitics now permeates nearly everything it does, says Varun Chandra, the firm's managing partner. (The chairman of Hakluyt is also chairman of *The Economist*'s parent company.)



In recent years the breadth of advice being sought has widened. Amy Celico of Albright Stonebridge notes that the focus of her firm's work has broadened from helping companies expand overseas to also helping them defend themselves against a deteriorating geopolitical climate. An increasing number of multinationals are finding themselves used as pawns in global politics, rarely to their advantage. In May China banned memory chips made by Micron, an American company, from being used in the country's critical infrastructure. The firm generates a quarter of its sales in China, half of which it now expects to lose. Advisers can help businesses pre-empt such blows, and in some cases lobby against them.

The focus of geopolitical advice is expanding beyond emerging markets, too. Mr Chandra observes that America's technology giants are increasingly coming to Hakluyt for assistance in navigating Brussels. An executive at another firm notes that America's Inflation Reduction Act, with perhaps $1trn in handouts for climate-friendly investments, has brought many clients to its doors.

The upshot has been a surge in growth. Most advisers keep their revenue figures closely guarded. Hakluyt, which does not, has doubled its sales in the past four years, according to Mr Chandra. Younger entrants are also gaining steam. Macro Advisory Partners, founded a decade ago, has more than doubled the size of its team since 2018, according to Nader Mousavizadeh, its chief executive.

Larger corporate advisers, eyeing an opportunity, have muscled in. McKinsey, a management consultancy, has launched a geopolitical-risk practice. Ziad Haider, who co-leads it, says that demand from clients has rocketed. EY, a professional-services giant, has set up a similar service.

Dentons, a multinational law firm, helped launch Dentons Global Advisors (DGA), a stand-alone advisory firm that acquired Albright Stonebridge in 2021. Ed Reilly, DGA's boss, explains that its services have a "natural adjacency" to the practice of law. Lazard, an investment bank, is also building a geopolitical advisory business. Teddy Bunzel, who oversees the effort, says that geopolitical questions have become central to much of Lazard's conventional advisory work. In October last year the bank hired Jami Miscik, formerly the chief of Kissinger Associates.

Such moves are happening thick and fast as firms in the industry race to nab talent. The supply of good geopolitical advice ▸▸

is constrained, argues Ms Miscik. Michèle Flournoy, managing partner of WestExec, says that her line of work "is all about the people, and those people can't be manufactured". But they can be acquired. After the takeover of Albright Stonebridge by DGA, McLarty and WestExec were bought by, respectively, Ankura and Teneo, two management consultancies. Eurasia now has a partnership with KPMG, a professional-services heavyweight.

After years of trimming their public affairs departments, many multinational companies have been busily hiring geopolitical experts, too. Mr Reilly says such teams are fast becoming DGA's biggest competitors. Eventually, that could force the fragmented industry of advisers to consolidate. For now, it reinforces the growing realisation among multinationals' bosses that global politics will shape their success in the years ahead. ■

The explosives business

An Indian boom...

MUMBAI

...literally

THOSE WHO want to gauge India's economic prospects often look to businesses that erect homes, produce consumer staples, manufacture inexpensive vehicles and provide basic services like electricity or discretionary ones like travel. Each of these sectors is currently sending mixed messages—enough good news to justify hope, but with caveats that counsel caution. One industry, though, is sending an unequivocal signal. And a loud one.

Since April the share price of Premier Explosives has more than doubled. That of a larger maker of things that go boom, Solar Industries, has quadrupled since 2021. Other dynamite producers are enjoying a similar streak. Besides being a gift to pun-lovers, this explosive growth reflects changes in an industry well placed to capture everything that is going right for India's economy.

India began producing explosives in the 1940s, around the time it gained independence from Britain. Most of the engineers and technology came from Imperial Chemical Industries, a British concern. Coal India, a state-owned miner at the heart of both domestic energy production and industrial development, has long been the biggest customer. Because its mines are spread throughout India, and because transporting old types of explosive over long distances used to be best avoided, separate companies were created to serve Coal India's individual sites. That geographical dispersion was preserved as other customers emerged, leading to a fragmented market. Today India boasts 36 large explosives producers.

For many years business was merely good. The rosier outlook of late stems from the confluence of several factors. Demand from Coal India, which is tasked with feeding the country's growing energy needs, remains robust. This has been supplemented by a boom in the domestic construction industry. Explosives are used in the mining of limestone, which is needed to make cement and to produce steel. They are also indispensable in the vast land clearance for new roads and tunnels that is happening as part of the central government's infrastructure ambitions.

Lastly, explosives-makers are benefiting from increased defence spending, in India and elsewhere. *Business Line*, a newspaper, has reported that Munitions India, created in a reorganisation of state-controlled companies in 2021 to manufacture ammunition, bombs and rockets, as well as explosives, is booked up with orders until March 2025. Buyers include seven companies in Europe, four in Africa and two in the Middle East.

In the past such exports were constrained by worries about transporting things that might blow up. The basic raw materials to produce explosives, such as various sorts of nitrates, were also well understood and widely available. Modern explosives are considerably more stable, which makes them less hazardous to move around, even as safety and environmental concerns are putting many countries off domestic production. Until recently it was China, the other big explosives manufacturer, that got a lot of the outsourced business. As geopolitical tensions mount, many customers, especially in the West, are seeking alternatives to Chinese suppliers. Excitement over firms like Premier and Solar will not be fizzling out soon. ■

Public companies

Make SPARCs fly

A billionaire investor wants another shot at shaking up IPOs

BILL ACKMAN is hunting for deals. The boss of Pershing Square, a hedge fund, is on the lookout for "large private growth companies" which are seeking to raise $1.5bn or more, but are wary of the "risks and expenses" of a conventional initial public offering (IPO). His solution: a special-purpose acquisition-rights company, or SPARC. On September 29th regulators approved the novel investment vehicle, which Mr Ackman bills as a fairer, cheaper alternative to its tainted cousin, the special-purpose acquisition company (SPAC), which enjoyed a boom in 2021.

There is much to like about this financial innovation. First, unlike SPACs, which raise a pot of money via an IPO and then scour the market for potential targets, the SPARC will find a merger candidate first. Helpfully, Mr Ackman has more time to make the deal—ten years, compared with two years for SPACs. He has also lined up potential investors: Pershing Square has granted SPARC rights at no cost to shareholders of its previously disbanded SPAC. Pershing Square itself can retain up to 5% of the new company.

Once a deal is agreed with a target firm, the SPARC's shares can start trading on an exchange. The SPARC rights-holders can then purchase stock at a price agreed in the deal within four weeks of the stockmarket debut. If an investor chooses not to exercise the rights, they expire. By pledging to chip in between $250m and $3.5bn as anchor investor, Pershing Square is aligning its incentives with those of its investors.

For the firm merging with his SPARC, Mr Ackman promises certainty and lower fees. In an old-school IPO the amount of ▸▸

Nothing special

De-SPAC stockmarket index*, April 10th 2020=100

*25 largest US-listed companies to go public through a merger with a special-purpose acquisition company

Source: Bloomberg

money a company raises is not determined until its shares are priced just ahead of its trading debut. By contrast, a business merging with a SPARC knows exactly how much capital it will raise: it is the price at which it will combine with the already listed SPARC. Moreover, a SPARC does not have to pay bankers expensive fees to find investors and underwrite the share issue. SPACs offer their merger targets the same certainty, but at a high cost to anyone other than early backers (or "promoters"), who receive preferential warrants (the right to buy shares at a set price later).

For subsequent offerings Mr Ackman hopes to "roll over" the investors in the first SPARC, creating a pool of capital without the overhead of a finder's fee. His pitch also appeals to two other groups. The first is startup founders who grumble about the hefty fees charged by bankers to shepherd a public listing. They also harbour suspicions that banks deliberately underprice offerings, at their companies' expense, to get an opening-day "pop" for favoured clients. The second group is retail investors keen to get in on IPO action that banks typically reserve for those same clients.

SPACs got a bad name because of a poor stockmarket record (see chart on previous page) and a few spectacular implosions. Many failed to find a merger target in time and had to return cash to shareholders. Whether Mr Ackman's vehicle can avoid the same fate will depend on whether he really can keep costs down and find an attractively priced target. Many tech startups raised funds at high valuations before interest rates shot up. Few will relish a public listing that would raise capital at a more modest valuation. The SPARC may be a bright idea. But it is not a sure-fire one. ■

Bartleby Hot mess

Why unassigned desks and cost savings do not go together

THE HIGHEST private terrace in Manhattan belongs to an algorithmic-trading company called Hudson River Trading. Its offices, spread across several floors near the top of Three World Trade Centre, are more theme park than workplace: a games room, gym, dining areas, stupefying views, happy hours and drawers unexpectedly stuffed full of sweets to give employees a surprise. You come away wishing you had concentrated more in maths at school.

You also come away wondering about one of the silver linings of the post-pandemic office for bosses who dislike the idea of home-working. If fewer people are coming in on any one day, at least they don't need as much space: they can find unassigned desks and the firm can save some money. The trouble is that hot-desking flies in the face of two things, one deeply embedded in the human psyche and the other a direct consequence of the pandemic.

The first is territoriality. This is a word with negative connotations. It conjures up someone who sees information as something to be hoarded and feedback as an intrusion—the kind of person who buys a padlock for the items they store in the communal fridge. But territoriality is also natural. Just as it is hard not to bridle a little at the unsolicited observations of co-workers, so people like having a space to call their own.

Personalised territory seems to be correlated with a sense of belonging. A study in the 1970s looked at the longevity of first-year college students who shared rooms. People who lasted the academic year had covered twice as much space above their beds with personal decorations than the dropouts had. In the office, too, workers claim territory with everything from photographs and files to crumbs and crumpled tissues.

A pre-pandemic study of behaviour among hot-deskers, conducted by Alison Hirst of Anglia Ruskin University in Britain, divided people into "settlers" and "vagrants". Settlers, who often arrived earlier or were more senior, tried to claim the same desk each day, in order to have a space and a set of neighbours they knew and liked. Vagrants, who tended to be later arrivals, had to waste time searching for a desk. Sitting in a spot normally taken by someone else was fraught with social discomfort.

Firms can avoid some of this time-wasting by having people book desks—"hotelling", in the dreadful phrase. And they can avoid stratification by requiring people to clear their spaces each night. Under this model, people do have their own territory but instead of a desk, it is a locker. Think "High School Musical", but without the music or the highs.

If territoriality is the deep-seated problem with hot-desking, then the more recent one stems from the pandemic. Employers need to think harder about why people should do the commute at all. There is no single answer. The office is the place to do the sort of collaborative work with colleagues that requires physical proximity. It is a way to spread company culture as well as covid. Less intuitively, a survey of American workers in 2022 by Gensler, a firm of architects, found that the most common reason to come in was to focus on work. But the common theme is that the office is no longer the default; it has to be appealing.

That sits uncomfortably with a cut-price version of hot-desking, in which office footprints shrink and people grab a spot wherever they can. Cohesion suffers if teammates are dispersed randomly through a building; collaboration is harder if there aren't enough meeting rooms to accommodate demand. The company culture may be absorbed, but only in the sense that everyone feels hard done by. And focused work is easier if you aren't suddenly plonked next to someone who sounds like Beaker from "The Muppets".

For penny-pinchers, the unpalatable conclusion is that hot-desking works best when people have lots of space. In Cisco's newly refitted offices in Manhattan, for instance, no one has an assigned desk (bosses included) but there are oodles of options and people are encouraged to move about repeatedly during the day. The office is everyone's territory.

Back at Hudson River Trading in New York, employees all have their own desks, but also licence to move around as they wish. Space feels abundant: there are roughly as many meeting-room spots on its latest, post-pandemic floor as there are assigned seats. You can use hot-desking to save money or you can use it to create flexibility and a sense of belonging. It is hard to do both.

Information technology

Head out of the clouds

The unlikely persistence of on-premises computing in the cloud age

SOMETIMES IT SEEMS as if the cloud is swallowing corporate computing. Last year businesses spent nearly $230bn globally on external (or "public") cloud services, up from less than $100bn in 2019. Revenues of the industry's three so-called "hyperscalers", Amazon Web Services (AWS), Google Cloud Platform and Microsoft Azure, are growing by over 30% a year. The trio are beginning to offer clients newfangled artificial-intelligence (AI) tools, which big tech has the most resources to develop. The days of the humble on-premises company data centre are, surely, numbered.

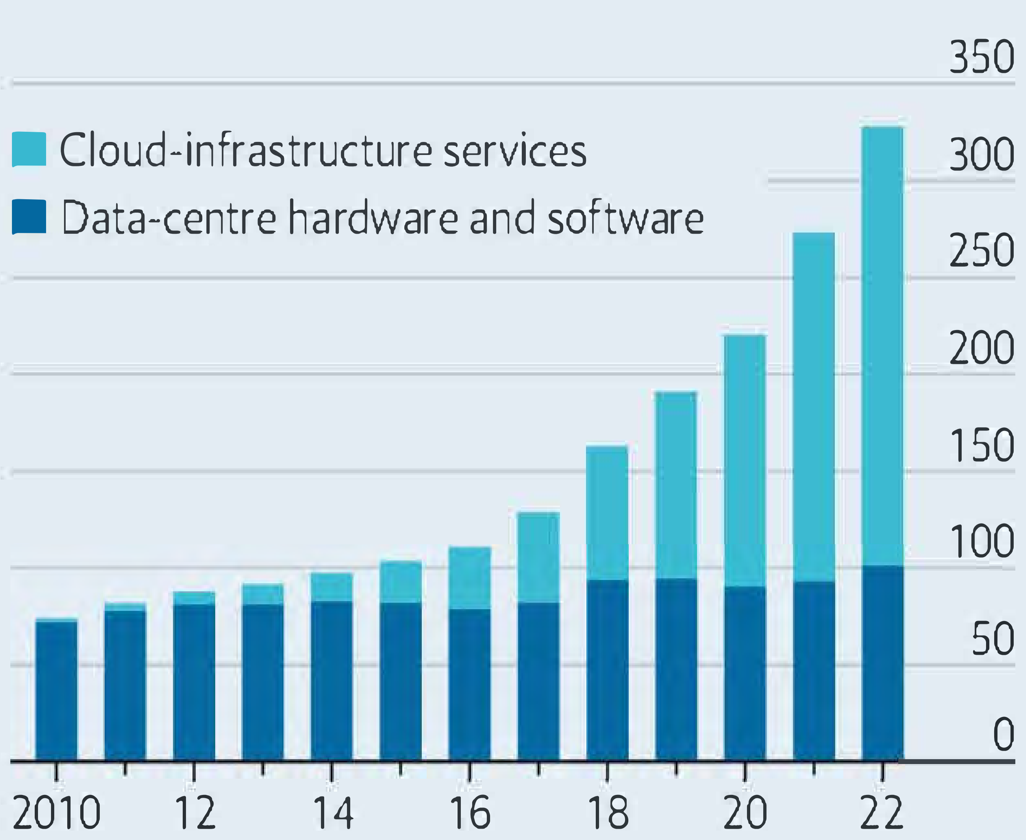
Or are they? Though cloud budgets overtook in-house spending on data centres a few years ago, firms continue to invest in their own hardware and software. Last year these expenditures passed $100bn for the first time, reckons Synergy Research Group, a firm of analysts (see chart 1). Many industrial companies, in particular, are finding that on-premises computing has its advantages. A slug of the data generated by their increasingly connected factories and products, which Bain, a consultancy, expects soon to outgrow data from broadcast media or internet services (see chart 2), will stay on premises.

The public cloud's convenience and, thanks to its economies of scale, cost savings come with downsides. The hyperscalers' data centres are often far away from the source of their customers' data. Transferring these data from this source to where they are crunched, sometimes half a world away, and back again takes time. Often that does not matter; not all business information is time-sensitive to the millisecond. But sometimes it does.

Cloudy forecast 1

Worldwide company spending on data centres

$bn

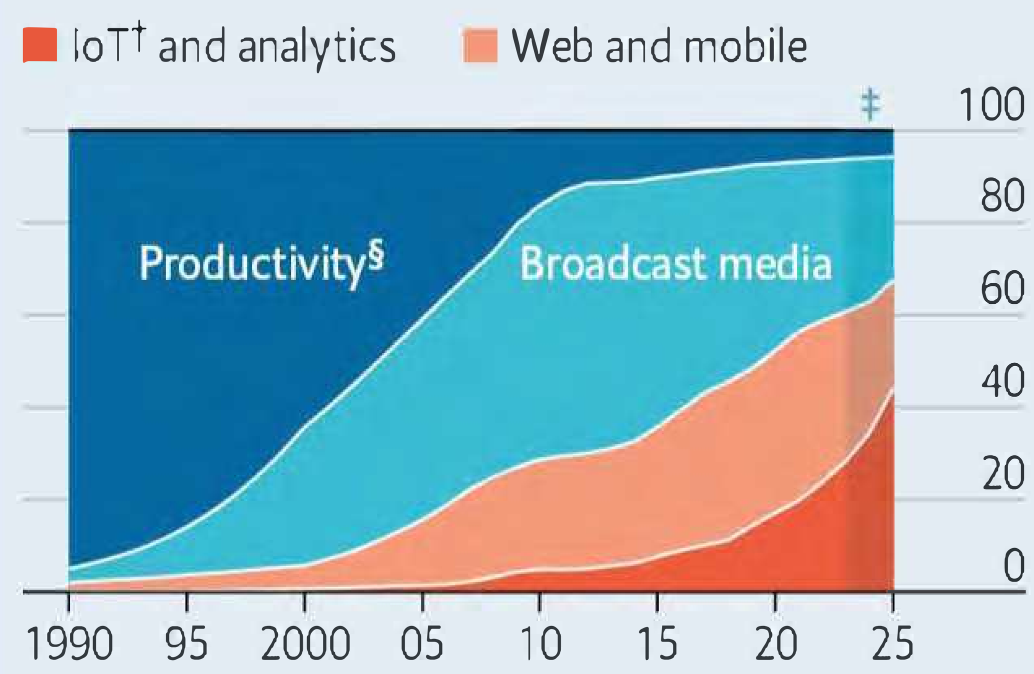


Source: Synergy Research Group

The revolution will be analysed 2

Global generation of data* by category

% of total



*As measured in zettabytes of binary information
†Internet of Things ‡Forecast §Company databases, documents and spreadsheets
Source: Bain & Company

Many manufacturers are creating "digital twins" of their brick-and-mortar factories, to detect problems, reduce downtime and improve efficiency. They are also constantly tweaking new products under development, often using data streaming in from existing products out in the world. For all such purposes data need to be analysed in as close to real time as possible, ideally with no "jitter" (inconsistency of data transfer), data loss or service outages, all of which are surprisingly common in the public cloud. Many firms also prefer to keep any data on which they train their AI models close to their chest. Giordano Albertazzi, chief executive of Vertiv, which provides data-centre infrastructure, thinks this may become a competitive advantage.

Running your own data centre close to your factory also pre-empts looming requirements on localisation and "data sovereignty" from governments afraid of letting data leak across their borders. Countries which have passed some version of data-sovereignty laws include China, where plenty of manufacturers have factories, and India (though its rules apply primarily to financial companies for now).

It is for such reasons that industrial firms are still spending on their data centres to house the data needed to hand, while shipping off less-time-critical information to the hyperscalers. Companies that embrace this dual approach include industrial champions such as Volkswagen, a German carmaker, Caterpillar, an American maker of diggers, and Fanuc, a Japanese manufacturer of industrial robots.

Businesses that do decide to go it alone rather than rely on the hyperscalers have several options. They can build, equip and run their own facilities. These can be large or not so large. Companies like Vertiv and Schneider Electric sell small modular data centres that can be installed at or near industrial sites and linked to the data sources using 5G networks (whose range means these cannot be too far away).

Data users can also build their own data centres but rent the servers (computer-makers such as Lenovo and Dell now offer such a service) and outsource day-to-day management to specialist firms like Serverfarm. Or they can lease space in a data centre owned and managed by someone else. Tenants typically bring their own computing and networking kit, and foot the bill for running costs (including energy). In return, the landlord guarantees basics like space, physical security, access to power and cooling.

The decision to build or rent may depend on a user's data intensity. Consider a firm in America with a medium-sized data centre which thinks its computing load will rise roughly four-fold over a decade. In that case, building its own breaks even in seven years or so, and ends up being 5% cheaper overall than leasing, according to data from Schneider Electric. If the load remains stable, renting is the less expensive option, by a similar amount (assuming a flat cost of capital).

Several factors may affect such calculations. The price of power, land, material and labour is rising. The construction of some data centres is running two years behind schedule. This is pushing up rents, which are up by more than 20% since 2021, a faster rise than for all commercial property. Upgrading to AI-capable servers won't be cheap, either. Counterpoint Research, another analysis firm, estimates an AI server is between ten and 30 times the price of a general-purpose one. The hyperscalers are buying up AI chips from manufacturers they already work with, such as Nvidia, leaving little for other buyers.

The cloud giants are not standing still in other ways. In order to get closer to clients and cut jitter, they are building data centres in new places such as Saudi Arabia, South Africa and Thailand. AWS is selling prefabricated data centres not unlike the micro ones from Vertiv or Schneider Electric. The software arm of Toyota, a Japanese carmaker, is using AWS's fridge-size Outpost prefabs in America. The Pentagon has opted for larger AWS kit, the size of a shipping container. The hyperscalers' AI prowess is likely to attract some industrial custom, too. Even so, believes Arun Shenoy of Serverfarm, which works with both hyperscalers and data users, many large firms will think twice before they stick their heads completely in the cloud. ■

Schumpeter | Twilight of the screen age

So long iPhone. Generative AI needs a new device

When a beaming Mark Zuckerberg took the stage in Menlo Park on September 27th to announce a new array of Meta products, the Facebook supremo may have buried the lead. He began talking about Quest 3, Meta's virtual-reality (VR) headset, which is understandable considering that his obsession with the metaverse is now inscribed in his company's identity. Techies, though, were more excited by what came later: an announcement that Meta, in combination with Ray-Ban, would soon launch smart glasses incorporating an artificial-intelligence (AI) virtual assistant. The specs will be able to see and hear, as well as answer their wearers' questions. With luck, they will not hallucinate.

You can be dismissive of smart glasses. They have been hyped before. But lending Meta credibility this time is the fact that the same week OpenAI, the generative-AI pioneer, announced that its hit chatbot, ChatGPT, can now see, hear and speak, besides conversing by text. Moreover, it emerged that OpenAI was in talks with Sir Jony Ive, Apple's former designer, to create a new gadget for the AI era. What form it will take is still unclear. But if the idea is to build a new consumer-electronics device better suited to the back-and-forth of seeing, talking and listening AIs, there is a fair chance it will no longer be reliant on the touchscreen.

The smartphone has had a good innings. Yet you only need to talk to Sky, one of ChatGPT's new audio avatars, to feel the joy of freeing yourself from its tyranny. Your columnist got a taste when he asked Sky how she thought screens might eventually be replaced: Glasses? "Absolutely!" she enthused, "especially those equipped with augmented reality [AR] and AI". Asked whether this would be a good thing, she recommended two books that explore the enormous impact that screens have had on modern life: "The Shallows: How the Internet is Changing the Way We Think, Read and Remember" by Nicholas Carr, an American writer, and "Screened out" by Jean Baudrillard, the late French philosopher. Then, when further prompted, she summarised each in crisp, insightful language with barely a moment's hesitation. It wasn't exactly Scarlett Johansson in "Her". But it felt like having a Stanford University intellectual murmuring in your ear.

This is all rather refreshing. Just as the year-long excitement over "foundational" models and other mind-boggling bits of AI infrastructure has begun to fade, along comes the chance that gen AI, to use the industry shorthand, will unleash an onslaught of new consumer technology. Tech pundits are debating the best "form factor" for the chatbot era. Ben Thompson of Stratechery, a blog and podcast, puts it in epochal terms: "There is a hardware breakthrough waiting to happen just like the internet created the conditions for the smartphone breakthrough to happen." The ability to talk and listen to chatbots makes Meta's bet on AR glasses and VR headsets "drastically more compelling", he writes.

Mr Zuckerberg was early to see this coming. He has ploughed a fortune into VR and AR despite misgivings from investors. He remains excited by the metaverse. This was clear from a remote interview he recently took part in with Lex Fridman, a podcaster, which used VR tools to make their virtual faces so lifelike they felt as if they were in the same room together. (As Mr Fridman quipped, it could reproduce realistic facial movements even from two famously inexpressive people.) And yet gen AI has so dramatically accelerated the use case for smart glasses, Mr Zuckerberg told another interviewer, that there is now "no question" they will be the bigger of the two markets. He likens AR specs to mobile phones and VR headsets to desktops. In both cases he appears to hope they will transcend screens, which he says inhabit "a completely different plane from our physical lives".

The two-dimensional screen is not headed for the scrap heap yet. Incumbent technologies are always hard to dislodge. Meta's mobile apps such as WhatsApp, Facebook and Instagram, with their billions of users, still dwarf AIs like ChatGPT in terms of monthly visits, and they remain dependent on smartphones. As Mark Shmulik of Bernstein, an investment firm, notes, the smartphone era has never stopped people from using PCs. Moreover, it will not be clear until people start buying the smart glasses from the shops how compelling a product they are.

The business case for the all-seeing, all-hearing chatbots will also take time to emerge. OpenAI charges $20 a month for access to its family of talking avatars; Meta's AI-infused smart glasses will start at $299. Yet developing them is bound to be lossmaking at first. If there ever is a case for monetising them via advertisements or virtual shopping, that will probably take years. Meta's modus operandi, after all, is to launch a consumer product, scale it up and start making money from it only if it is adopted by the masses.

In the meantime, obvious safety concerns must be tackled. Consumer technology powered by AI is likely to be more immersive than social media, potentially making it even more isolating for some, or triggering unhealthy attachments. Mr Zuckerberg argues that AR and VR devices could help bring people together. But Mr Shmulik says investors will not want Meta to move too fast. "The last thing they need is another negative PR event where they are back in the cross hairs of regulators," he says.

Glasses half full

For now Mr Zuckerberg, who this time last year was fighting fires on several fronts, looks prescient. That is largely thanks to gen AI. Meta's foundational model, LLAMA 2, has been an open-source hit and is underpinning the firm's consumer-tech ambitions. New devices such as smart glasses and headsets could eventually free Facebook and others from their dependence on the iPhone, where Apple has hindered their ability to track data, hurting Meta's ad business. In a backhanded compliment to Mr Zuckerberg, Apple is launching its own high-end AR/VR headset. The iPhone-maker, too, may be sensing the twilight of the screen era. ■

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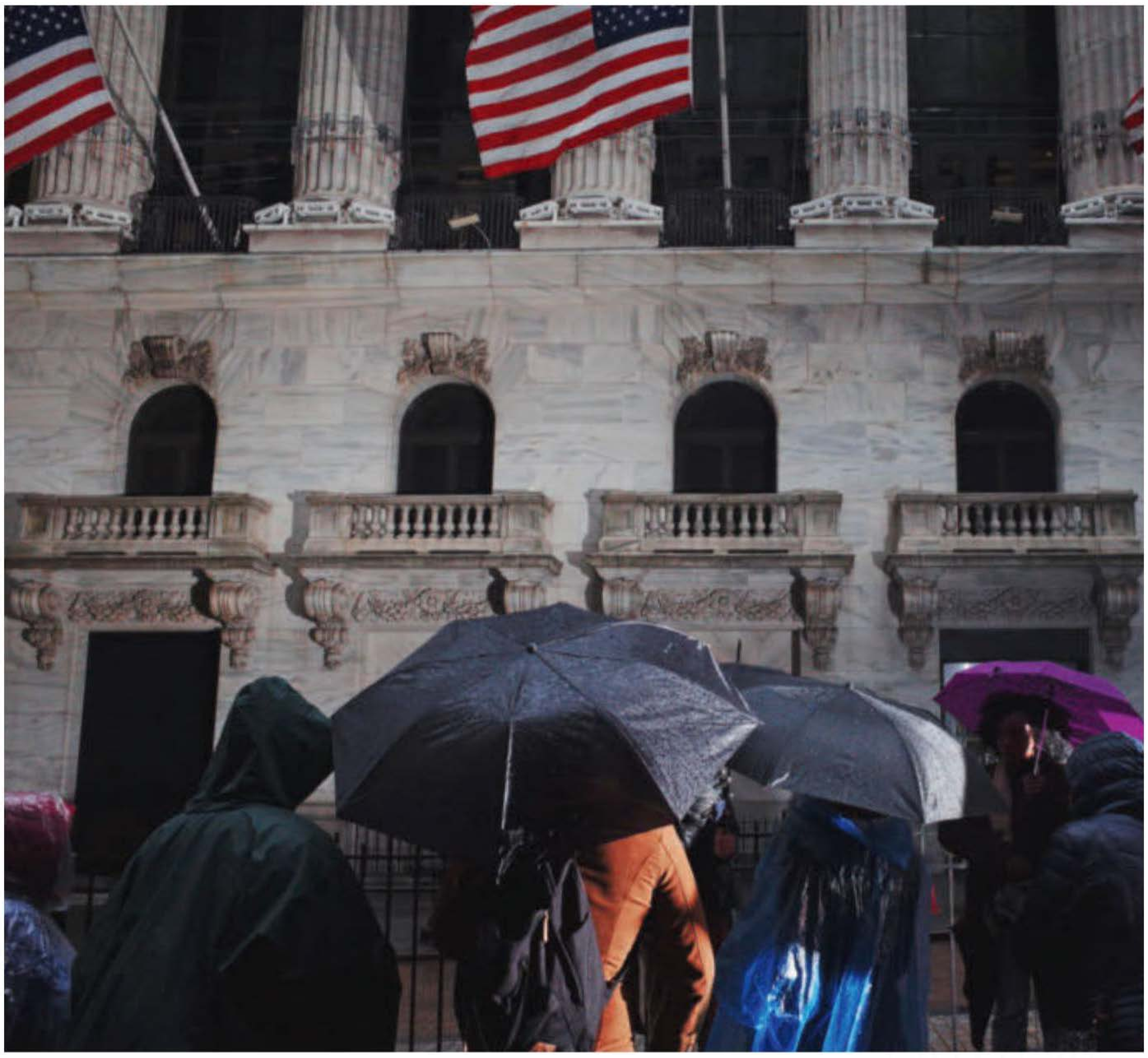


Market ructions

All at once

A surge in global bond yields threatens trouble

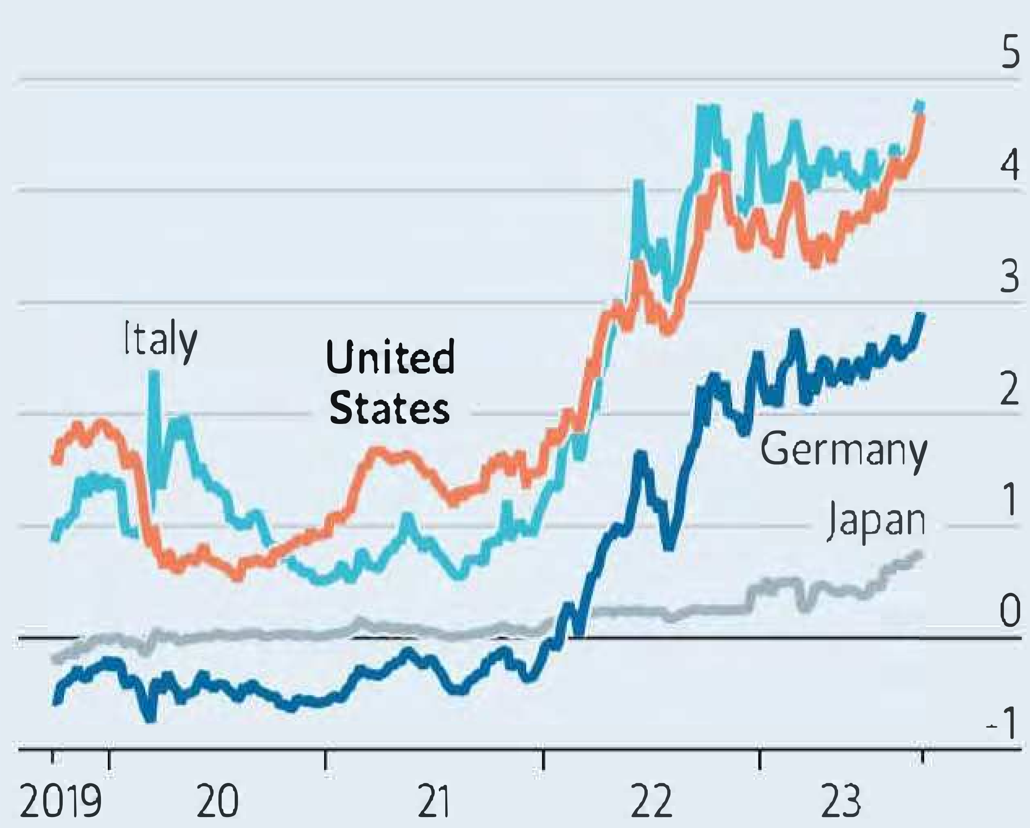
It is a brave investor who calls the end of a four-decade trend. But bond yields have risen so far and—in recent weeks—so fast that many market participants now believe the era of low interest rates to be over. Since early August America's ten-year Treasury yield has traded in excess of 4%, a level unseen from 2008 to 2021. On October 3rd it hit a 16-year high of 4.8%, having risen by half a percentage point in a fortnight. The moves have spilled over globally: to Europe, where they threaten to bring about a fiscal crisis in indebted Italy; and Japan, which is clinging on to rock-bottom interest rates by its fingertips (see chart 1).

What is going on? Start in America, with some financial mechanics. Investors who hold Treasuries typically have the option of lending in money markets, in which overnight interest rates are set by the Federal Reserve. The yield on the shortest-maturity Treasuries therefore tracks Fed policy. At longer maturities yields reflect two additional factors. One is expectations of how the Fed will change rates in future. The other is the "term premium", which compensates investors for the chance of nasty surprises: that forecasts for interest rates or inflation turn out to be wrong—or even, in theory, that the government defaults.

Both policy expectations and the term premium have driven up yields. After America's banking turmoil in the spring, investors feared recession and expected the Fed to cut interest rates this year. Then the turmoil ended, the fears faded and forecasts for economic growth rose. Markets came around to the view espoused by the Fed itself: that it will hold rates higher for longer. At the same time, many policymakers and investors nudged up estimates for where rates will settle in the long term. Investors were not pencilling in more inflation, expectations for which have been fairly stable. Instead, expected real interest rates soared (see chart 2 on next page).

Shaken, not stirred 1

Ten-year government-bond yields, %



Sources: Refinitiv Datastream; Federal Reserve Bank of New York

In recent weeks things have changed. The New York Fed publishes a daily estimate of the term premium on the ten-year Treasury yield, derived from a financial model. Since August it has risen by 0.7 percentage points, enough to fully explain the rise in bond yields over that time.

Some attribute the surge in the term premium to simple supply and demand. The Treasury has been on a borrowing binge. From January to September alone it raised a whopping $1.7trn (7.5% of GDP) from markets, up by almost 80% over the same period in 2022, in part because tax revenues have fallen. At the same time, the Fed has been shrinking its portfolio of long-dated Treasuries, and some analysts think China's central bank is doing the same. Traders talk of price-insensitive buyers leaving the market, and of those who remain being more attuned to risk. ▸▸

Others point to fundamentals. Outside America, the global economy looks wobbly. In downturns, investors' appetite for risk falls. The oil price is volatile (see next story), America's government could yet shut down and the House of Representatives is in turmoil. The uncertain effects of all this push up the term premium. As well as affecting the supply of new Treasuries, America's gaping fiscal deficit is a long-term phenomenon. A rule of thumb from one literature review suggests it is large enough to be forcing up the interest rate the Fed must set to stabilise inflation by nearly three percentage points.

In fact, the trajectory of America's public finances is so dire that the most bearish investors talk of the long-term risk of "fiscal dominance"; that interest rates might eventually be set with the goal of controlling the government's debt-service costs, rather than inflation. Although markets have not priced in much more long-run inflation yet, measures of inflation risk—which affects the term premium—have rebounded since falling earlier this year.

Regardless of their cause, movements in America's bond markets set the pace in the rest of the world. Higher rates in America tend to push up the dollar, encouraging other central banks to tighten in order to avoid suffering inflation from pricier imports. And term premia are correlated globally, owing to the mobility of capital.

Reflecting these spillovers, rates in the euro zone have risen in recent weeks, too, even though the economic picture is different. Surveys indicate the bloc is already in recession. Across the zone, fiscal deficits are smaller and the European Commission is debating how to cut state spending.

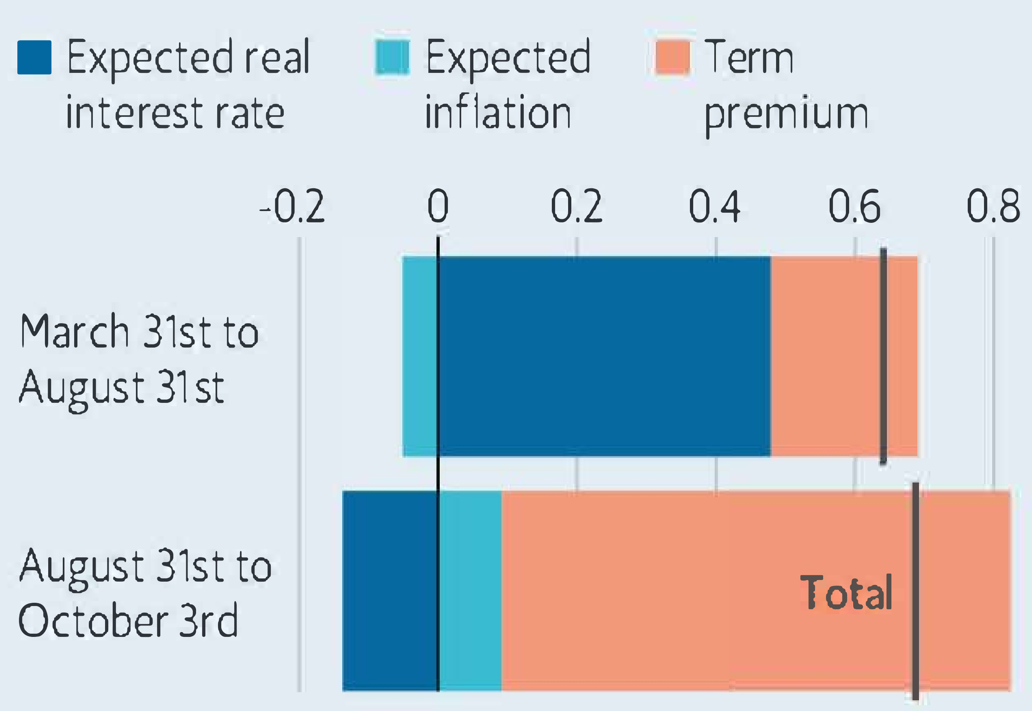
But dealing in aggregates does not make sense when each country runs its own budget. Rising rates have brought back worries about the sustainability of public finances in the euro zone's most indebted big economy. Italy's ten-year bond yield is now 4.9%, its highest since 2012, when the euro-zone's debt crisis was raging. It is more than its budget can bear for long without fast economic growth or austerity. The spread over German ten-year debt is now just below two percentage points. Investors in Italian debt fear that they might not get their money back—or that one day they may be repaid in lira.

Look to Japan, though, for the most dramatic immediate consequences of rising yields. The Bank of Japan has been an outlier, keeping interest rates at -0.1%, even as inflation has risen. It also continues to cap ten-year bond yields at 1%, a ceiling it lifted from 0.5% in July. On September 29th it announced an unscheduled purchase of ¥301bn ($2bn) of bonds in defence of the cap, as yields neared 0.8%. On October 4th it returned to the market with a buy of ¥1.9trn. Rumours swirled that the authorities may have intervened to support the yen on October 3rd after it reached 150 to the dollar only to snap back suddenly to 147. That would be in line with past practice. Last October the authorities tried to defend the currency for the first time in 24 years after it crossed the 150 mark. If the long era of low rates really is over, many other financial rubicons could be crossed in the months to come. ■

Spot the difference 2

United States, change in ten-year Treasury yields, 2023, percentage points

By component



Source: Bloomberg

Commodity markets

Drill thrill

Oil prices fall, defying suggestions of a $100 barrel

THIS YEAR Saudi Arabia and its allies in the Organisation of the Petroleum Exporting Countries (OPEC) have been trying to climb what seems like a particularly slippery slope. Despite production cuts, crude-oil prices, which exceeded $115 a barrel for much of June 2022, languished below $80 a year later. Then the cartel appeared to regain control after Saudi Arabia decided on an extra output cut of 1m barrels a day (b/d)—equivalent to 1% of global demand—which it has since extended until the end of the year. Signs that the global economy might avoid a recession after all also helped. On September 27th oil prices neared $97 a barrel.

But this week OPEC and its allies, including Russia, succumbed to the slope once again. On October 4th, the very day the group confirmed its cuts until the end of the year at a meeting in Vienna, oil prices dropped by more than 5%, to $86 a barrel. Amid such volatility, pundits are debating where prices will go next. The bears reckon that crude will stay at this level until Christmas, or maybe even fall further. Meanwhile, bulls predict a rebound before too long; some still foresee triple digits before the festive season. The stakes are high, and not just for OPEC. Dearer oil would push up inflation, which could force central banks to keep policy tighter than they would otherwise like, and would also deal a heavy blow to the global economy.

Unexpectedly resilient demand for oil is at the heart of the bulls' case. Economic and literal headwinds, in the form of a mighty typhoon, failed to deter Chinese tourists and businessfolk from travelling a record amount this summer, boosting demand for petrol and kerosene. Growth in global demand for "mobility fuels", at nearly 1.6m b/d, has remained unchanged in the year to date. Around the world, daily flights in the week ending September 29th averaged 96% of levels in 2019, their highest share since mid-July. Diesel demand growth has also remained robust, in part because of frantic trucking in Asia.

Bulls also see that supply cuts are filling producers' pockets, raising the possibility that they may be extended into 2024. Despite lower export volumes, Saudi Arabia's revenues could be $30m a day higher this quarter than last, a jump of 6%, reckons Energy Aspects, a consultancy. Russia's revenues are also up. Both can take comfort from the fact that, unlike in the late 2010s, when OPEC and Russia first teamed up to cut supply, American shale drillers are not filling the gap. Production is rising for the moment, but they are shutting wells, squeezed by higher costs. Rig numbers are down 20% from last November.

This week's decline also reflects "profit-taking" by traders, bulls argue. They point ▸▸

Not again

Brent crude oil, $ per barrel

Source: Refinitiv Datastream

to a forecast 1.5m-2m b/d supply deficit for the year as whole, most of which is due to materialise in the last quarter, as record production by non-OPEC countries, such as Brazil and Guyana, is finally outpaced by the cartel's cuts. This will force users to dig deeper into their reserves. America's crude stocks fell by 2.2m barrels to 414m barrels in the week to September 29th; a decline that may accelerate as refineries seek more crude after their maintenance season, which runs through October.

The bears reckon all these inflationary signals will be blown away by the economic gale heading the world's way. The Fed has said it is ready to keep interest rates higher for longer which, together with a slowdown in hiring and jumpy bond yields inflating the cost of debt, will dampen growth. This "very unsettled picture" is being made murkier still by political chaos, says Adi Imsirovic, a former oil-trading chief at Gazprom, an energy giant, with America's House of Representatives, on which all federal spending decisions depend, ousting its speaker on October 3rd.

Signs of demand destruction caused by the recent price spikes are becoming visible, with American gasoline use falling to its lowest seasonal level since 2001. Pressure from raised oil prices is also feeding through to "core" inflation, which excludes food and energy costs, as firms in other sectors, starting with transport, raise their prices to compensate. The Cleveland branch of the Federal Reserve's "Nowcast", which uses oil and petrol prices as inputs, projects it will edge up to 4.19% year on year this month, from 4.17% in September. On top of all this, higher interest rates in America push up the dollar's value, making oil more expensive for everyone else. ■

Buttonwood Hidden dragon

Why investors cannot escape exposure to China

For America's commerce secretary, midway through a trip to Beijing, to describe China as "uninvestible" might once have prompted an unpleasant diplomatic spat. Yet when Gina Raimondo did so a month ago, it barely caused a ripple. That was not just because the rest of her visit was a clear attempt at rapprochement. It was also because it is now firmly established that American companies, as well as Western investors more generally, see China in such terms.

The bad news just keeps coming. Sometimes it is Chinese authorities raiding the offices of American companies and detaining their staff, as they did to Mintz Group, a due-diligence firm, earlier this year. At other times it is Chinese bosses disappearing, as has happened on numerous occasions in recent years. In September it emerged that an investment banker at Nomura had been barred from leaving the country. All of this is happening in the context of a profound economic malaise. On October 1st the World Bank became the latest institution to downgrade its GDP forecasts for China. And disturbing the sleep of investors is an even bleaker prospect: a Chinese invasion of Taiwan. Should Xi Jinping decide to launch such a war, the resulting sanctions would cause economic and financial chaos, stranding capital ploughed into Chinese assets.

It is tempting, then, for Western investors to look at these risks and conclude that China is just too troublesome to think about, which is exactly what many are doing. On the face of it, avoiding China should be a reasonably straightforward task. After all, the world's second-biggest economy does not have a particularly large presence in equity indices. Take, for example, MSCI's broadest index of global stocks, ranked according to market value. American shares occupy a weight of 63%. By contrast, Chinese ones manage barely a thirtieth of that, at just 3%.

Yet there is a snag. Investors might easily be able to screen out Chinese stocks. They cannot so easily escape the pull of the world's second superpower. Therefore even those who cut their exposure to China will have little choice but to keep tabs on the country's fortunes.

To understand why, begin with China's role in Western supply chains. Prompted both by covid-era trade snarl-ups and by increasing geopolitical concerns, companies are doing their best to diversify. It is proving heavy going, however. In 2022 Apple produced the majority of its products in China. By 2025, despite concerted efforts to find new countries in which to manufacture, that will still be true.

Less visible, though no less important, is the share of Western firms' cash flows that come directly from China. Analysts at Morgan Stanley, an investment bank, have studied the revenues of 1,077 North American companies to determine their exposure to foreign markets. Those in the information-technology sector, which comprises more than a quarter of the S&P 500 index, earn 12% of their revenues from China. For semiconductor firms—such as Nvidia, this year's star performer—the figure is even higher, at 28%. Western sanctions resulting from an invasion of Taiwan might leave investments in Chinese assets stranded. But reciprocal sanctions from China could hobble some American firms, too.

A final line of exposure comes from China's gargantuan demand for commodities. Analysts at Goldman Sachs, another investment bank, reckon that China accounts for 16% of global demand for oil, 17% for liquefied natural gas, 51% for copper, 55% for steel, 58% for coal and 60% for aluminium. The immediate consequence is that prices for commodities, and the shares of any firm that buys or sells a lot of them, depend heavily on Chinese economic growth, or a lack of it. Given commodities' impact on broader prices, this also means that if your portfolio is exposed to inflation—or to the swings in interest rates that accompany it—then it is exposed to China.

One way to read all this is as a counsel of despair. The risks of staking money on China's growth and stability are both palpable and large. It is pretty much impossible to construct a portfolio that will benefit from global growth, which also lacks exposure to China, since anything to do with technology, commodity prices, inflation, interest rates or any country dependent on the world's second-biggest economy brings with it some risk. The other reading is the same as the time-worn case for buying American assets. It is not that they offer guaranteed returns. It is that if they face disaster, so too will everything else.

The bears have the upper hand, then, but the question is how long the situation will hold. Saudi Arabia's enduring cuts mean the market remains extremely tight. Jorge León, a former OPEC analyst, now at Rystad Energy, a consultancy, reckons that prices will soon return to somewhere in the low $90s. Surprising economic data could cause swings of as much as $5-10 a barrel; several surprises could even push prices briefly into the triple digits.

Yet any victory for the bulls will be a short-lived one. Beyond Christmas, bears look likely to gain a durable advantage. Non-OPEC production growth should cover most of the rise in demand, which will anyway be subdued by the lagging impact of high rates. Kpler, a data firm, projects a solid surplus for the first few months of 2024.

There is still an unknown. Although Saudi Arabia has given hints that it is worried about the economic prospects of its Asian and European customers, lower benchmark prices may nonetheless push it to bigger production cuts. If there is a glut of supply, such cuts may not be enough to push up prices. But they will prevent the rebuilding of stocks, which normally happens during downturns. That would set the stage for the next oil-price thriller. ■

Emerging markets

A $24bn decision

MUMBAI

After one success, India hopes to make it into more big bond indices

IN THEORY, FINANCIAL indices are similar to thermometers, providing objective numbers that reflect external conditions. In reality, especially if the underlying securities are bonds, human choices about their composition make an enormous difference—as India is now demonstrating.

On September 21st JPMorgan Chase, a bank, decided to include Indian government bonds in its emerging-markets index. The decision was hailed by Indian ministers, and Jamie Dimon, JPMorgan's boss, as a sign of India's rise. Then, on September 29th, FTSE Russell, another indexer, announced, with much less ado, that it would not follow suit, owing to concerns about how markets function in India. Investors are awaiting a call by Bloomberg Barclays Emerging Market Bond Index.

JPMorgan's move may now prompt an influx of $24bn into India's government-bond market as the switch is made, according to one estimate. Were Bloomberg's managers to make a similar decision, and FTSE Russell's to be won over by reforms, the gain could rise to around $40bn. That is a sizeable figure, particularly when set against net purchases of Indian government bonds by foreigners, which amounted to just $3.8bn in the first eight months of this year. The changes in JPMorgan's index, which will take place over a ten-month period beginning in June, could reduce India's benchmark ten-year interest rate by as much 0.45 percentage points, or about 7%, reckon some economists.

JPMorgan's decision was prompted by support from large investors—when surveyed, 73% backed India's inclusion in the firm's emerging-markets index. Once the reallocation is complete, India's share of the index will be 10%, matching those of China, Indonesia, Mexico and Malaysia. To accommodate India, there will be cuts in excess of one percentage point to Brazil, the Czech Republic, Poland, South Africa and Thailand. The result will be an increase in the relative importance of Asia.

India's inclusion is not an unalloyed good for the country, however. Outside money will strengthen the rupee, and thus depress inflation and the price of imports, benefiting consumers and some manufacturers. But it will also reduce the competitiveness of Indian exports, at a time when the government is keen to boost it, and swell the country's large trade deficit. Foreign investors can also be skittish, leading to volatility and raising the chance of a sudden stop to capital inflows.

Investors also face pitfalls. Bringing money into and out of India is, at best, messy. Foreign-ownership registration and reporting requirements are unhelpfully complex. There are taxes on transactions and gains, and then extra hurdles for those wishing to take their gains outside of India. These add costs, undermine returns and in the past have pushed away all but the most determined investors.

Large local brokers and international banks are thrilled by JPMorgan's decision, in part because it means lots of money will be arriving into the financial system, which they can help (for a fee) circumvent such impediments. Other firms are likely to try to create derivative products that capture the swings of Indian bonds without the accompanying burdens, which will annoy the Indian government.

The happiest outcome would be for India to use the transition to do away with some of the regulation facing its securities markets, making the country more welcoming to foreign investment. The government now has an added incentive to be responsible in other areas, too. After all, smaller fiscal deficits would mean less vulnerability to capital flight. If such changes were made, the short-term relief of lower costs of capital would be joined by a more profound transition to greater financial stability. A lot can ride on the decisions made by anonymous index compilers. ■

Pension problems

Red letter pay

China's fast-ageing population is refusing to save for retirement

HONGBAOS ARE usually reserved for special occasions, such as birthdays, weddings and the Chinese mid-autumn festival, which got under way on September 29th. But now these red envelopes, stuffed with cash, are part of a push by China's banks to get citizens thinking about retirement. They are being offered to customers who register for private-pension accounts.

Under a law introduced last November, workers may set aside savings in tax-deferred accounts accessible upon retirement, much like America's Individual Retirement Accounts (IRAs). Those who want to enrol must open an account with a bank, before allocating their deposits to a licensed wealth manager. Savers can deduct contributions from taxable income; they pay no tax on capital gains and only a 3% tax rate at the time of distribution.

If these terms sound attractive, it is because officials cannot afford for the scheme to fail. Chinese workers retire young—as early as 50 for women and 60 for men. Last year the population shrank for the first time since Mao Zedong's "Great Leap Forward" in 1962, even as the number of old folk grew. China's compulsory basic pension, which has more than a billion enrollees and is paid for through employer contributions, will be in deficit by 2028 and run out entirely by 2035, according to modelling by an official think-tank.

When the reforms were introduced, analysts estimated that they would raise the

Gaming the system

value of China's private pensions from \$300bn (which had accumulated during the pilot version of the scheme), to at least \$1.7trn by 2025. Such a pot would rival the world's largest pension funds and give officials capital to channel to favoured industries. The scheme would also give Chinese people a new avenue for saving, drawing them away from the country's troubled property market. Unfortunately, though, things are not going entirely to plan.

Banks, which are mostly state-owned, have offered customers incentives to open accounts, including discounts on phone bills, rewards for referrals and even free ibuprofen (there was a shortage at the time). Although these have lured customers, with more than 40m having signed up by June, getting them to actually save is a struggle. In March fewer than one-third of accounts contained funds. The government has since stopped releasing figures, but there is little reason to believe that savings have risen in the intervening period. Moreover, the president of one bank estimates that 70% of funds deposited go uninvested, remaining in bank accounts, perhaps because depositors want to enjoy the tax advantages without entering financial markets they perceive to be risky.

What is going wrong? Some of the problems facing the pension system reflect its design. Banks, with which customers are required to open accounts, are unfazed by the low contributions. They simply want to beat their rivals on sign-ups, and some are too busy defusing bad debts to focus on pensions, notes an analyst.

But there are deeper issues at play, too. Officials say that workers are unaware of the importance of pension planning. Bankers propose bigger tax breaks and a higher maximum contribution, which is currently 12,000 yuan (\$1,700) a year, or 15% of the average disposable income in Shanghai. Neither group wants to confront the possibility that the problem is even more profound. Chinese stockmarkets have long struggled to attract investors, with households preferring property. Financial assets are seen as too volatile—and too vulnerable to political interference.

The situation is unlikely to improve any time soon. Pension pots cannot be invested offshore, meaning that they do not offer a way to escape a weak domestic economy. Local stockmarkets are not exactly becoming any more alluring: Shanghai's main equity index is down this year. The government is also expected to raise the retirement age, which delays when savers can gain access to their investments. Last month the pensions ministry was forced to refuse requests from working-age depositors to withdraw their funds. All this means that another worry—a failing private pension system—can be added to the long list facing Chinese policymakers. ■

Global warming

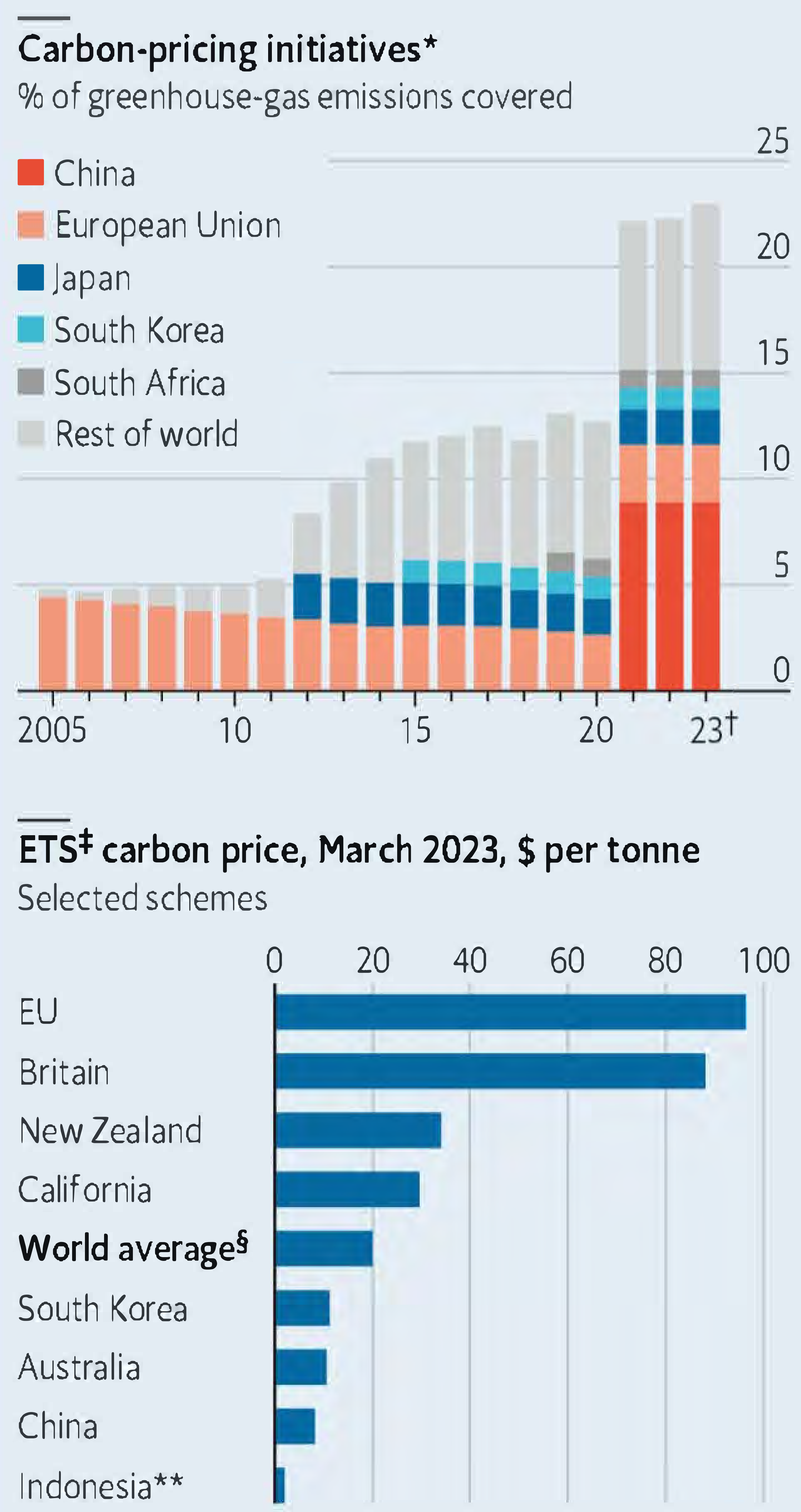
Green light

How carbon prices are taking over the world

IF GLOBAL WARMING is to be limited, the world must forget fossil fuels as fast as possible—that much almost everyone agrees upon. How to do so is the complicated part. Economists have long favoured putting a price on carbon, a mechanism Europe introduced in 2005. Doing so allows the market to identify the cheapest unit of greenhouse gas to cut, and thus society to fight climate change at the lowest cost. Others, including many American politicians, worry that such schemes will provoke a backlash by raising consumer costs. Under President Joe Biden, America is instead doling out hundreds of billions of dollars to turn supply chains green.

Yet, remarkably, the rest of the world is beginning to look more European—with carbon prices spreading in countries both rich and poor. Take Indonesia, the world's ninth-biggest polluter. Although it releases 620m tonnes of carbon-dioxide equivalent a year, with almost half its soaring energy consumption coming from coal, the country has green ambitions. On September 26th, at the launch of its first carbon market, Joko Widodo, the president, talked up its prospects as a hub for the carbon trade, and local banks duly snapped up credits from a geothermal-energy firm. The country also introduced an emissions-trading scheme in February, which requires large coal-fired plants to buy permits for emissions above a threshold.

Changing climate



*Regional, national and subnational †Forecast
‡Emissions-trading system §IMF estimate **2021 pilot
Source: World Bank

In short, even in countries better known as polluters than green leaders, things are shifting. By the beginning of 2023, 23% of global emissions were covered by a carbon price, up from just 5% in 2010. The spread will only accelerate over the coming years as more countries come round to the advantages of carbon pricing, and schemes expand their reach. According to the IMF, 49 countries have carbon-pricing schemes, and another 23 are considering them. On October 1st the EU launched a groundbreaking policy under a dreary name. The "carbon border adjustment mechanism" (CBAM) will, by 2026, start to levy a carbon price on all the bloc's imports, meaning that European companies will have a strong incentive to push suppliers around the world to go green.

The spread of carbon prices is happening in three ways. First, governments are creating new markets and levies. Indonesia is one example. If all goes to plan, its market will eventually be combined with a carbon tax. In April Japan launched a voluntary national market for carbon offsets, which will work alongside an existing regional cap-and-trade policy in Tokyo. Participants, accounting for 40% or so of the country's pollution, will have to disclose and set emissions targets. Over time the scheme will become stricter, with auctions of carbon allowances for the energy industry due to begin in 2033. Meanwhile, Vietnam is working on an emissions-trading scheme to be established in 2028, in which firms with emissions above a threshold will need to offset them by buying credits.

Second, countries that already have established markets are beefing up their policies. In September China's National Climate Strategy Centre announced that its emissions-trading scheme, the largest in the world, will move from focusing only on the carbon intensity of coal power plants, to focusing on both their intensity and to- ▶▶

tal emissions. The scheme will also be linked with a dormant carbon-credit market, allowing power plants to meet obligations by purchasing credits for renewable power, planting forests or restoring mangroves. Australia, which scrapped its original carbon price in 2014, has reformed a previously toothless scheme known as the "safeguard mechanism". Since July industrial facilities that account for 28% of the country's emissions have had to reduce them by 4.9% a year against a baseline. Those that fail must buy offsets, which trade at a price of around $20 a tonne.

Breaking boundaries

The final way that carbon markets are spreading is via cross-border schemes. The EU's programme is by far the most advanced. In CBAM's pilot phase importers of aluminium, cement, electricity, fertiliser, hydrogen, iron and steel will need to report "embodied emissions" (those generated through production and transport). Then, from 2026, importers will have to pay a levy equivalent to the difference between the carbon cost of these emissions in the EU's scheme and any carbon price paid by the exporter in their domestic market. Free permits for sectors will also be phased out, and the housing and transport industries will be brought into the market.

Many of these schemes will take time to have an impact. Lots in Asia are flimsy, with prices set too low to lead to substantive change—well below the EU's current price of around €90 ($95), which is itself only approaching climate economists' estimate of the social cost of carbon. For instance, half the coal plants covered by China's emissions-trading scheme face a negative carbon price, meaning that they are in effect paid to burn the dirty fuel, since their emission intensity is below the national average, says Lauri Myllyvirta of the Centre for Research on Energy and Clean Air, a think-tank. The scheme, he notes, also fails to create an incentive to shift from coal to other sources of power.

Across the world, activists criticise the ability of companies to use offsets to indulge in what they term "greenwashing", where firms falsely present themselves as environmentally friendly. Some schemes also struggle to prove that they have led to emissions reductions. Last year a team of academics, led by Andrew Macintosh of Australian National University, argued that reforestation used as carbon credits in Australia's scheme either did not happen or would have happened irrespective of payments for offsets. An independent review has since recommended changes to how the scheme works.

Yet even carbon-pricing programmes that are limited will still help change behaviour, for the simple reason that they encourage the monitoring of emissions. After its launch two years ago, China's emissions-trading scheme was dogged by fraud, with consultants alleged to have helped firms fake coal samples. A crackdown was announced by officials earlier this year, who are now satisfied with the quality of the data. Despite the absence of a carbon price, American firms also face incentives to monitor emissions. President Biden has proposed a rule that all businesses selling to the federal government must disclose emissions and have plans to reduce them. Many large firms have set voluntary net-zero targets as part of their marketing efforts. Apple, the world's largest, has pledged to make its supply chain entirely carbon neutral by 2030.

Industrial firms around the world now face a still greater incentive to accurately track their carbon footprints: CBAM. The EU's ultimate goal is to tackle "carbon leakage". Before CBAM's introduction, Europe's carbon price meant that domestic industries faced an extra cost compared with those in countries with less ambitious decarbonisation plans. This gave importers an incentive to source material from abroad, even if such inputs were dirtier. To compensate for this, the EU handed out permits to industrial producers. These will now be phased out as CBAM is phased in.

During the pilot phase, CBAM simply presents an extra hurdle (or a "non-tariff barrier") for exporters to the bloc. To comply, European firms must report the embodied emissions of their imports. If such data do not exist, importers must use reference values provided by the EU. In order to nudge foreign companies to change their behaviour and prove that their emissions are lower, these are based on the emissions of the dirtiest firms in the bloc.

Carbon border tariffs may themselves start to multiply. In Australia the government recently announced a review into "carbon leakage", which will examine such an option. In 2021 America and the EU paused a trade dispute, begun by President Donald Trump, by starting negotiations on a "Global Arrangement on Sustainable Steel and Aluminium". America wants the two trading partners to create a common external tariff on polluting steel producers. Since it does not have a domestic carbon price, such a policy would break the World Trade Organisation's rules. But if the EU and America do not come to an agreement, the Trump-era tariffs and the EU's retaliatory measures will be reinstated.

There is a domino effect to carbon pricing. Once an industry is subject to a carbon price, affected businesses will naturally want their competitors to face the same rules. Therefore owners of coal power plants will lobby to ensure that gas power plants operate on a level playing field. Governments in exporting countries also have an incentive to ensure that their domestic firms pay a carbon price at home rather than a tariff abroad. If Asia's factories are pressed to reduce their emissions anyway by schemes such as CBAM, then its governments are leaving money on the table by not levying a carbon price of their own.

Getaway cars

The question is whether the dominoes will fall sufficiently quickly. Almost no emissions-trading schemes are aimed at emissions from residential property or cars, for instance, where consumers would really feel the pain. In choosing to introduce carbon-pricing schemes, and then to make them broader and more muscular, policymakers have most economists firmly on their side—and are proceeding much faster than is commonly realised. Yet future policymakers will have little choice but to make such measures even more intrusive if they want to minimise the effects of climate change. For that to happen, they will have to win over voters, too. ■

Free exchange | Cracking open the Beveridge

To understand America's job market, look beyond unemployed workers

SITTING IN A medical clinic recently, as a young-looking nurse extracted blood from his veins, your columnist's mind turned to the flexibility of the American labour market. How long, exactly, had she been on the job? The somewhat shocking answer: it was her first month. Six weeks of training was all it took, she explained, to make the transition from eyelash technician to phlebotomist, which offered higher pay and better hours.

Workers ditching old jobs for better ones has been a feature of the post-covid American economy. Early last year about 3% of Americans quit their jobs in any given month, the highest in two decades. Since July that has fallen to 2.3%, back to its pre-pandemic level. The decline is a sign that the labour market is gradually normalising. It has gone from being ultra-tight—beset by a seemingly endless worker shortage—to merely moderately tight.

During the period of ultra-tightness, analysts and investors paid close attention to a chart. The Beveridge curve, named after William Beveridge, a mid-20th-century British economist, depicts the link between unemployment and job vacancies. It is an inverse relationship: vacancies rise as unemployment falls. The logic is simple. When nearly all would-be workers have jobs, companies struggle to find new staff and have more vacancies.

What makes the Beveridge curve fascinating but also frustrating is that it moves around. There is no fixed relationship between vacancies and unemployment. Take, for instance, an unemployment rate of 6%. This was consistent with about 2.5% of jobs in America being unfilled in the early 2000s, but 3.5% in the 2010s and 6% in 2021. As a rule, the higher the vacancy level for any given unemployment rate, the less efficient the labour market, since firms must fight to find workers. In graphical terms, an inefficient Beveridge curve shifts outwards, away from the origin point.

The fascinating bit is the explanation for this. Normally, the location of the Beveridge curve is viewed as a measure of skills-matching. If workers lack the skills wanted by employers, the vacancy rate will be higher. During covid-19 and its aftermath, though, the problem was less a skills mismatch than a willingness mismatch. Many people were scared of illness and thus less willing to work. At the same time, having profited from a rapid recovery, many companies were willing to hire additional workers.

Pick your poison

United States, Beveridge curves, January 2001-August 2023, %

*Vacancies as % of employment †Openings likely filled by job-switching workers
Sources: Bureau of Labour Statistics; Federal Reserve Bank of St. Louis

An exceedingly inefficient labour market was the result. There were two job openings per unemployed person at the start of 2022, the most on record. Given such a Beveridge curve, the dismal conclusion was that unemployment would soar as the Federal Reserve wrestled down inflation. The causal chain went like this: to tame inflation, the Fed had to generate slower wage growth; for wages to slow, vacancies had to fall; finally, in an inefficient labour market, a big fall in vacancies implied a big rise in unemployment.

Skip ahead to the present, though, and these fears have receded. Job vacancies have declined without much unemployment. There are now 1.5 job openings per unemployed worker. The labour market, in other words, looks more efficient. The Beveridge curve has shifted inwards, reverting to somewhere close to its pre-pandemic location. The typical explanation is that the willingness mismatch has abated: Americans have re-entered the labour force, while companies have cut their help-wanted advertisements.

Question everything

That, at least, is the conventional story. But think about it for a second and it is does not sit quite right. After all, the Beveridge curve is supposed to depict the state of the labour market. If, however, the curve itself is liable to move around, as this story suggests, it surely cannot be of much use. Do adjustments take place along the curve or does the curve itself change locations? After the fact it seems clear enough. In the moment, it is guesswork.

There is a different, and better, way of constructing the Beveridge curve. The standard curve implies that it is the unemployed who fill job vacancies. The problem, as testified by your columnist's phlebotomist, is that in reality, holes are often filled by job-switchers, not the unemployed. In research published by the Fed's branch in St Louis, Paulina Restrepo-Echavarría and Praew Grittayaphong have reflected this, proposing a revised Beveridge curve that links prospective job-switchers to vacancies.

Instead of the inverse traditional curve, their one has a positive slope: as vacancies rise, more workers consider jumping ship for new jobs. Indeed, they find that about four-fifths of vacancies since 2015 have been geared towards job-switchers, not the jobless. Along with its faithfulness to reality, their curve has another advantage in that it appears to be mostly stable. The pandemic was unusual because of the large rise in both job vacancies and job seekers, but that was an extrapolation of their revised curve, not a shift to a new location. One conclusion is that a relatively soft landing looks more plausible today. Although a decline in vacancies is still needed to calm wage growth, that largely translates into less job-switching rather than higher unemployment.

There may be a more profound lesson to draw. In 2020 Katharine Abraham and colleagues at the University of Maryland also looked at whether they could improve the Beveridge curve, this time by incorporating job searchers who are already employed or out of the labour force. Their revised curve, like that of the St Louis Fed's economists, is more stable than the traditional curve. The implication of that stability is that the economy actually does a decent job of matching workers with jobs.

Many people, including politicians from both sides of the aisle, declare that America is plagued by a skills mismatch. Yet the evidence suggests that workers respond to wages, and that firms which are willing to invest can train them up. The skills shortage may be more of a talking-point than a fundamental constraint to growth. Remember: America is a country in which eyelash technicians can become phlebotomists in a matter of weeks. ■

Celebrating science

Nobel pursuits

The 2023 Nobel science prizes were awarded for MRNA vaccines, ultra-fast lasers and tiny prisons for light

THE COMMITTEES which award the Nobel prizes are hard to second-guess. Last year, for instance, the prize in physiology or medicine went to Svante Paabo, a pioneer of the study of fossil DNA, which has shed much light on human evolution.

A worthy winner. But some thought the choice an odd one in light of the covid-19 pandemic that had ravaged the world. This year the Karolinska Institute in Stockholm, which awards the prize, made amends. It awarded it to Katalin Karikó and Drew Weissman, who, working at the University of Pennsylvania, helped pioneer the MRNA vaccines that were deployed, in record time, against the coronavirus. It was they who worked out how to stop the molecule at the heart of such vaccines provoking a reaction which would otherwise have made them unusable.

The simple explanation of molecular genetics involves four genetic "letters". In DNA, the molecule in which genes are usually stored, these are A, C, G and T—the initials of the chemicals involved. When a gene is activated, its sequence of letters is copied into a similar molecule, RNA, in which T is replaced by a related chemical, U. The resulting message (the "m" in MRNA stands for "messenger") is read by cellular machines called ribosomes, which assemble the desired protein.

The idea behind MRNA vaccines was to make MRNA that encodes part of a protein found in a pathogen. The recipient's cells will start churning out the protein fragment in question, which will be recorded by the immune system as foreign, and thus probably hostile. If the pathogen in question turns up for real, the immune system has a head start. And the ability to persuade cells to produce proteins for which they lack the genes themselves could have all sorts of uses beyond just vaccines.

In biology, however, nothing is simple. Early attempts to produce MRNA vaccines created a hostile response to the injected RNA. Cells that took it up recognised the molecule as foreign, and invited the immune system to kill them on the assumption that they had become infected.

Dr Karikó and Dr Weissman realised that there must be some significant chemical difference between the artificially created RNA and the natural human sort. Experiments revealed it to be in the exact chemistry of the letter known as U. Tweak that to look like the human version of U and the problem goes away.

All this happened in 2005. And it almost didn't happen at all. *Nature* rejected the paper in which the pair wrote up their discovery, and they had to fight hard to persuade the journal in which it eventually appeared, *Immunity*. Before this, Dr Karikó had been demoted by the University of Pennsylvania for insisting on carrying on with her MRNA work when her superiors thought it was leading nowhere.

Even after publication, interest was slow to develop. But develop it did, so that by early 2020, when the world's governments hit the panic button, two firms—BioNTech, at which Dr Karikó was once a senior vice-president, and Moderna—were already working on MRNA vaccines. They were able to switch their attention and develop versions effective against the newly discovered coronavirus. They did this by ▸▸

causing the MRNA involved to encode part of one of the virus's proteins, called "spike". Billions of jabs and millions of lives later, Dr Karikó and Dr Weissman have become heroes.

Blink and you'll miss it

The physics prize was likewise given for work whose payoff came many years later. It was awarded for the development of ultra-fast lasers that can switch on and off in mere attoseconds, or quintillionths of a second. That is a unit of time so short that there are as many attoseconds in a second as there have been seconds since the Big Bang, 13.8bn years ago.

But it is the sort of speed on which many physical processes take place. Electrons, for instance, orbit their parent atoms fast enough that they change position on attosecond timescales. This year's physics laureates—Pierre Agostini, Ferenc Krausz and Anne L'Huillier—worked out a way to observe such processes.

The basic idea is similar to that of strobe lighting, which can help capture images of fast-moving objects in the everyday world. A hummingbird, for example, can beat its wings 80 times per second. To human eyes, this looks like a blur. Use a high-speed camera and a strobe light flashing at a comparable speed, though, and it is possible to take detailed pictures of the bird in flight.

The work was pioneered by Dr L'Huillier. In 1987 she was working at the Saclay Nuclear Research Centre, near Paris, experimenting with firing lasers and noble gases such as argon or neon. Shining the lasers into the gas imparted energy into its atoms, knocking some of their electrons loose. When those electrons were eventually recaptured, they rereleased that energy in the form of light.

Those light waves interacted with each other in turn. Where their peaks coincided, they would become more intense. When one wave's peak met another's trough, though, the light's intensity would fall. And sometimes, if the light waves interacted in just the right way, they produced pulses of ultraviolet light that lasted for just a few hundred attoseconds.

In 2001 Dr Agostini, also working in France, built Dr L'Huillier's observation into a workable piece of technology, designing a way to produce a series of pulses of light that lasted for 250 attoseconds each. At around the same time, Dr Krausz, working independently in Vienna, managed to produce a series of pulses lasting for 650 attoseconds each.

Nowadays scientists have managed to shorten the pulses of light even further, down to dozens of attoseconds. These ultra-fast disco lights are still not quite quick enough to perfectly freeze-frame electrons in their orbits around atoms. But a blurry camera is better than no camera at all. Before attosecond light was available, scientists could only talk about the probability that an electron might be in a particular place at a particular time. The pulses can also be used to measure how closely electrons are bound to an atom's nucleus, and how long it takes for one to be prised loose during a chemical reaction.

Other applications are further away. Attosecond pulses of light might one day help to create ultra-fast electronics, in which a semiconductor is prodded to switch between its insulating and conducting states far faster than it can today. The pulses can also be used to nudge large molecules, which then go on to emit characteristic radiation that depends on their precise chemical make-up. That could be used to analyse blood samples, for instance, with a view to picking up even the smallest markers of disease.

It may be hard to anticipate the Nobel commitee's decisions. But this year, for the chemistry prize, there was no need. *Aftonbladet* and *Dagens Nyheter*, a pair of Swedish newspapers, published the names hours before the official announcement.

A leak has never happened before. Some thought it was a hoax. But the reports turned out to be correct. The prize was awarded to Moungi Bawendi, Louis Brus and Alexei Ekimov, a trio of scientists who were able to harness one of the many counterintuitive aspects of the quantum realm: that the properties of a material sometimes depend not on its chemical composition, but on its size.

The materials in question are quantum dots, the informal name for chemical structures also known as semiconducting nanocrystals. Electrons within a quantum dot can become separated from their host atoms when given a kick of energy by a pulse of ultraviolet light. That imprisons them inside the crystal until they can re-emit that energy as another burst of light and return to their original state.

Quantum dottiness

The dot's tiny size, though, constrains the wavelength, and thus the colour, of the light the electrons can re-emit. Smaller nanodots produce blue light; larger ones produce red. Go above ten nanometres or so—about a thousandth the size of a red blood cell—and the quantum effects necessary to produce light smear away into nothing.

The physics underlying quantum dots has been known since the 1930s. But making use of the knowledge had seemed impossible. In 1979, though, Dr Ekimov, then at the S.I. Vavilov State Optical Institute in Leningrad (now St Petersburg), was able to produce tiny crystals of copper chloride in glass, and could even vary the colour of light they emitted by changing their size.

Coloured glass, though, is an awkward medium with which to work. In 1983 a more tractable manufacturing method was discovered. Dr Brus, then at Bell Laboratories in New Jersey, was able to create quantum dots as free-floating particles in solution, allowing the phenomenon to be observed in liquids as well as solids.

It was Dr Bawendi, of the Massachusetts Institute of Technology, who helped turn these experiments into a usable technology. In 1993 he developed a way to produce quantum dots to order. By injecting reagents into a solvent at high temperature, he created small seed crystals around which bigger ones could form.

In the intervening decades, these tiny objects have had a big impact. They are used in lighting, to harness solar energy, and to tag body parts for biomedical imaging. Their best-known use is in consumer technology. So-called quantum-LED televisions and computer monitors advertise crisper colours that will not fade. It is even possible that they may be used in the architecture of future quantum computers.

The Nobels sometimes attract criticism for being years behind the scientific times. Some scientists, widely seen as worthy potential winners, have died before the committee could get round to honouring them (prizes are given only to the living). But this year's gongs show why things often move slowly. As Dr Karikó's struggles in particular demonstrate, the full import of a bit of world-changing research can take many years to become clear. ■

Financial archaeology

Carpe argentum

Plundered Gaulish silver may have propped up the Roman money supply

As big as their empire was, the Romans never reached Greenland. Yet that remote island has become the place to go for those interested in ancient economic history. Greenland's ice sheets preserve traces of atmospheric lead emitted in Europe and north Africa as part of the silver-making process. Since silver coins were ubiquitous in antiquity, fluctuations in lead levels serve as a proxy for the ups and downs of the ancient money supply.

Sometimes, though, such evidence throws up contradictions. In the final decades of the Roman Republic, war disrupted access to some of Rome's biggest silver mines. Yet evidence from elsewhere suggests the minting of coins did not slow. In a paper published in *Archaeological and Anthropological Sciences* Jonathan Wood, an archaeologist at the University of Liverpool and his colleagues, offer an explanation. They suggest the Romans turned to recycling, of both their own silver, and—at the point of a *pilum*—other people's.

Dr Wood's research focuses on the silver denarius, which was the backbone of Roman coinage for nearly 450 years. He knew from historical records that, during the second and first centuries BC, Rome's access to silver mines in Iberia and southern France was interrupted by conflict. Ice cores from Greenland likewise show a dip in lead concentrations from about 150BC onwards. But the paper argues there is little evidence that the number of coins in circulation contracted, despite the sudden scarcity of their chief raw material.

One explanation might be debasement of the currency: making the existing silver go further by mixing it with another, cheaper metal such as copper. There is some evidence of that, but not enough to make it the sole explanation. Records from more than 1,000 coins held in various museums around the world suggest the silver content of a denarius rarely fell below 95% between 160BC and 20AD. And the times at which it did fall—such as in the Social War, between 91BC and 87BC, during which Rome fought several of its notional allies—do not closely line up with the interruptions to the silver supply.

To work out what was going on, Dr Wood analysed how much of a different element was present in the coinage: gold. All silver produced in antiquity contains small quantities of gold. The precise amount varies depending on where exactly the silver was dug up. Most of the coins analysed by Dr Wood and his team contained the relatively high levels of gold characteristic of silver mined in Iberia. Yet around 120BC clusters of coins began appearing with very low levels of gold in them.

That might suggest the discovery of a big new mine somewhere else. But the ice-core data show no concomitant rise in lead emissions. A more plausible explanation, thinks Dr Wood, is that the Romans were instead pursuing a policy of recycling. One option would have been to recycle their own silver, by recalling old coins and melting them down into new ones. But Dr Wood thinks that is unlikely to be the whole story. After all, the new coins, being made of the same silver, would have had similar silver-to-gold ratios to the old ones.

If you are not recycling your own silver, then another option is to recycle someone else's—with or without their permission. Rome's far-flung armies would have had ample opportunity to acquire silver from elsewhere. And the paper points to one intriguing potential example after the Roman invasion of Gaul, when the gold-to-silver ratio of coins dropped significantly just after Julius Caesar and his armies returned to Rome laden with booty in 49BC.

Much of that loot was used to help fund Caesar's subsequent civil war, the aftershocks of which eventually brought down the republic. Two decades later, in 27BC, Gaius Octavius, Caesar's adopted son and better known as Caesar Augustus, became Rome's first emperor. The signs, it seems, are written in the coins—and the ice. ■

Conspiracy theories

Goldfingers?

BERLIN

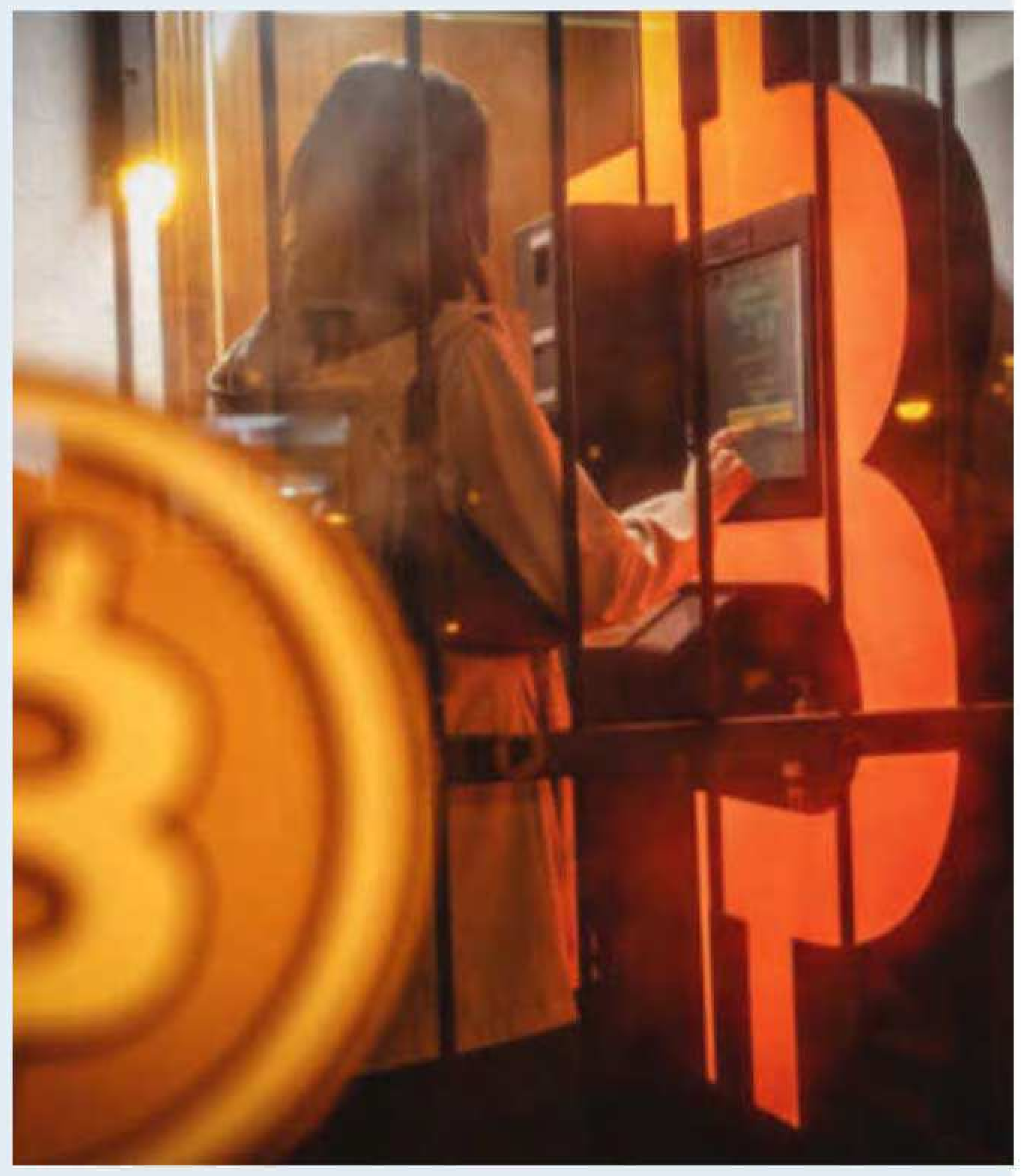
A conspiracy theory holds that bitcoin leaked from an American spy lab

The origins of covid-19 remain unknown. Most scientists think it jumped from wild animals to humans at a meat market in Wuhan. But it is also possible it escaped from a virology research lab in the same city.

Now a similar argument has broken out around bitcoin, the first and most used cryptocurrency. Bitcoin's accepted origin is that it was invented by Satoshi Nakamoto, a pseudonymous coder, who published a paper describing it in 2008 before later vanishing from sight.

But a theory circulating online holds that bitcoin was dreamed up by the National Security Agency (NSA), an American spy agency that also does cutting-edge cryptography research. "I think it was a shuttered internal R&D project which one researcher thought was too good to lay fallow on the shelf and chose to secretly release," tweeted Nic Carter, a prominent bitcoin fan. Mr Carter and his fellow travellers think they have a smoking gun: a paper written in 1996 by NSA employees entitled "How to make a mint: the cryptography of anonymous electronic cash". And the paper cites work by a researcher named "Tatsuaki Okamoto".

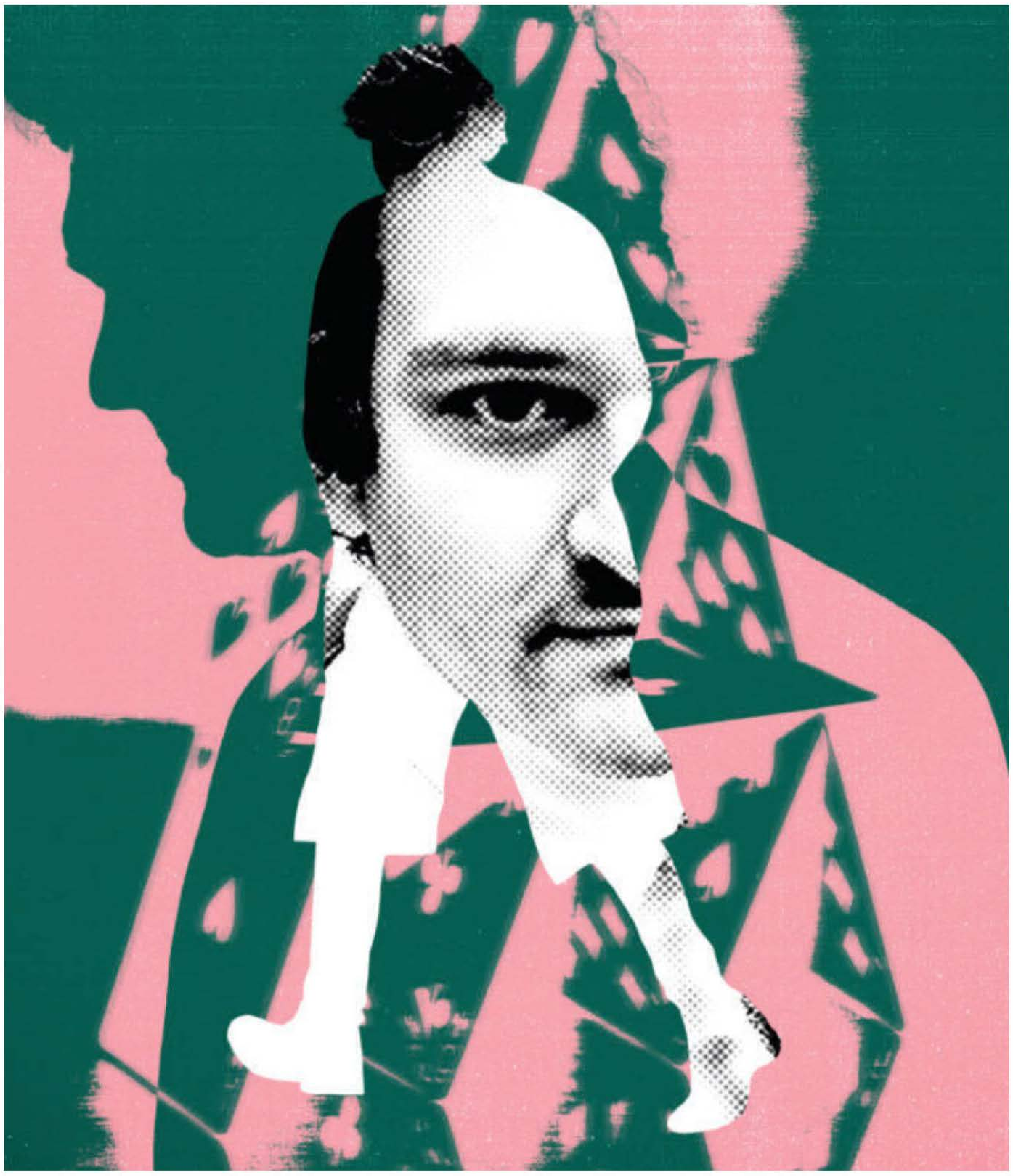
But the paper is more smoke than gun. It is merely a survey of cryptographic ideas that might be used in digital cash. Unlike bitcoin, whose big innovation was its decentralised design, the schemes in the paper rely on an overseeing authority. It discusses the risks that electronic cash would pose to taxation and law enforcement. "Thus the idea that the NSA would develop a decentralised, trustless cryptocurrency as a 'monetary bioweapon' that would impair their own government's functions" is implausible," writes David Rosenthal, a cryptocurrency sceptic, on his blog.



Money for the paranoid

Just another conspiracy theory, then? Almost certainly. But something similar has happened before. In 1997 it emerged that Clifford Cocks, a mathematician at GCHQ, Britain's NSA equivalent, had secretly invented a vital cryptographic technology that underlies both bitcoin and the internet in general, several years before the trio of American researchers who had been given credit.

A better parallel between bitcoin and covid-19 may be that, like the virus, the cryptocurrency has proved hard to kill off. Despite a big crash last year, a bitcoin is still worth around $27,500.



→ Also in this section

From riches to rags

Crypto cryptography

Michael Lewis tries to decode Sam Bankman-Fried, the disgraced founder of FTX

Going Infinite. By Michael Lewis. *W.W. Norton; 288 pages; $27. Allen Lane; £25*
Number Go Up. By Zeke Faux. *Crown; 304 pages; $28.99. Weidenfeld & Nicholson; £25*

In Zeke Faux's new book on crypto, "Number Go Up", there is an unflattering portrait of Michael Lewis. The author of "The Big Short" took the stage in the Bahamas in April 2022 to interview Sam Bankman-Fried, a crypto billionaire about whom he was rumoured to be writing a book. "Three years ago, nobody knew who you were," Mr Lewis gushed. "And now you're sitting on the cover of magazines. And you're a gazillionaire. And your business is, like, one of the fastest-growing businesses in the history of the planet." It made Mr Faux, a writer for Bloomberg who was in the audience, uncomfortable, as "the author's questions were so fawning." He began to question whether Mr Lewis was writing the book or whether he was a shill for Mr Bankman-Fried.

That biography, "Going Infinite", is now out, published on the day that Mr Bankman-Fried's trial began in New York. He is charged with multiple counts of fraud and misappropriating clients' money; he has pleaded not guilty. Mr Lewis had unparalleled access to Sam, as he calls him—or SBF, as the rest of the world knows him—in 2022 and early 2023. In that time Mr Bankman-Fried went from the world's richest man under 30 to alleged mastermind of the biggest fraud of the crypto era.

In the past Mr Lewis has focused on little-known people doing extraordinary things. This time his subject is notorious. Some readers may share Mr Faux's worry: that Mr Lewis has got so close to Mr Bankman-Fried that he ceases to be objective.

From the start, Mr Bankman-Fried is portrayed as a puzzling yet oddly magnetic personality. He struggles to make sense of his childhood. His appearance is alienating. (He has to teach himself how to smile.) He hates fashion, sporting cargo shorts and unkempt hair. A hilarious passage describes him playing a fiendish video game while speaking to Anna Wintour, the editor-in-chief of *Vogue*, on Zoom.

His hyper-rationality sets him apart from almost everyone. He views people not as good or bad, but as "probability distributions" around a mean. He uses population statistics to dismiss the work of Shakespeare. He argues that there is too little money in politics, rather than too much, given the enormous economic impact of ▸▸

America's $15trn of government spending. He mulls paying Donald Trump $5bn not to run for president.

Mr Bankman-Fried's rationality leads him down two paths. First, he finds a calling in spotting statistical anomalies in financial markets, especially cryptocurrencies, and exploiting them to make a fortune. Second, he discovers in the "Effective Altruism" (EA) community like-minded nerds who, more than having feelings for their fellow human beings, have feelings about saving humanity in general. That enables them to use dispassionate calculations to decide how to make the biggest difference with their money. Both paths intersect early in his career with dazzling, disastrous consequences.

Mr Lewis's storytelling is as good as ever. A key moment in the book tells of an incident called "The Schism" that took place in 2018, at the start of Mr Bankman-Fried's efforts to create Alameda Research, his crypto hedge fund. The firm's finances were already in chaos, a large pot of money had gone missing and some of his EA recruits were in open revolt, believing Mr Bankman-Fried to be either dishonest and manipulative or well-intentioned but a terrible manager. They leave in a huff, though not before brawling over money. With the benefit of hindsight, you might wish everything had come crashing down around Mr Bankman-Fried's head at that point, saving the world a lot of trouble.

Unlike his previous books, which explain the minutiae of financial innovations in breezy language that anyone can grasp, this one reveals little about the inner workings of crypto, which Mr Lewis says even Mr Bankman-Fried barely bothered to understand. Those wanting a rollicking—

Back Story How not to skin a cat

The many morals of "Cat Person", a viral tale of dating now adapted for the screen

A LONG, EXCRUCIATING sex scene is at the heart of "Cat Person", both Kristen Roupenian's short story and a flawed new film adaptation. In his klutzy rush to take off his trousers, Robert (played on screen by Nicholas Braun) finds he has forgotten to remove his shoes. He whispers dismal, porn-inspired pillow talk to Margot (Emilia Jones), eventually waddling off to the bathroom. In a fittingly grim detail added in the movie, he is still wearing his socks.

For a short story—a neglected form, despite its aptness for the TikTok age—"Cat Person" has had a long tail. When it ran in the *New Yorker* in 2017, it ignited debates over dating and consent, body-shaming (Robert is said to be flabby) and the male bias of literary culture. It has since cast light on two big distinctions: between real life and fiction, and, now, between literature and film. That unsparing sex scene has been pivotal.

A quick synopsis: 20-year-old Margot meets Robert, a man in his 30s who, in the original, may or may not have cats. They exchange reams of texts before going on a date and back to his place. He has a good time; she doesn't. The story captures the rhythms and thrills of digital flirtation (plus the spelling corrections older people go in for); the dissonance between online and physical liaisons; and the way that, within couples, age and youthful beauty can each confer a kind of power.

In that central scene, an awareness of Robert's fragile ego, a sense of obligation to him and an undertow of dread—the old one-two of pity and fear—keep Margot in bed when she yearns to leave. Many readers felt all this was so recognisable that it had to be drawn from life.

According to an article by Alexis Nowicki, a book publicist, in 2021, it was: her life. She alleged in *Slate* that Ms Roupenian, whom she had never met, used details of a relationship she had with a mutual acquaintance. On discovering the human link between them, Ms Nowicki wrote, "I could finally say for sure that 'Cat Person' was about me."

Except, she acknowledged, the crucial passage in the bedroom was "unfamiliar"; ditto a spiral of misogynistic texts in which Robert bears out Margot's fears. The complaint pulled back the curtain on how quotidian events are transmuted into art. Ms Roupenian apologised for causing distress, but, like most authors, she had mixed snatches of reality with invention, refining and arranging them to achieve her effects. The artful result feels more lifelike than a transcript of any individual's messy experience is likely to seem.

Directed by Susanna Fogel, the film is out in America on October 6th and in Britain three weeks later. In enlisting Mr Braun, best known as Greg, the doofus cousin in "Succession", it obeys an unwritten Hollywood rule—whereby even supposedly schlubby characters are played by nice-looking actors. But its main and most instructive fault lies not in casting but in its distortion of the plot.

The film rises cleverly to a perennial challenge of putting literature on screen, namely the tricky business of interiority. A lot of the drama happens in Margot's head: her terrors, her desires, her invention of alternative Roberts to which the man himself fails to correspond. One of Ms Fogel's solutions is to implant an alter-ego Margot in the sex scene, with whom the pinioned Margot keeps up a funny dialogue. The alter ego wants to go. "It's just easier to get it over with," groans the young woman in bed.

The shape of "Cat Person" is a bigger obstacle. A good short story is like an epiphany on an elevator ride. It evokes the characters in a few deft strokes, imbuing their brief lives on the page with a spectral before and after. It hints at a wider world while being complete unto itself. Chekhov, a master of the form, thought the key was to finish writing, then cross out the beginning and end.

Movies are different. They typically demand more action and prefer amplitude to efficiency. In "Cat Person" this means giving Margot horror-inflected reveries, and an old-school mother who recommends "a little compromise" when it comes to men. The film clears up the mystery of whether Robert has cats, throwing in a dog and a colony of ants.

Most important, and most mistaken, is a new, thrillerish last act that bulks up the running time after the sex scene. The poise and subtlety of the original are lost. Alongside its lessons on men and women, fiction and reality and the traps of digital messaging, "Cat Person" offers a final warning on literary adaptations: there are many ways to skin a cat, but don't try to turn it into a bear.

albeit jaundiced—examination of crypto's underbelly should read Mr Faux's book.

"Going Infinite" focuses on the human dimensions of the story, including Mr Bankman-Fried's excruciating relationship with Caroline Ellison, the co-CEO of Alameda Research. Forget free love: it is one-sided and desperate. Forget romance: the messages they send each other are coldly businesslike. Forget human decency: Mr Lewis suggests Mr Bankman-Fried treated some of the women in his senior management team unfairly. There is also the jealous rivalry between him and Changpeng Zhao, known as CZ, who runs a crypto marketplace (and rival to FTX) called Binance. Mr Bankman-Fried appears to revel in publicly provoking him. This helps explain why CZ pulled the rug from under FTX in the run-up to its collapse.

A third revealing relationship is that which plays out between Mr Lewis and John Ray III, the bankruptcy expert drafted in to rescue what is left of FTX for its creditors. Mr Lewis's writing style works best when he stands in the background and, for most of the book, he does. But he subtly skewers Mr Ray, and it is hard to escape the feeling that he is channelling arguments that Mr Bankman-Fried would make—if only the bailiff would listen to him.

It is clear that Mr Lewis is awestruck by his subject and his oddities, even more than Walter Isaacson was by Elon Musk, a capricious tech titan whose life he recently chronicled. Mr Bankman-Fried, as Mr Lewis portrays him, is both mesmerising and maddening. As a result, for most of the book, Mr Bankman-Fried's voice drowns out the rest. There are other shortcomings. Mr Lewis is so gripped by the question of what happened to FTX customers' money, which vanished leaving an almost $7bn hole in the firm's balance-sheet, that he lets it overshadow the question of intent, around which the trial will revolve.

As in his other work, Mr Lewis's brilliant illumination of his central character is helped by his flattening of others. But in this case, those around Mr Bankman-Fried—especially Ms Ellison and other colleagues who have admitted guilt—are likely to have crucial roles in determining whether he is convicted or not. More complex portrayals of them, as well as more examination of the part his father, mother and brother played in the FTX saga, would have made this a richer book.

Despite its flaws, the closer you get to the end, the bolder "Going Infinite" appears. By tolerating the idea that hyper-rationalists cannot make sense of the rules of the game the way most people do, Mr Lewis implicitly asks readers to reconsider whatever they thought they knew about Mr Bankman-Fried. In the court of public opinion, he is already convicted. That's reason enough to give this book a read. ■

A dog's life

Feeling "Bluey"

The surprise hit television show offers a joyful portrait of parenting

"IS THERE SOME game where I just lie really still on a comfy bed or something?" Bandit, the father in "Bluey", asks, with hope in his voice. "Hospitals!" yell Bluey and Bingo, his two rambunctious dog daughters. "Oh, not hospital," sighs Bandit, as he is led to a pile of sofa cushions on the floor to become a patient, poked and prodded.

This is just one of a raft of games the Heeler family plays. There's "Daddy Robot", where Bandit can be assigned chores, and "Hotel", where the workers (the children) repeatedly wake up the guest (Bandit). No five-star review for them.

"Bluey", a hit series about four Australian cattle dogs, first aired on television on October 1st five years ago. It is, at heart, a celebration of the whimsical games adults and children play together. The creator, Joe Brumm, who is an Australian animator, draws on his own experience of bringing up little ones. He has said that playing make-believe with his two girls is "just like being in a 'Monty Python' sketch". Youngsters know a bit about how a café or hospital works, but they have to ad lib to fill the gaps—usually with surreal and amusing results.

Mr Brumm envisaged "Bluey" as Australia's answer to "Peppa Pig", a beloved (and lucrative) British animated series. He has succeeded. The pups' antics are watched in more than 60 countries. In America, more than 23m hours of "Bluey" were streamed in a single week in July: an impressive feat given each instalment is around seven minutes long.

Why has it become such a global success? There is the wholesome premise: a family having fun, which parents like to show their children. There is an instructive element, too, as the dogs usually learn something about the real world as a result of their japes. For children who expect a present from every party they go to, "Pass the Parcel" teaches them about the joy of generosity. "Bluey" is also beautifully designed, with calming hues and soft music. It makes a pleasant change from the gaudy colours and ear-splitting noise used in many kids' programmes.

The show has its critics. It revolves around a standard two-parent, two-child unit, even though families come in all shapes and sizes. Some gender stereotypes persist, too. Although Bandit is involved in parenting, he is, like Daddy Pig, too often the fun parent while Chilli, the mother, does domestic chores and organises the family. Some claim the show puts pressure on parents to be constant play companions to their children.

But "Bluey" also entertains parents, who will have played many made-up games with their own children. Parents empathise with Bandit's sighs and understand why Chilli "likes being by herself". The characters provide a model for young and old alike. Bandit and Chilli evince a saintly patience and calm. Few, for instance, would let their children make an almighty mess as they discover just how many eggs need to be broken to make an omelette. But when it comes to cracking the recipe for a happy family—and audience—"Bluey" has done it. ■

The power of words

Spelling glee

The Dictionary People. By Sarah Ogilvie. *Knopf; 384 pages; $30. Chatto & Windus; £20*

In July 1915 an ailing James Murray (pictured), one of the early editors of the Oxford English Dictionary (OED), defined one final word. He had dedicated 36 years to the dictionary; his toil had taken a toll. Knowing he would not see the project complete, he wrote his last entry: for "twilight".

The poetic pathos of Murray's final days is one of many memorable tales in "The Dictionary People". Conceived in 1857, the OED was a huge crowdsourcing project—"the Wikipedia of the 19th century"—comprising 3,000 people. The idea was to create a "descriptive" dictionary that tracked words' use and meaning over time (unlike its "prescriptive" 18th-century predecessor by Samuel Johnson, which told readers how to say and use words). Volunteers read widely, mailing in examples of how "rare, obsolete, old-fashioned, new, peculiar" words were used. What is surprising about this fairly random method is that it worked, achieving order through the large number of contributors.

The origin story of Sarah Ogilvie's book is almost as improbable as that of the dictionary itself. Ms Ogilvie, a former lexicographer who served as an editor for the OED, went into the archives of Oxford University Press and stumbled across an old notebook. It had belonged to Murray and contained the names and details of the dictionary volunteers, most of whom had previously been unknown. "The Dictionary People" is her work of detective scholarship, evoking the lives behind the names.

The dictionary's contributors are an engaging cast, including three murderers, a vegetarian vicar, one of Karl Marx's daughters and J.R.R. Tolkien. Katharine Bradley and Edith Cooper, aunt and niece, were lifelong lovers and successful writers, who co-wrote plays under a male pseudonym. For some, the dictionary was an obsession: one contributor supplied 165,061 quotations.

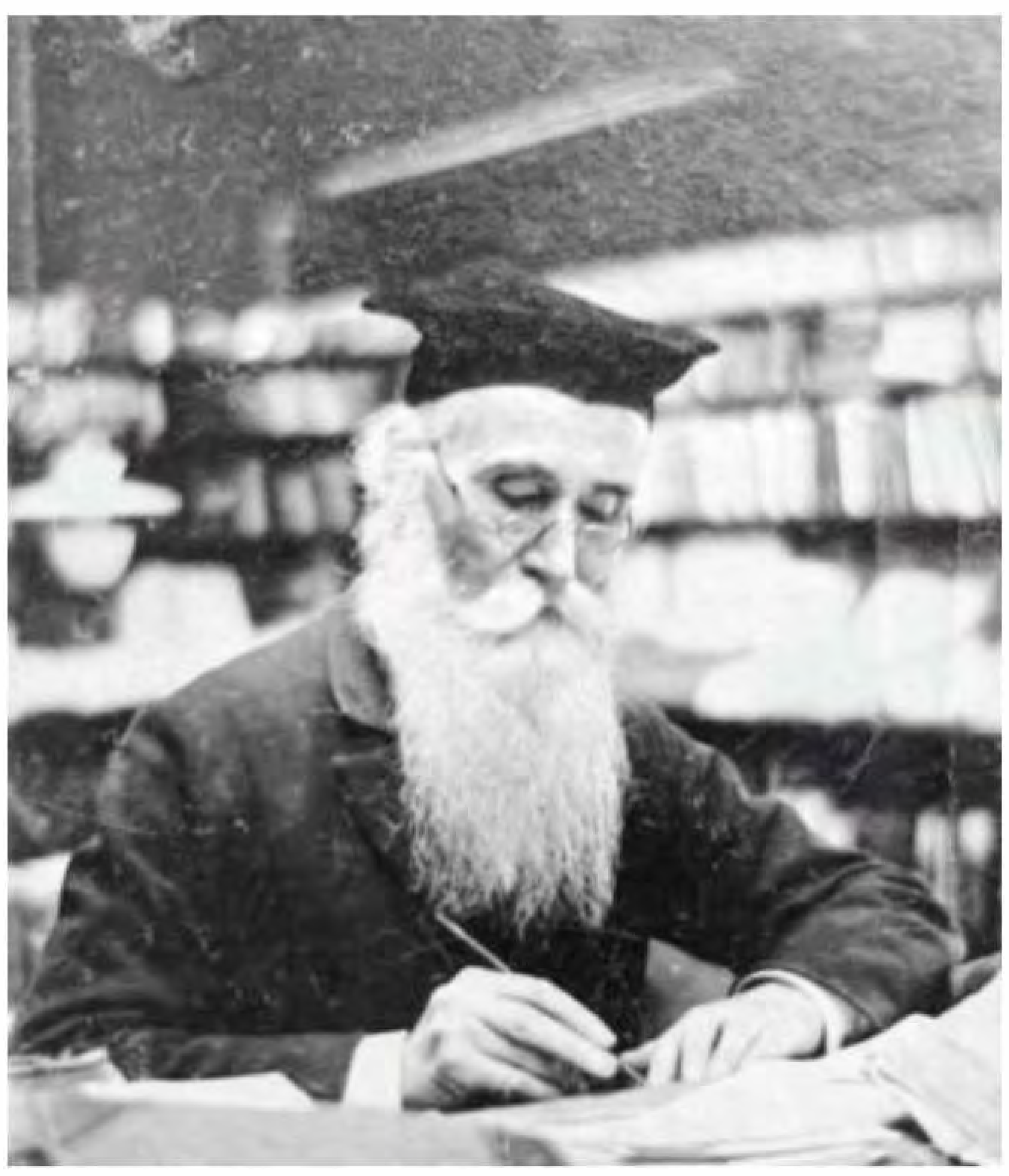
Murray, too, was assiduous. He once wrote to George Eliot of "Middlemarch" fame to ask about a word choice in "Romola", published 17 years earlier. (She responded courteously.) Yet he also found time beyond his Herculean project to be humane, paying several visits to one contributor imprisoned in Broadmoor, a high-security psychiatric hospital.

Through the multitude of stories, snapshots of a society in flux emerge: an age of scientific discovery, growing transport and communication links and increased professionalisation of scholarship. Yet many of the dictionary's contributors were autodidacts. The project's popularity reflected a growing community of people eager for intellectual pursuits but excluded from conventional academia.

Ms Ogilvie's book is full of quirky titbits. Many dictionary obsessives engaged in another crowdsourcing vogue: collecting and measuring rainwater. The presentation of the book is unconventional, too, taking its structure from the work it describes. There are 26 alphabetical chapters, each celebrating a group of contributors (memorably, "K" is for "kleptomaniac"). This is a cunning conceit, though it sometimes means that broader issues emerge only piecemeal.

"The Dictionary People" will appeal to logophiles. Pages abound with wonderful words: absquatulate (to abscond), couthutlaughe (a person knowingly concealing an outlaw) and zwodder (a drowsy feeling). But Ms Ogilvie's book is also a story of omissions. The OED aimed to record English as it was used across the world; it was a product of empire. "The published sources of those words drew originally on the language of members of black and indigenous communities, whose names never made it into the pages of Murray's address book," Ms Ogilvie writes. In addition, many words were kept out of the OED: "homosexuality" was included in 1933, "lesbian" not until 1976. When it came to slang, Murray was cautious about obscenity laws; first editions of the "C" and "F" volumes remain clear of the obvious culprits.

Above all, though, this is a story about ordinary people. It is a powerful testament to those who, to cite dictionary-helper George Eliot, "lived faithfully a hidden life, and rest in unvisited tombs". ■



"L" is for logophile

Palestinian lives

The senselessness of an ending

A Day in the Life of Abed Salama. By Nathan Thrall. *Metropolitan Books; 272 pages; $29.99. Allen Lane; £25*

It began, as many accidents do, mundanely. A bus was ferrying a group of five- and six-year-old Palestinian children on a school trip. But there was heavy rain, and the bus collided with a truck on a road in the West Bank near Jerusalem. The bus went up in flames, killing eight Palestinian children and one of their teachers. In "A Day in the Life of Abed Salama" Nathan Thrall, an American author who lives in Jerusalem, examines the events leading up to the accident in 2012 and the heart-rending aftermath.

Abed Salama is the father of one of the children involved. The book, which began as an article in the *New York Review of Books* published two years ago, is about the individuals affected by the accident. But, like a lot of writing about Israelis and Palestinians, the story is also about the history of two peoples living next to each other. It tries to answer what contributed to the horrors of that rainy day.

In his book Mr Thrall captures both the universality and the specificity of the experiences of Palestinians living under Israeli occupation. He recounts details any parent will recognise: the anxious chasing of the school's secretary to pay for a trip; the last-minute dash to buy chocolate milk and crisps; the children staggering under backpacks "too large for their small bodies" as they clamber excitedly onto the coach.

He also evokes details that will make parents' stomachs churn: the urgency of the hunt for your child in a hospital, racing from one room to another; the flare of hope when you are told that your son was probably not on the bus that crashed (only to later learn the truth); the mother turning over in her mind the fact that she had almost refused to allow her son to go on the trip because the weather was so bad.

Accidents happen everywhere, every day. But Mr Thrall's contention is that the horror was made worse because of the ways in which Palestinians' lives are so strongly shaped and controlled by Israel and that the accident's causes can be traced to the occupation.

He makes this case convincingly. As he weaves in history, Mr Thrall's decade as director of the Arab-Israeli Project at the International Crisis Group, a think-tank, is evident. He describes the colours of the ▸▸

different ID cards held by Palestinians and how they define people and constrain their movement. He introduces the architect of the wall that separates the occupied West Bank from Israel proper and traces its design and impact. The depth of Mr Thrall's knowledge adds weight to his judgments, though there are parts that read a bit too much like a think-tank report.

Understanding the status of the West Bank and reckoning with what that actually means for Palestinians living there feels pertinent, given the desire of some members of Binyamin Netanyahu's far-right coalition to annex the area. Mr Thrall harnesses a now mostly forgotten accident and connects it to this recent history.

For Palestinians living in the West Bank the wall limited their access to services, such as ambulances and police. Those areas deteriorated as infrastructure collapsed and drugs spread. Schools were awful. Parents who could afford it sent their children to private schools, which were largely unregulated. It was one of these schools that hired an illegally registered bus, which travelled along a congested, neglected route known as "the death road" before it crashed.

"A Day in the Life of Abed Salama" is hard to characterise: it is part history, journalism, diatribe and lament. But the book builds a relentless case that this crash and the ensuing trauma must be remembered. It was all so predictable—and could easily happen again. ■

History of an American firearm

Going great guns

The AR-15 is a symbol of liberty and loss, as a new book explores

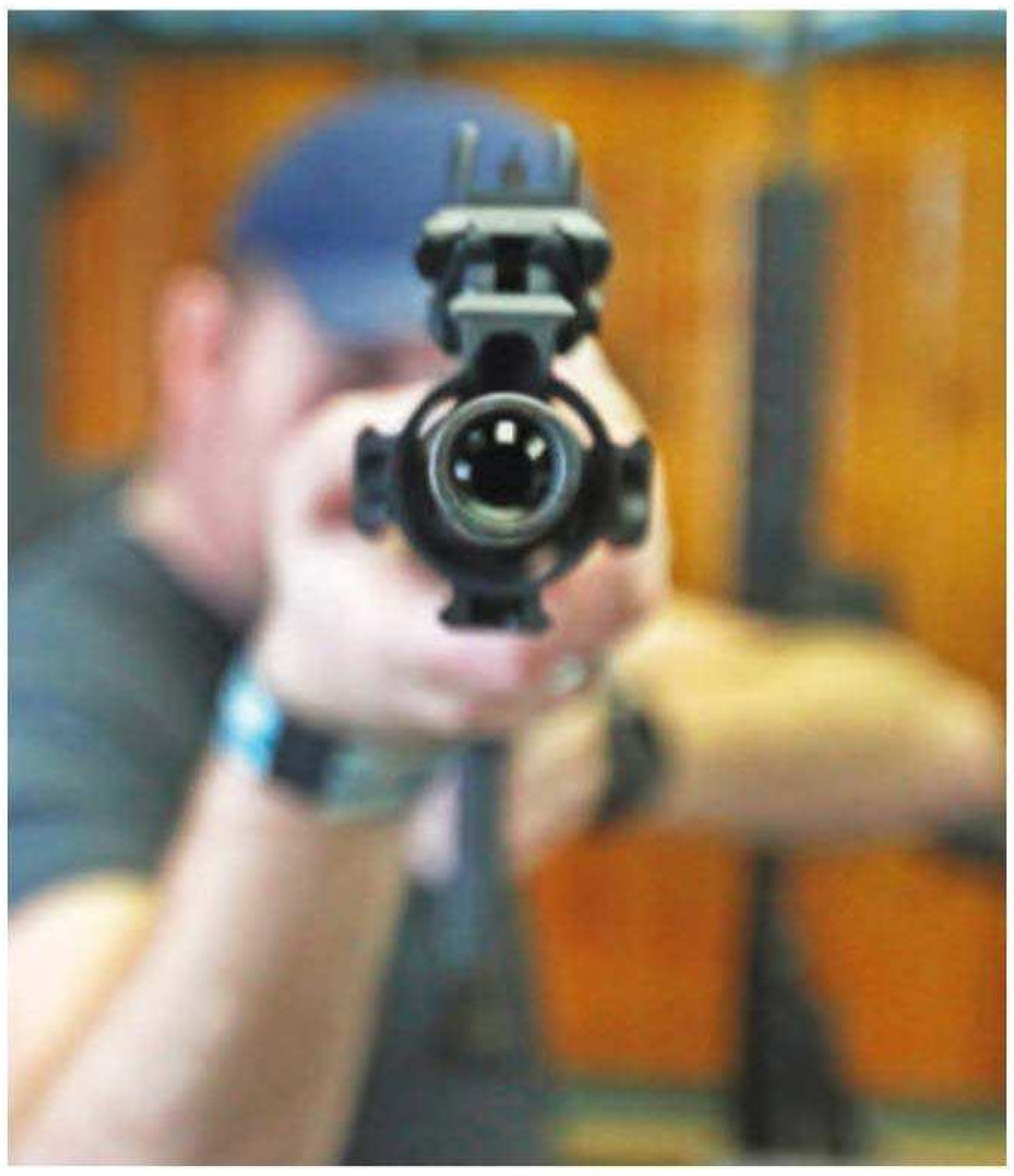
American Gun. By Cameron McWhirter and Zusha Elinson. *Farrar, Straus and Giroux; 496 pages; $32*

ONE OF THE first people to shoot an AR-15 was John Wayne in 1957. Wayne, then the face of American masculinity and the gunslinging West, was at a nearby shipyard repairing his boat when he heard that ArmaLite, a small gunmaker, was testing a new kind of firearm; he dropped by to try it. The AR-15 would go on to become one of America's most famous and controversial weapons: the gun with which not just real war, but culture war, was fought.

As Cameron McWhirter and Zusha Elinson, two reporters for the *Wall Street Journal*, recount in their new history of the AR-15, Eugene Stoner, who worked for ArmaLite, was the underdog inventor who wanted to craft a tool for defending American lives. Stoner was a self-taught engineer with a penchant for clip-on bow ties. He improved on what came before by making his gun's central mechanism, or receiver, out of aluminium rather than heavy steel and its stock out of fibreglass. Gas, rather than a delicate metal rod, would eject spent casings and load in new rounds, enabling it to fire rapidly—around 45 rounds per minute.

The timing was ideal for Stoner's invention, which he first fabricated in his garage. After the second world war, the American armed forces wanted to replace the M1 rifle that soldiers had carried in battle with a lighter, faster-shooting rifle. The Nazis produced what Hitler himself called a *Sturmgewehr* (assault rifle), and in 1949 the Soviets introduced the AK-47. But Americans lagged behind, so distracted by the nuclear-arms race that they neglected small arms. The issue took on fresh urgency with the outbreak of the Korean war in 1950. (ArmaLite sold the design for the AR-15 to Colt, another gunmaker, in 1959.)

In 1965, at the urging of Robert McNamara, then America's defence secretary, the armed forces began using the AR-15 in Vietnam. However, officials decided to supply cheaper, dirtier powder than Stoner initially intended, resulting in extensive malfunctions. During one firefight, an estimated 50 out of 125 soldiers found their guns jammed. The problem was eventually worked out, but Stoner's rifle was indirectly responsible for many American deaths in the first years of the Vietnam war.


The AR-15, a loaded subject

The authors are meticulous in the details they recount, although the tone can feel uneven, at first boosterish when discussing the gun's origins before becoming more circumspect. Still, "American Gun" is a fascinating social history. Buyers did not initially take to a civilian version of the rifle, since its .223 calibre bullet was too small for hunting deer. Though it gained popularity over subsequent decades, it really took off in 2001 after the terrorist attacks on September 11th. A new kind of buyer came forward—sometimes mocked by old-school gun enthusiasts as "couch commandos". They were more interested in self-defence than they were in hunting.

As AR-15 ownership rose, so did mass shootings, many conducted with variants of Stoner's gun. Mr McWhirter and Mr Elinson catalogue these in excruciating detail, from the first shooting using an AR-15 in 1977 in Oregon (six killed); to one in Sandy Hook, Connecticut, in 2012 (26 killed, including 20 children); to a shooting in Buffalo, New York, in 2022 (ten killed).

The shooter in Buffalo chose the AR-15 not just because it was "very deadly when used properly", he wrote, but also because "the media loves to hate on" it. In 2017 a man checked into a hotel room in Las Vegas with 14 AR-15s and eight similar guns: he would go on to commit the deadliest mass shooting in American history, murdering 58 people and wounding another 413 in just over ten minutes.

Controversy has repeatedly boosted the AR-15's popularity. Whenever regulation looms, Americans buy more. But despite being in lawmakers' cross-hairs after shootings, tough regulation has remained elusive. This is largely due to lobbying by the National Rifle Association (NRA), a powerful gun group. Even the federal assault-weapon ban, passed in 1994, was easily sidestepped, since manufacturers tweaked the design and names of guns to evade controls. (The ban expired in 2004, and lawmakers failed to renew it.) Today more than 20m AR-15s are in American civilians' hands. The government will never take them away, as the NRA claims; it will even struggle to regulate them.

The AR-15 has been used in numerous conflicts in Colombia, Mexico, Northern Ireland and elsewhere, too. But "American Gun" focuses on the nation where the AR-15 was invented, where its unmistakable silhouette has become a symbol painted on young protesters' signs after school shootings and emblazoned on flags that taunt, "Come and Take It". For some, it signifies freedom; for others, heedless violence. In this contradiction and division, the AR-15 symbolises America. ■

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Economic & financial indicators

Economic data

	Gross domestic product % change on year ago latest		quarter*	2023†	Consumer prices % change on year ago latest		2023†	Unemployment rate %		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 $ Oct 4th	% change on year ago
United States	2.4	Q2	2.1	1.8	3.7	Aug	3.9	3.8	Aug	-2.9	-5.9	4.7	111	-	
China	6.3	Q2	3.2	5.2	0.1	Aug	0.8	5.2	Aug‡§	1.8	-3.2	2.5 §§	2.0	7.30	-2.9
Japan	1.6	Q2	4.8	2.0	3.1	Aug	2.9	2.7	Aug	2.9	-5.2	0.8	56.0	149	-3.0
Britain	0.6	Q2	0.8	0.3	6.7	Aug	6.8	4.3	Jun††	-2.8	-4.2	4.6	41.0	0.83	6.0
Canada	1.1	Q2	-0.2	1.1	4.0	Aug	4.1	5.5	Aug	-0.4	-1.4	4.2	102	1.38	-1.4
Euro area	0.5	Q2	0.5	0.8	4.3	Sep	5.6	6.4	Aug	2.3	-3.3	2.9	105	0.95	5.3
Austria	-1.3	Q2	-3.0‡	-0.2	5.8	Sep	7.9	5.3	Aug	2.4	-2.4	3.6	100	0.95	5.3
Belgium	0.9	Q2	0.6	1.0	0.7	Sep	3.2	5.5	Aug	-1.9	-4.8	3.6	112	0.95	5.3
France	1.0	Q2	2.1	0.8	5.6	Sep	5.7	7.3	Aug	-1.1	-5.0	3.5	76.0	0.95	5.3
Germany	-0.1	Q2	0.1	-0.3	4.3	Sep	6.0	3.0	Aug	5.8	-2.2	2.9	105	0.95	5.3
Greece	2.9	Q2	5.1	2.4	3.5	Aug	3.8	10.9	Aug	-5.9	-1.8	4.4	-24.0	0.95	5.3
Italy	0.3	Q2	-1.5	1.0	5.7	Sep	6.3	7.3	Aug	0.9	-4.8	4.9	71.0	0.95	5.3
Netherlands	-0.2	Q2	-0.9	0.2	-0.3	Sep	4.7	3.6	Aug	7.5	-2.3	3.3	108	0.95	5.3
Spain	2.2	Q2	2.1	2.2	3.2	Sep	3.5	11.5	Aug	1.8	-4.1	4.0	69.0	0.95	5.3
Czech Republic	-1.1	Q2	-0.1	0.3	8.5	Aug	10.5	2.6	Aug‡	-1.5	-4.4	5.0	-9.0	23.3	5.9
Denmark	0.6	Q2	-1.4	2.0	2.4	Aug	4.0	2.9	Aug	10.5	1.5	3.2	86.0	7.11	5.1
Norway	0.7	Q2	0.1	1.4	4.8	Aug	5.8	3.5	Jul‡‡	17.1	10.8	1.4	76.0	11.0	-4.6
Poland	-0.6	Q2	-8.5	-0.1	8.2	Sep	11.9	5.0	Aug§	0.6	-4.8	6.0	-92.0	4.40	9.8
Russia	4.9	Q2	na	-0.5	5.1	Aug	6.5	3.0	Aug§	1.8	-3.8	12.1	170	99.9	-40.6
Sweden	-0.8	Q2	-3.3	-0.6	7.5	Aug	6.0	7.7	Aug§	4.1	-0.3	3.1	87.0	11.1	-1.9
Switzerland	0.5	Q2	0.1	1.1	1.7	Sep	2.2	2.1	Aug	6.6	-0.7	1.1	23.0	0.92	6.5
Turkey	3.8	Q2	14.6	3.1	61.5	Sep	53.1	9.7	Jul§	-4.4	-5.0	24.9	1,317	27.6	-32.6
Australia	2.1	Q2	1.4	1.6	6.0	Q2	5.6	3.7	Aug	1.7	0.3	4.7	93.0	1.58	-2.5
Hong Kong	1.5	Q2	-5.2	2.9	1.7	Aug	1.9	2.8	Aug‡‡	8.4	-1.7	4.5	80.0	7.83	0.3
India	7.8	Q2	11.0	6.5	6.8	Aug	5.7	8.1	Apr	-1.3	-5.9	7.2	-12.0	83.2	-2.1
Indonesia	5.2	Q2	na	5.0	2.3	Sep	3.8	5.5	Q1§	0.7	-2.6	7.1	-13.0	15,630	-2.5
Malaysia	2.9	Q2	na	4.0	2.0	Aug	2.5	3.4	Jul§	1.7	-5.0	4.1	-22.0	4.73	-1.9
Pakistan	1.7	2023**	na	1.7	31.4	Sep	32.2	6.3	2021	-1.7	-7.7	16.2 †††	340	285	-21.0
Philippines	4.3	Q2	-3.6	4.1	6.1	Sep	5.7	4.8	Q3§	-4.6	-7.0	6.7	-35.0	56.7	3.5
Singapore	0.5	Q2	0.3	1.0	4.0	Aug	4.7	1.9	Q2	18.9	-0.7	3.5	23.0	1.37	4.4
South Korea	0.9	Q2	2.5	1.3	3.7	Sep	3.3	2.0	Aug§	1.9	-2.7	4.3	34.0	1,363	4.6
Taiwan	1.4	Q2	5.6	0.8	2.5	Aug	2.2	3.4	Aug	13.0	-0.4	1.3	-40.0	32.4	-2.0
Thailand	1.8	Q2	0.7	2.8	0.9	Aug	1.6	1.0	Aug§	1.1	-2.7	2.8	-24.0	37.1	1.3
Argentina	-4.9	Q2	-10.9	-2.8	124	Aug	129.9	6.2	Q2§	-2.8	-4.2	na	na	350	-57.6
Brazil	3.4	Q2	3.7	3.1	4.6	Aug	4.7	7.8	Aug§‡‡	-1.8	-7.6	12.0	29.0	5.16	-0.4
Chile	-1.1	Q2	-1.2	-0.2	5.3	Aug	7.5	9.0	Aug§‡‡	-4.3	-3.0	6.5	-28.0	918	1.6
Colombia	0.3	Q2	-4.1	1.6	11.4	Aug	11.5	9.3	Aug§	-4.0	-4.2	11.8	-85.0	4,296	4.4
Mexico	3.6	Q2	3.4	2.4	4.6	Aug	5.3	2.7	Aug	-1.8	-3.4	9.9	40.0	18.1	10.4
Peru	-0.5	Q2	1.5	0.1	5.0	Sep	6.5	7.3	Aug§	-1.3	-2.9	7.4	-127	3.80	4.0
Egypt	3.9	Q1	na	4.0	37.4	Aug	36.8	7.0	Q2§	-2.6	-6.7	na	na	30.8	-36.2
Israel	3.4	Q2	3.1	3.0	4.1	Aug	4.1	3.1	Aug	4.8	-2.0	4.3	103	3.85	-8.8
Saudi Arabia	8.7	2022	na	0.5	2.0	Aug	2.2	4.9	Q2	3.2	0.2	na	na	3.75	0.3
South Africa	1.6	Q2	2.4	0.5	4.8	Aug	5.7	32.6	Q2§	-1.8	-5.7	11.1	45.0	19.4	-9.0

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

Markets

In local currency	Index Oct 4th	% change on: one week	Dec 30th 2022
United States S&P 500	4,263.8	-0.3	11.0
United States NAScomp	13,236.0	1.1	26.5
China Shanghai Comp	3,110.5	0.1	0.7
China Shenzhen Comp	1,910.3	0.4	-3.3
Japan Nikkei 225	30,526.9	-5.7	17.0
Japan Topix	2,218.9	-6.8	17.3
Britain FTSE 100	7,412.5	-2.4	-0.5
Canada S&P TSX	19,034.8	-2.1	-1.8
Euro area EURO STOXX 50	4,099.8	-0.8	8.1
France CAC 40	6,996.7	-1.1	8.1
Germany DAX*	15,099.9	-0.8	8.4
Italy FTSE/MIB	27,435.6	-2.1	15.7
Netherlands AEX	720.9	-0.1	4.6
Spain IBEX 35	9,102.9	-2.5	10.6
Poland WIG	64,282.2	-0.9	11.9
Russia RTS, $ terms	991.4	-0.8	2.1
Switzerland SMI	10,756.2	-1.2	0.2
Turkey BIST	8,333.1	1.5	51.3
Australia All Ord.	7,082.2	-2.0	-1.9
Hong Kong Hang Seng	17,195.8	-2.4	-13.1
India BSE	65,226.0	-1.4	7.2
Indonesia IDX	6,886.6	-0.7	0.5
Malaysia KLSE	1,415.8	-1.7	-5.3

	index Oct 4th	% change on: one week	Dec 30th 2022
Pakistan KSE	47,079.8	1.4	16.5
Singapore STI	3,147.4	-1.6	-3.2
South Korea KOSPI	2,405.7	-2.4	7.6
Taiwan TWI	16,273.4	-0.2	15.1
Thailand SET	1,451.3	-3.1	-13.0
Argentina MERV	593,739.9	6.6	193.8
Brazil BVSP*	113,607.4	-0.6	3.5
Mexico IPC	50,732.7	-1.4	4.7
Egypt EGX 30	19,873.3	-1.5	36.1
Israel TA-125	1,864.8	-0.3	3.5
Saudi Arabia Tadawul	10,840.3	-2.1	2.8
South Africa JSE AS	70,564.7	-2.2	-3.4
World, dev'd MSCI	2,810.9	-1.1	8.0
Emerging markets MSCI	927.9	-2.2	-3.0

US corporate bonds, spread over Treasuries

Basis points	latest	Dec 30th 2022
Investment grade	136	154
High-yield	454	502

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

Commodities

The Economist commodity-price index

2015=100	Sep 26th	Oct 3rd*	% change on month	year
Dollar Index				
All Items	144.9	143.2	-2.9	-0.5
Food	130.0	126.1	-5.4	-9.1
Industrials				
All	158.9	159.2	-1.0	7.1
Non-food agriculturals	113.0	112.6	-1.6	-18.3
Metals	172.5	173.0	-0.9	13.9
Sterling Index				
All items	181.8	180.9	0.9	-6.0
Euro Index				
All items	151.9	151.6	-0.8	-5.4
Gold				
$ per oz	1,904.2	1,825.6	-5.4	5.9
Brent				
$ per barrel	94.1	91.0	1.0	-0.9

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

For more countries and additional data, visit
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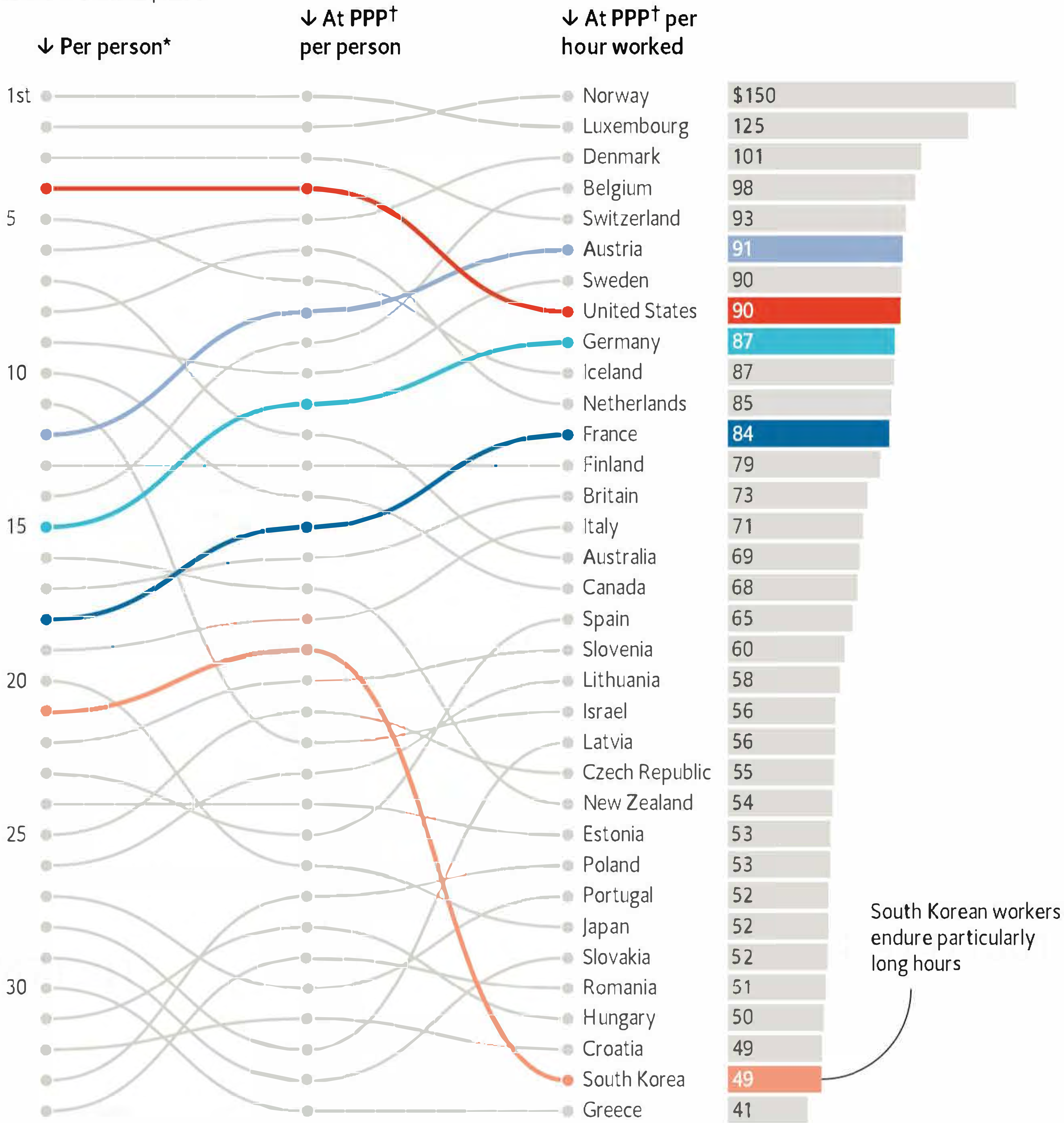
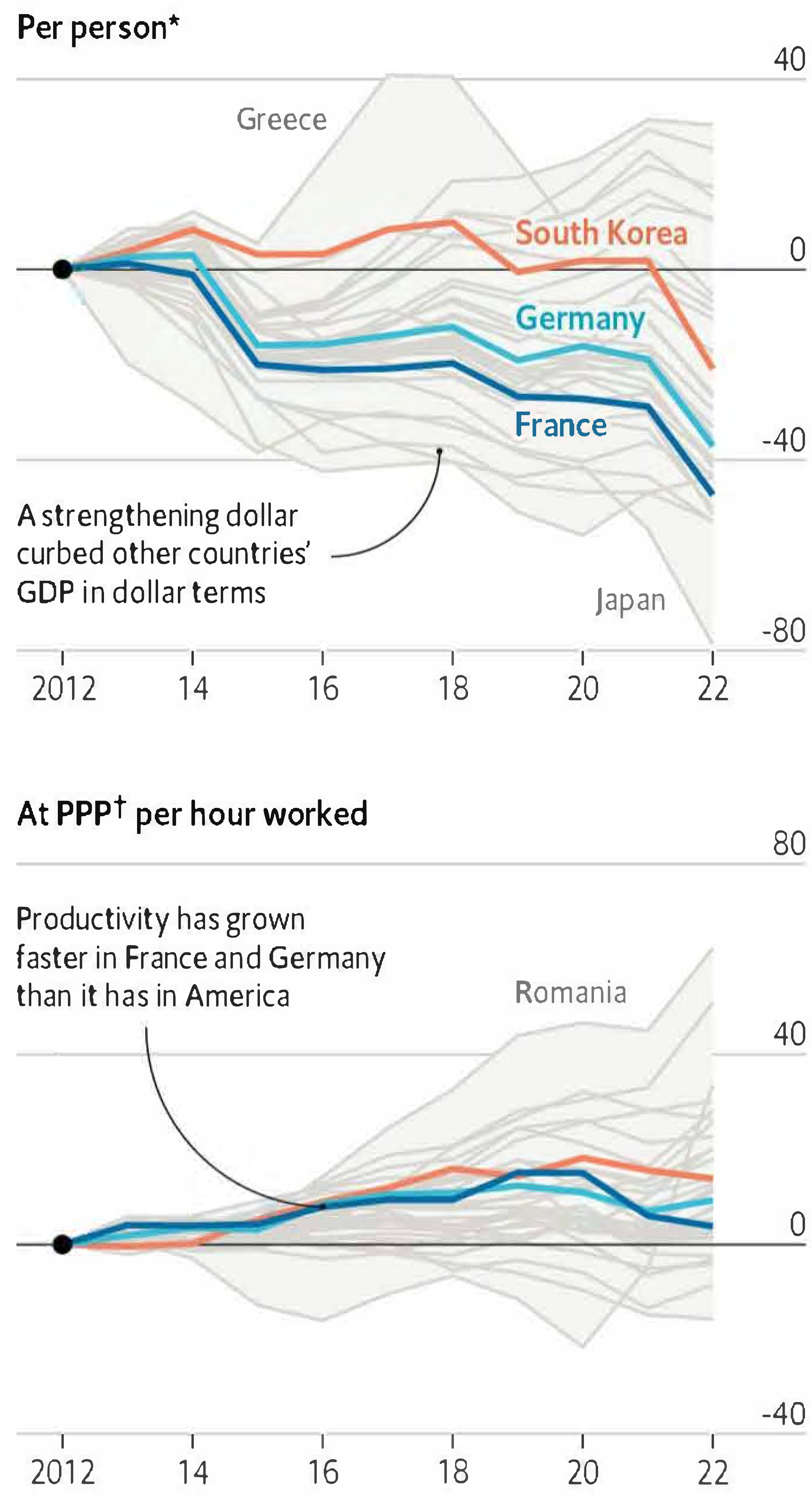
→ America's vast lead over Europe in GDP per person stems from a strong dollar, demography and long hours

Selected countries ranked using three measures of GDP
2022, $, current prices



GDP change since 2012, %-point difference from US
$, current prices



*At market exchange rates †Purchasing-power parity, adjusts for cost differences ‡Austria, Belgium, France, Germany, Luxembourg, the Netherlands and Switzerland Sources: OECD; World Bank

All work and no play

Productivity growth has been higher in western Europe than in America

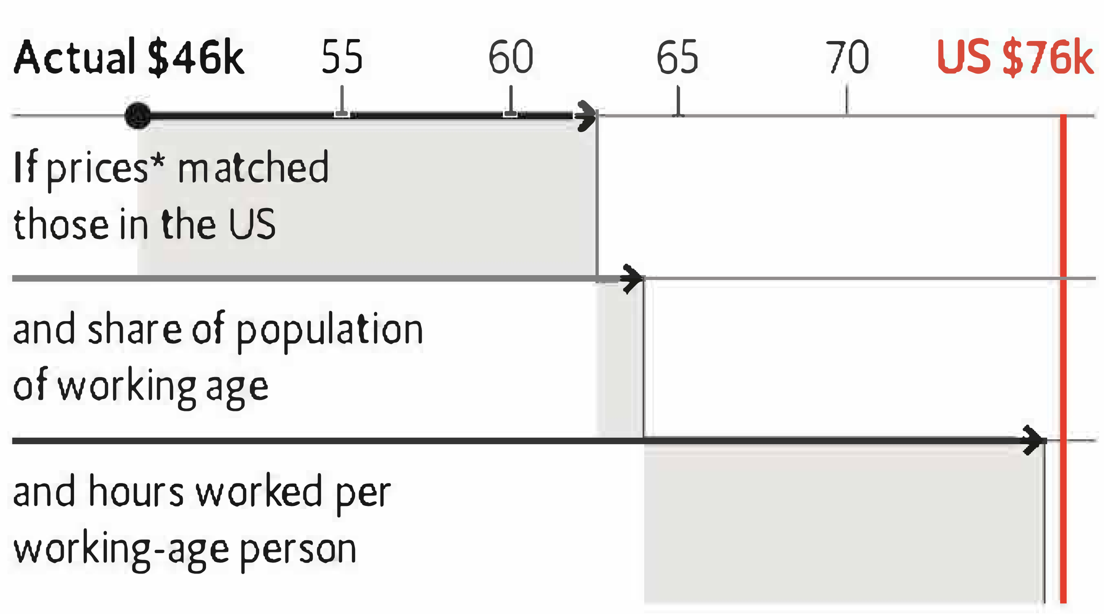
The EU economy is now 65% the size of America's in dollar terms, down from 90% just ten years ago. Slow population growth is partly to blame—the number of Europeans has risen by 1.6% since 2012, compared with 6.1% for Americans. Still, GDP per person is higher, and has grown far faster, in the United States than in Europe.

As a result, commentators and think-tanks have set about comparing the economies of some of Europe's richest countries to those of America's poorest states. But comparisons based simply on GDP per person are poor measures of economic welfare. Goods and services cost more in some countries than in others, and working more does not always make people better off. Adjusting for these factors suggests that countries like Denmark and Austria are in fact more productive than America.

The first step in comparing different economies is converting national figures into a common currency. But a dollar goes much further in some countries than others, because the costs of non-tradable goods and services, such as housing or restaurant meals, vary widely. Measuring living standards requires converting GDP figures to "purchasing-power parity" (PPP).

Europe's economic performance looks far better at PPP than in nominal terms. In 2012 prices in America were just 5.4% higher than in the EU at market exchange rates. Today, the gap is 46%, largely thanks to a strong dollar. Adjusting for PPP, the EU's GDP is roughly 95% of America's, the same as it was ten years ago. Still, PPP-adjusted GDP per person has grown faster in America than in most of western Europe.

GDP per person if western Europe‡ resembled US
2022



But focus instead on productivity, by dividing these figures by a tally of hours worked, and the gap closes further. As a result of demography—western Europe has a larger share of elderly people than America does—and because of differences in holiday allowances, pensions and unemployment benefits, Europeans work less than Americans do. On an hourly basis, countries like Austria, Belgium and Denmark leap ahead. In France, Germany and Sweden productivity has also grown faster in the past ten years than it has in America.

Such adjustments are an inexact science. PPP conversions struggle to capture differences in the quality of goods and services and many countries calculate hours worked differently. But in aggregate, western Europeans get just as much out of their labour as Americans do. Narrowing the gap in total GDP would require additional working hours, either via immigration or by raising the amount of time citizens spend on the job. Europeans may well reject this trade-off—they tend to value leisure time, even if GDP figures do not. ■

Beauty been

The Sycamore Gap tree was felled maliciously on September 28th, aged around 300

GARDENERS OFTEN think unfondly of sycamores. These are big, resilient, untidy trees, relatively recent arrivals, and of careless habits. Their winged seeds, and the tough little seedlings that sprout from them, spread everywhere they can. One such seedling was determined enough to drive its taproot through thin marshy topsoil into the dark, crystalline dolerite of Whin Sill, the cliff-like ridge in Northumberland which carries Hadrian's Wall. And there, over two or three centuries, it grew.

Being a sycamore, it liked to cluster, and also to sow offspring round about. It seems that for a time the tree on Whin Sill had others growing close, with which its roots and its canopy could correspond. But gradually these disappeared. The natural dip in the landscape there gave protection of a sort. More important, the tree now had space to grow into the most beautiful shape possible for sycamores, with a rounded dome on a trunk slightly twisting, lovely as a cedar of Lebanon. Long before, when it was still germinating, 18th-century gardeners with parks to plan put in well spaced sycamores for that reason.

Unlike other members of the genus *Acer*, it did not put on a blazing autumn display. Its big five-lobed leaves, with their irregular notching, merely turned a crumpled brown. No one minded. It was where and how it stood that drew crowds to the Steel Rigg car park and a good 20 minutes of perilous ascents and descents, to get a sighting. It was photographed in snow, mist and starlight, at sunrise and under the northern lights. It posed exquisitely. In 2016 it was voted England's Tree of the Year, and the next year it came fifth in the European league, when the winner was a far less prepossessing Polish oak called Jozef.

The sycamore was also snapped on thousands of ordinary phones. It had star billing when the Potters came to celebrate a 60th birthday, with the birthday girl in a gold sash and the spaniels behaving for once; when the Courage family gathered for Christmas, all in their wellingtons, shouting in triumph; when Lee proposed to Hayley and Brendan proposed to Sinead, kneeling awkwardly among the rocks and roots, and when miscellaneous walkers and rain-refugees brought out their pork pies and Kit-Kats. Not a few went on to the Twice Brewed pub where the beer was called Sycamore Gap, with the tree's portrait on the bottle. It was left alone then to the stars, and the quietly munching sheep.

Dramas happened to the sycamore, too. When "Robin Hood, Prince of Thieves" was filmed there in 1991 a henchman of the local lord, in chain-mail and metal helmet, almost took an axe to it. It was saved by Kevin Costner shouting "This is my land, and my tree!" before pinning the henchman to the ground with his sword. A narrow shave. Mr Costner roughly proved his "ownership" by breaking off leaves as he passed, but the sycamore had the last word, effortlessly upstaging the star as he trudged up the hill away from it, an ant beside its glorious silhouette.

There were other excitements. In 2003 a helicopter filming a nature documentary crashed 100 feet away, threatening to explode; the tree was unperturbed. At another point, during filming for a television crime drama, it was surrounded by police cars. So locals imagined there might be another episode in the making when, on the morning of September 28th, they saw police round the sycamore again. But the tree was down. It lay awkwardly across the Wall, its severed stump shockingly white where it had been sliced with a 28-inch chainsaw.

Technically, it still lived. The stump, remarkably healthy, was in the ground, the roots taking in water. But the water had nothing to flow to. As word spread, people gathered again, this time in a state of grief and disbelief. Some laid flowers, before the crime tape kept them out. One young man came with a sycamore sapling bought in a garden centre, planting it as close as he could to the right place. The National Trust removed it. Foresters said the stump could be coppiced, with new shoots sprouting, but after many, many years it would still be no more than a bush. The tree, as everyone knew it, could not be saved.

The sycamore had not officially been a sacred or magic tree. It was a locus of calm and deep summer shade; stargazers liked to gather there, and it bore, said the Bishop of Newcastle, "a pastoral load" of the worries and pain of local folk. It was the guardian of a place where people scattered ashes and painted pebbles inscribed with "Love you 4 ever Mum xx". But it was not tied with ribbons or haunted by druids; it was just "our tree". Nonetheless, on social media its felling seemed like sacrilege. First, it had hurt Northumberland and Northumbrians, tearing a hole in their hearts, killing some elemental spirit of the county, as badly as if someone had destroyed the Tyne Bridge. It had taken their symbol and their pride away. The gap left was immeasurable.

The felling had also outraged some numinous power of nature. Several social posts mentioned the story of Erysichthon, King of Thessaly, who felled the sacred grove of the harvest-goddess Demeter to build himself a feast hall. Her favourite poplar felt the blows of the double axes first. Erysichthon did not escape, however; Demeter afflicted him with such insatiable hunger that he ended by devouring himself. In Irish tradition, too, anyone who cut an ash would have his house consumed by fire. Similar thoughts of awful retribution were voiced against whoever had ventured out, on a night of raging storm and a full moon, armed with white paint to mark the place for the blade, to fell the sycamore. "Beware the wrath of nature," one tweet ran.

More people, though, dwelt on absence. What they felt was perhaps best expressed in Gerard Manley Hopkins's "Binsey Poplars", addressed to favourite trees felled in Oxford in 1879:

O if we but knew what we do
When we delve or hew—
Hack and rack the growing green!...

After-comers cannot guess the beauty been.