The Economist

War fever in Lebanon

What Donald Trump taught J.D. Vance

Is the big state failing its citizens?

YouTube v Hollywood

SEPTEMBER 28TH–OCTOBER 4TH 2024

CRUNCH TIME FOR UKRAINE

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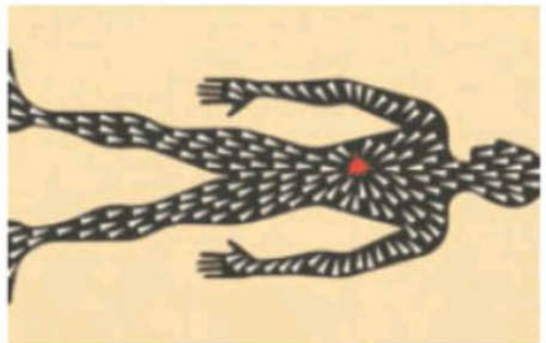

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to take part in *"a severe contest between intelligence, which presses forward, and an unworthy, timid ignorance obstructing our progress."*

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The world this week Politics

Israeli troops were told to prepare for a possible ground invasion of **Lebanon**, after **Israel** pounded **Hizbullah's** operations in the south of the country. Lebanese officials said 600 people had been killed in the bombardment, but gave no breakdown of civilians and combatants. At the start of the campaign an Israeli strike killed 45 people in Beirut, including Ibrahim Aqil, a senior Hizbullah commander who was wanted for the bombings of the American embassy and marine barracks in Beirut in 1983. Hizbullah fired a ballistic missile at Israel for the first time. It was shot down over Tel Aviv. America and 11 of its allies called for a 21-day ceasefire.

An explosion at a coal mine in **Iran** killed at least 50 people. Unsafe levels of methane gas hampered the rescue effort.

Police in **Tanzania** arrested three opposition leaders ahead of a planned anti-government protest. Although they were later released, critics worried that the detentions were the latest sign that the country is reverting to the repression which Samia Suluhu Hassan, the president, had promised to break. Earlier this month an opposition figure was found dead after being abducted by armed men.

Joe Biden gave his final speech to the **UN General Assembly**, where he insisted that a diplomatic solution to Israel's war with Hamas and Hizbullah was still possible. Volodymyr Zelensky struck a more martial tone, telling the delegates that **Russia** must be "forced into peace". The Ukrainian president spoke to the UN before unveiling his plan for victory to the Americans.

Ursula von der Leyen, the president of the European Commission, visited Kyiv, where she announced that the EU would loan **Ukraine** €35bn ($39bn). The loan is backed by a G7 plan to tap profits of frozen Russian assets. Meanwhile, Russia claimed that 56 civilians had been killed up until September 20th in Ukraine's incursion over the border into the **Kursk** region, and that 131,000 people had fled their homes.

Starmer's no charmer

Labour held its first annual conference as **Britain's** governing party for 15 years. Things have not gone smoothly for the new government since July's election, and its poll ratings are sliding fast. In his conference speech Sir Keir Starmer, the prime minister, said his policies would be "tough in the short term" but that there was light at the end of the tunnel. Businesses and households must wait for the budget on October 30th to find out whether their taxes will rise.

Germany's government saw off a challenge from the hard-right Alternative for Germany (AfD) in a state election in Brandenburg, which surrounds Berlin. The Social Democrats (SPD), the party of Olaf Scholz, the chancellor, took 31% of the vote and the AfD 29%. The Greens and the Liberals, the SPD's coalition partners, failed to muster enough support to get into the local assembly. After a string of poor results in local elections the two co-leaders of the Green party stepped down.

The new prime minister of **France**, Michel Barnier, named his cabinet, which has a distinctly conservative feel compared with the previous government's centrist character. The new interior minister, Bruno Retailleau, pledged to crack down on illegal immigration and Islamists. The finance minister is Antoine Armand, who hails from Emmanuel Macron's moderate Renaissance party. He takes over from Bruno Le Maire.

The Swedish Security Service revealed that Iran was behind a cyber-attack on **Sweden's** text platforms last year, and had sent out messages urging people to respond to a spate of Koran burnings. Iran's purpose was to sow discord, said the security agency.

Swiss police arrested several people in connection with the first reported death of someone in a **suicide pod**. Assisted dying is legal in some instances in Switzerland, but concerns have been raised about the pod, which slowly fills with liquid nitrogen, cutting off oxygen supply.

China fired an intercontinental ballistic missile into the Pacific, the first time it has made such a test public since 1980. The exercise is likely to raise international concerns about China's increased long-range nuclear capabilities.

Anura Kumara Dissanayake won **Sri Lanka's** presidential election in the country's biggest political shake-up since independence in 1948. Mr Dissanayake comes from a party with a Marxist history. He promises to uphold democracy, tackle corruption and cronyism and alleviate poverty, but also wants to re-examine the terms of the IMF's bail-out. Shortly after his victory Mr Dissanayake dissolved parliament and called a general election for November 14th.

In an unexpected twist, S. Iswaran, a former transport minister in **Singapore**, pleaded guilty to obtaining valuable items from a Formula One racing promoter while he was in office. It is the first corruption case involving a Singaporean minister since 1986.

The king of **Thailand** signed a bill into law, that paves the way for gay marriage to become legal on January 22nd.

Rot in the Big Apple

Eric Adams, the mayor of **New York**, said that charges brought against him by the federal government were "entirely false" and "based on lies". Mr Adams has been under investigation for more than a year. Prosecutors had confiscated phones from several officials. The police and health commissioners and schools chancellor recently resigned.

Morena, **Mexico's** ruling party, appointed a son of President Andrés Manuel López Obrador to a party job. Andrés López Beltrán has been a quiet player behind the scenes. His new position adds to fears that Mr López Obrador will continue to influence the presidency after Claudia Sheinbaum takes office on October 1st.

A court in **Argentina** ordered the arrest of Nicolás Maduro, **Venezuela's** autocratic president, for alleged crimes against humanity. This came hours after the Venezuelan Supreme Court ordered the arrest of Javier Milei, Argentina's president, on charges connected to the seizure of a Venezuelan cargo plane. Mr Maduro is clinging on to power despite losing July's election.

Kenya said it would deploy another 600 peacekeepers to **Haiti**, boosting its force there to 1,000. The transitional government in Haiti recently created an electoral council with the aim of holding an election by February 2026, which would be the country's first in a decade.

The world this week Business

It emerged that **Qualcomm** has approached **Intel** about a friendly takeover. Intel has fallen behind rivals such as Nvidia and AMD in the market for artificial-intelligence processors. In August a poor earnings report and tepid forecasts rattled investors, wiping $32bn off its market value. The company recently announced a turnaround plan, which focuses on turning its foundry business into an independent subsidiary. Intel's share price rose on the news of Qualcomm's offer, but the stock is still down by over 50% this year.

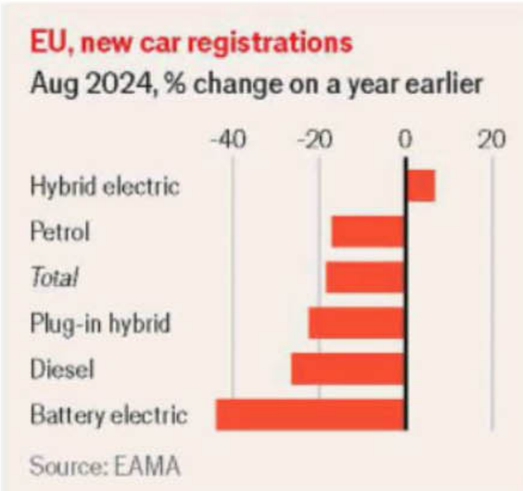
Resistance to a banking union

UniCredit, Italy's second-biggest bank, sought regulatory approval to increase its stake in **Commerzbank**, the second-largest lender in Germany, to 21%. The idea of a takeover is opposed by Commerzbank and Olaf Scholz, the German chancellor, who described the Italian bank's actions as an unfriendly attack. Commerzbank's deputy chairman said "I feel like vomiting" when he hears UniCredit's promises of cost savings. Meanwhile, the bank announced that Bettina Orlopp, the chief financial officer, would soon succeed Manfred Knof as chief executive.

China's central bank unveiled a raft of measures aimed at boosting stockmarkets and providing more help to the country's beleaguered property market. The bank is lowering its policy interest rate by 0.2 percentage points, and the rate on existing mortgages by half a point, and reducing reserve requirements for banks. Analysts noted the relatively large size of the cuts and the unexpected guidance on future policy. China's stockmarkets surged in response.

The **Bank of Japan** left its key interest rate unchanged at 0.25%. The central bank's governor, Ueda Kazuo, has indicated that it won't lift rates again until December at the earliest.

Nike's share price retained the gains it made after the sportswear maker ditched John Donahoe as chief executive and replaced him with Elliott Hill, a veteran executive who has come out of retirement to lead the company.



Once considered the future of car-battery manufacturing in Europe, **Northvolt** announced that it would cut its workforce by 20% and suspend a planned expansion. Some of the Swedish startup's problems are of its own making, though it has struggled to attract investors amid slowing demand for **electric vehicles** in Europe. The European Automobile Manufacturers' Association has noted that the EV market is on a "continual downward trajectory", and called on the EU to rethink its timeline for banning petrol-powered cars.

Mira Murati, who oversaw the development of ChatGPT as **OpenAI's** chief technology officer, resigned from the startup. OpenAI is preparing to begin a process that will see it eventually ditch its non-profit status to become a "public-benefit corporation", according to reports.

The head of **Boeing's** defence and space division stepped down with immediate effect, the first big senior departure since Kelly Ortberg took over as chief executive in August. The division has been losing money for years. Meanwhile, the union representing striking workers at Boeing's factories in the Pacific north-west rejected the company's latest pay offer.

Underscoring the huge amounts of energy needed to power data centres, **Microsoft** signed a deal that will reopen a unit of the **Three Mile Island** nuclear facility to supply it with carbon-free electricity for 20 years. Unit 1 was closed five years ago for economic reasons. It is adjacent to Unit 2, which was permanently shut in 1979 following a meltdown in what remains America's worst-ever nuclear accident. Microsoft will buy energy from the reopened plant, which will be connected to the PJM grid, a regional transmission organisation covering 13 states.

America's Justice Department lodged an antitrust complaint against **Visa**, accusing it of using its dominance in debit-payment networks to thwart competition. Visa said the lawsuit was "meritless".

Bad news for Kamala?

The Conference Board's index of American **consumer confidence** plunged from 105.6 in August to 98.7 in September, the biggest decline in three years. People are worrying more about jobs and inflation, according to the survey.

Palantir was one of three companies added to the S&P 500 stockmarket index, as American Airlines and two other companies were booted off. Palantir, best and controversially known as a provider of data analytics to America's intelligence and defence establishment, has seen its share price soar by 160% over the past year. Its name is a reference to magical stones in "The Lord of the Rings" that allow characters to watch events in other parts of the world.

The Economist

Crunch time

The war is going badly. Ukraine and its allies need to change course

IF UKRAINE AND its Western backers are to win, they must first have the courage to admit that they are losing. In the past two years Russia and Ukraine have fought a costly war of attrition. That is unsustainable. When Volodymyr Zelensky travelled to America to see President Joe Biden this week, he brought a "plan for victory", expected to contain a fresh call for arms and money. In fact, Ukraine needs something far more ambitious: an urgent change of course.

A measure of Ukraine's declining fortunes is Russia's advance in the east, particularly around the city of Pokrovsk. So far, it is slow and costly (see Briefing). Recent estimates of Russian losses run at about 1,200 killed and wounded a day, on top of the total of 500,000. But Ukraine, with a fifth as many people as Russia, is hurting too. Its lines could crumble before Russia's war effort is exhausted.

Ukraine is also struggling off the battlefield. Russia has destroyed so much of the power grid that Ukrainians will face the freezing winter with daily blackouts of up to 16 hours. People are tired of war. The army is struggling to mobilise and train enough troops to hold the line, let alone retake territory. There is a growing gap between the total victory many Ukrainians say they want, and their willingness or ability to fight for it.

Abroad, fatigue is setting in. The hard right in Germany and France argue that supporting Ukraine is a waste of money. Donald Trump could well become president of the United States. He is capable of anything, but his words suggest that he wants to sell out Ukraine to Russia's president, Vladimir Putin.

If Mr Zelensky continues to defy reality by insisting that Ukraine's army can take back all the land Russia has stolen since 2014, he will drive away Ukraine's backers and further divide Ukrainian society. Whether or not Mr Trump wins in November, the only hope of keeping American and European support and uniting Ukrainians is for a new approach that starts with leaders stating honestly what victory means.

As *The Economist* has long argued, Mr Putin attacked Ukraine not for its territory, but to stop it becoming a prosperous, Western-leaning democracy. Ukraine's partners need to get Mr Zelensky to persuade his people that this remains the most important prize in this war. However much Mr Zelensky wants to drive Russia from all Ukraine, including Crimea, he does not have the men or arms to do it. Neither he nor the West should recognise Russia's bogus claim to the occupied territories; rather, they should retain reunification as an aspiration.

In return for Mr Zelensky embracing this grim truth, Western leaders need to make his overriding war aim credible by ensuring that Ukraine has the military capacity and security guarantees it needs. If Ukraine can convincingly deny Russia any prospect of advancing further on the battlefield, it will be able to demonstrate the futility of further big offensives. Whether or not a formal peace deal is signed, that is the only way to wind down the fighting and ensure the security on which Ukraine's prosperity and democracy will ultimately rest.

This will require greater supplies of the weaponry Mr Zelensky is asking for. Ukraine needs long-range missiles that can hit military targets deep in Russia and air defences to protect its infrastructure. Crucially, it also needs to make its own weapons. Today, the country's arms industry has orders worth $7bn, only about a third of its potential capacity. Weapons firms from America and some European countries have been stepping in; others should, too. The supply of home-made weapons is more dependable and cheaper than Western-made ones. It can also be more innovative. Ukraine has around 250 drone companies, some of them world leaders—including makers of the long-range machines that may have been behind a recent hit on a huge arms dump in Russia's Tver province.

The second way to make Ukraine's defence credible is for Mr Biden to say Ukraine must be invited to join NATO now, even if it is divided and, possibly, without a formal armistice. Mr Biden is known to be cautious about this. Such a declaration from him, endorsed by leaders in Britain, France and Germany, would go far beyond today's open-ended words about an "irrevocable path" to membership.

This would be controversial, because NATO's members are expected to support each other if one of them is attacked. In opening a debate about this Article 5 guarantee, Mr Biden could make clear that it would not cover Ukrainian territory Russia occupies today, as with East Germany when West Germany joined NATO in 1955; and that Ukraine would not necessarily garrison foreign NATO troops in peacetime, as with Norway in 1949.

NATO membership entails risks. If Russia struck Ukraine again, America could face a terrible dilemma: to back Ukraine and risk war with a nuclear foe; or refuse and weaken its alliances around the world. However, abandoning Ukraine would also weaken all of America's alliances—one reason China, Iran and North Korea are backing Russia (see International section). Mr Putin is clear that he sees the real enemy as the West. It is deluded to think that leaving Ukraine to be defeated will bring peace.

Indeed, a dysfunctional Ukraine could itself become a dangerous neighbour. Already, corruption and nationalism are on the rise. If Ukrainians feel betrayed, Mr Putin may radicalise battle-hardened militias against the West and NATO. He managed something similar in Donbas where, after 2014, he turned some Russian-speaking Ukrainians into partisans ready to go to war against their compatriots.

For too long, the West has hidden behind the pretence that if Ukraine set the goals, it would decide what arms to supply. Yet Mr Zelensky cannot define victory without knowing the level of Western support. By contrast, the plan outlined above is self-reinforcing. A firmer promise of NATO membership would help Mr Zelensky redefine victory; a credible war aim would deter Russia; NATO would benefit from Ukraine's revamped arms industry. Forging a new victory plan asks a lot of Mr Zelensky and Western leaders. But if they demur, they will usher in Ukraine's defeat. And that would be much worse. ■

Israel and Hizbullah

Leash the dogs of war

Israel and Hizbullah are creeping closer to all-out war. They must find a way to step back

SINCE HIZBULLAH started firing missiles at Israel on October 8th last year, Israelis, Lebanese and outsiders have dreaded escalation. Now it seems to be happening. The simmering conflict between Israel and Hizbullah, the Shia militia in Lebanon, is boiling over (see Middle East & Africa section). More than 500 people were killed in a single day of air strikes as Israel targeted Hizbullah's commanders and weapons. Tens of thousands of Lebanese have fled from the south. And Hizbullah is hitting back. On September 25th Israel intercepted a ballistic missile heading for Tel Aviv, the first time the militia has targeted Israel's commercial capital.

As bad as things seem, they could get a lot worse. Israel has more troops in the north than it has had for the past nine months—though a ground invasion would demand still larger numbers, positioned in staging-areas on the border. Fears are growing that both sides are trapped on a path towards a terrifying conflagration. Yet both sides still have time, and good reason, to step back.

Both know that all-out war would be bloody and ruinous, and ultimately lead only to a return of the armed stand-off that prevailed before October 7th. Many would needlessly die, on both sides. Israel claims to have destroyed as much as 50% of Hizbullah's arsenal, but it had more than 120,000 rockets and missiles. What is left could still do grave harm. Israel's military muscle would not guarantee victory, as past wars in Lebanon have shown. A ground invasion would pit Israel's troops, battle-weary after months of combat in Gaza, against a well-armed and hardened enemy on its own turf. A second big war would batter Israel's economy (see Finance & economics section). And Israeli attacks on infrastructure would aggravate Lebanon's already dire economic collapse. Due to atrocious governance, its GDP is less than half what it was in 2019.

Even Iran, Hizbullah's sponsor, seems wary of escalation. Masoud Pezeshkian, its new president, said at the UN this week that it would not allow Israel to goad it into a regional conflict. The leaders of the Islamic Republic may well prefer their most powerful proxy to save its weapons as a deterrent against a direct Israeli attack on their own country.

Israel has further reasons to step back. It cannot destroy Hizbullah, only weaken it. It has inflicted huge damage on the militia since July. Once it has worked its way through Hizbullah's medium-range rocket stockpiles and high command, it will soon run out of targets it can easily strike. If it goes after the group's political leaders, including Hassan Nasrallah, or its long-range missiles, Hizbullah and Iran will at some point calculate that they must use its arsenal rather than lose it. That is a threshold Israel does not want to cross.

The best way out of the conflict lies to the south. Mr Nasrallah has said he will stop firing on Israel when there is a ceasefire in Gaza. Such an agreement could then allow Hizbullah to pull back along the lines set out by UN Resolution 1701, passed in 2006, which requires the militia to withdraw north of the Litani river, 30km from the border.

Alas, a truce in Gaza still seems out of reach because of the intransigence of both Binyamin Netanyahu, Israel's prime minister, and Yahya Sinwar, the leader of Hamas. A ceasefire between Israel and Hizbullah, as urged by America, much of Europe and several Arab nations, may be more achievable. Under pressure from Iran, Hizbullah might be persuaded to quietly step back; Israel may be satisfied that it has done enough for now. Even an informal truce would be a relief.

It would let Israelis return to their homes in the north and Lebanese to theirs in the south. Israel would still live under the shadow of a hostile and heavily armed opponent close to its border, so a truce today is no guarantee against conflict tomorrow. But one ceasefire would be better than none. ■

Public finances in the rich world

The case for VAT

If governments need to raise money, they should tax consumption more

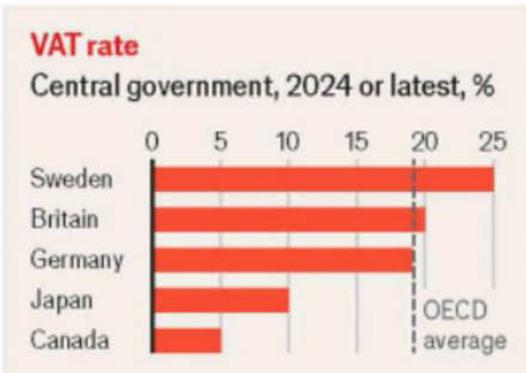
THE RICH world's states are getting bigger and less effective—and the forces that are the cause cannot easily be turned back. As governments look after ageing populations and fight wage inequality, they are doling out more in pensions and benefits. From 1980-2022, social spending in rich countries with available data rose from 14% to 21% of GDP.

Yet politicians have been loth to raise taxes to keep pace, and in many cases have cut them. Borrowing has therefore soared and, to pay the bills, public services have been squeezed (see Finance & economics section). As a result, many government services are breaking down. In parts of Canada children spend as long on the waiting list for nursery as they would in nursery itself. Britain is releasing convicts early because it has not built enough prisons; fewer than two-thirds of Germany's long-distance trains run on time.

The Economist has long argued that retirement ages should rise with life expectancy. Even with this policy, however, the ratio of pensioners to workers can still rise simply because the elderly are so numerous. In any case, the formidable voting power of the old makes it hard to stop their benefits from growing. Likewise, it is unavoidable that progressive taxation and income top-ups for low earners bring about more redistri- ▸▸

bution when pre-tax wage inequality rises. If they want to be elected, politicians will struggle to contain the welfare bill. If they are to avoid the implosion of public services—or fiscal crises—they will need instead to pay for bigger government by raising taxes. The option that is both feasible and not too economically damaging is to tax consumption by raising VAT.

The good news is that more redistribution need not crush capitalism. Unlike, say, hiring civil servants or nationalising industries, removing cash from Peter to pay Paul is a relatively light-touch economic policy. If handouts make up half a government's budget, for instance, it may find that it spends 40% of GDP but employs only 20% of workers as civil servants. In purely economic terms, the redistribution system is costly only in that it distorts incentives, in particular by taxing work and enterprise. Redistribution and free markets can happily co-exist if the system avoids trapping potential workers in welfare, and if it uses "efficient" taxes that are gentle on incentives.



Unfortunately, governments today are ignoring this rule. In its budget next month Britain's new Labour government is expected to raise taxes on saving and investment, which is likely to harm growth (see Leader). Canada has increased capital-gains taxes. France's new government is reportedly considering fresh levies on business. In America, which is recklessly running an annual deficit of 7.3% of GDP, presidential candidates are in denial about the need to raise taxes or make them efficient. Instead, they are promising distorting gimmicks, such as exempting tips from income tax, and, in the case of Donald Trump, exempting overtime too. Mr Trump would also rebalance the tax system towards tariffs, which grossly twist incentives against international trade.

Politicians should try more efficient taxes instead. The best would be a land tax. Unfortunately, voters hate the idea, perhaps because property taxes require individuals to write big, regular cheques. Second-best for efficiency is value-added tax (VAT), a levy on consumption which distorts incentives only to the extent that certain goods and services are exempted.

Experience suggests that it is easier to raise VAT than other efficient taxes—so much so that America's Republican Party has historically opposed the tax on the grounds that it makes it too easy to build a welfare state. (America, unusually, levies only state-level sales taxes.) In 2011 Britain raised its VAT rate from 17.5% to 20% and faced little public backlash. And high VAT has long helped Nordic countries pair big government with thriving market economies; they levy rates of 24% or 25%, among the highest in the rich world. Estonia is raising its tax to similar levels to pay for more defence.

An argument against VAT is that it is regressive, because the poor consume more of their incomes than the rich. But the poor also have the most to gain from better public services and faster economic growth. In any case, VAT is less regressive when measured against lifetime, rather than annual, income; raising the tax would affect rich retirees who spend out of wealth and no longer pay labour taxes. Another argument against increasing VAT today is that doing so would raise prices and add to measured inflation. But inflation has fallen significantly. If increases were phased in gradually, the effects would be manageable.

Bills don't pay themselves

The same cannot be said of the consequences of allowing public services to collapse and debt to explode. That would outrage voters and upend economies. VAT is not perfect, but few other taxes can preserve public services as populations age and fund Leviathan without throttling free enterprise. If a state is fat, it needs a VAT. ■

Anura Kumara Dissanayake

Sri Lanka's new ex-Marxist president

He is not as bad as he sounds, but the risk of disappointment is high

THE POLITICAL background of Anura Kumara Dissanayake, who was sworn in as president of Sri Lanka on September 23rd after winning a run-off election, looks alarming. His party, the Janatha Vimukthi Peramuna (JVP), began as a revolutionary Marxist-Leninist movement that led two unsuccessful but bloody uprisings against the Sri Lankan state in the 1970s and 1980s. Tens of thousands of Sri Lankans were killed or simply "disappeared" in the insurrections and their suppression, which overlapped with a civil war between the government and Tamil rebels.

To his credit, Mr Dissanayake (widely known as AKD) has distanced himself from this gory past. On becoming party leader in 2014, he apologised for the killing of thousands of people by the JVP during the second, more brutal, uprising when he was part of its student wing, and said the party would never again take up arms. (There has never been a similar apology for atrocities committed by those in power at the time.)

He has also further softened the JVP's ideology. The party had been playing down its Marxist origins for years, disavowing class struggle and its old rejection of private property (though members still call each other "comrade"). In his campaign this year Mr Dissanayake struck a conciliatory tone, stressing national unity and voicing support for a market economy. Since 2022, when mass protests ousted the then-president, Gotabaya Rajapaksa, a coalition assembled by the JVP and its associates has won broad support among middle-class Sri Lankans, whose living standards have been devastated by economic crisis and the austerity policies designed to fix it.

The main reason for worrying about Mr Dissanayake is not that he is a zealot. It is that he has little experience in government, barring a brief stint as agriculture minister two decades ago. Somehow, he must continue with painful reforms to keep the economy stable without alienating the people who elected him (see Asia section). It is an almost impossible task.

The economy collapsed under Mr Rajapaksa's corrupt, eccentric regime, which divvied up power among the president's ▸▸

relatives and indulged in outlandish policy experiments. Trying to turn the nation's farms organic overnight, Mr Rajapaksa banned imports of chemical fertiliser, causing food production to collapse and living standards to plummet. Sri Lanka defaulted in April 2022. Three months later a crowd stormed Mr Rajapaksa's palatial residence and he fled the country.

Ranil Wickremesinghe, his successor, brought down inflation, stabilised the currency and struck debt-restructuring deals with the IMF and other creditors, including India and China. However, he failed to salve the economic pain felt by ordinary people, and did little to curb graft or safeguard the rights of dissidents. He was also seen as too close to the Rajapaksa government that wrecked the country in the first place.

Mr Dissanayake campaigned on promises to root out corruption and renegotiate the deal with the IMF. If he reneges on that agreement, as some fear, Sri Lanka could be plunged back into economic crisis. So he is more likely to stick with it. But this means he will have little space to cut taxes or raise welfare spending, as he has promised. Debt payments are expected to gobble up half the budget next year, and Mr Dissanayake's ideas for boosting growth remain maddeningly vague.

A failure to ease economic suffering could infuriate his supporters, undermining a government that is already weak. Mr Dissanayake's leftist umbrella group held just three of 225 seats in the parliament he dissolved this week, and is unlikely to win a majority in the elections now scheduled for November. So he will probably end up governing with a fragile political coalition, possibly including members of the old establishment he promised to oust. Sri Lankans hoping for a reckoning with the past are likely to be disappointed, too: despite its rebellious history, the JVP is unlikely to support an investigation of atrocities committed during the long civil war.

Any or all of these issues may well hobble Sri Lanka's new leader. Despite Mr Dissanayake's clear mandate, his presidency is built on shaky ground, in a country that has little room for error. Wish him luck. ■

The future of television

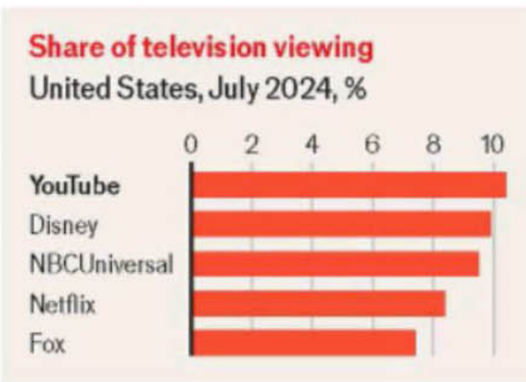
It's time to adjust your set

The do-it-yourself crowd is coming for the television industry

WHEN JEFF BEZOS, the founder of Amazon, wanted some publicity for Blue Origin, his rocket firm, he did not turn to a television channel or a newspaper, as he might have done a decade ago. Instead he offered Tim Dodd, who runs a YouTube channel called "The Everyday Astronaut", an exclusive factory tour. The resulting video, in which the two men spend an hour admiring hydrogen tanks and discussing the finer points of rocket-engine turbopumps, may not strike everyone as compelling TV. It has 1.6m views nonetheless.

It also neatly illustrates a transformation in the media business. As the internet has cut out middlemen and empowered enterprising people to produce things themselves, an enthusiastic do-it-yourself crowd is taking on mass-market incumbents. In-depth, chatty podcasts have shaken up radio. Music from independent artists, not beholden to the big labels, is growing in popularity on Spotify.

But it is in television that the change is most dramatic. As we report this week, YouTube, which is owned by Google, has quietly built a video-streaming business to rival those of Netflix, Disney or NBCUniversal (see Business section). Its legions of self-taught film-makers broadcast to 2.5bn viewers each month. YouTube accounts for a tenth of all the television that Americans watch, more than any other streamer or channel. And much of that audience is young, building viewing habits that may last for decades.



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YouTube is what tech types call a platform, whereas its rivals are run much more like traditional studios. Getting a series greenlit on Disney or Netflix means negotiating with agents and fixers before convincing a commissioning executive to hand over a pile of money. Filming needs hundreds of specialised people. YouTube throws all that out of the window. Anyone can upload more or less anything they like. Most videos are free to watch. YouTube's job is to insert some advertisements and split the takings with the film-maker. If that sounds like a recipe for dross, it often is. But what is more striking is how much genuinely engaging stuff bubbles up.

Technology has helped. High-quality cameras are cheap. Powerful video-editing software runs on inexpensive laptops. And drones make dramatic aerial shots possible. The result is that handfuls of people can make videos with relatively high production values for a tiny fraction of the cost of traditional television. The quality gap will only shrink. By automating many of the tedious bits, artificial intelligence seems likely to make video production even easier than it already is.

YouTube has spawned its own megastars, such as MrBeast, with his 317m followers (and growing number of critics). But its most interesting effects will be felt at a smaller scale. Because making content is cheap, YouTubers can earn a living serving niches too small to be profitable for other streaming firms. From Mr Dodd's rocket science to rock climbing, knitting or ancient history: think of an interest, and at least one YouTube channel is probably dedicated to it.

This means that, as with the rest of media, the future of television looks likely to become ever more targeted and specialised. Just how high the tide of user-generated content can rise remains to be seen. Some YouTubers are experimenting with formats such as game shows or feature films, with mixed results. Some bits of high ground look likely to stay safe: it is hard to see YouTube videos replacing big-budget dramas like "Game of Thrones" or "Stranger Things", which require upfront financing that YouTube's business model does not provide. In a world of ever more precisely tailored content, those rare TV shows that have true mass-market appeal will be even more valuable. But only because they will become rarer still. ■

British politics

That sinking feeling

The Labour government is paying the price for the sins of its election campaign

IT IS AS if the honeymoon started to go sour at the airport. Labour won power less than three months ago, yet Sir Keir Starmer's personal approval ratings now stand below those of Rishi Sunak, the man he replaced as prime minister. Insiders brief about dysfunction at the heart of government. The headlines are all about missteps, most obviously over gifts of glasses, clothing and other freebies for Sir Keir and his wife. The Conservatives suffered their worst defeat in modern history in July; one poll has them just four points behind Labour.

Plenty in the party argue that these difficulties are just froth. Polls don't matter when the next election is still almost five years away and the government has a huge majority. New prime ministers always take time to bed in; it is too early for a definitive verdict on this one. Sir Keir himself is dismissive of "the politics of noisy performance": what Westminster talks about is not what the country cares about.

Some of that is true. And this government is better than the shambles that came before. Planning is a good example. The government has lifted what amounted to a ban on onshore wind farms and stiffened housing targets. On September 22nd it published proposals to accelerate building in urban areas. Sir Keir has also forged closer relations with politicians from the EU without having to fear Brexiteers braying betrayal.

But waving away Labour's pratfalls would be a mistake. For one thing, time is not on the government's side. Its political capital peaked the morning after the election; from here on, its credit may decline slowly or quickly, but decline it will. Growth-enhancing policies take time to have visible effects. And the arc of British politics bends towards chaos (see Bagehot). Because it would not take a big swing for lots of new Labour MPs to lose their seats at the next election, falling opinion polls will be a recipe for indiscipline.

The bigger problem for the government—and the reason for the sinking feeling among those, like this newspaper, who do not share many of its beliefs but want it to do well—is that its seemingly trivial mistakes are a symptom of deeper flaws. To get elected, Labour chose a strategy that reduced its room for manoeuvre in office. It lacks a clear project. And for all its incessant talk of hard decisions, it now appears unprepared for many of the choices that governing inevitably requires.

The original sin lies in the election campaign. Sir Keir's aim was to reinvent the Labour Party and win back power. He achieved both admirably. But to avoid scaring the electorate, Labour ran a risk-free campaign. Fearful of reopening the wounds of Brexit, it rejected the idea not just of rejoining the single market and customs union but even European overtures to negotiate a youth-mobility agreement. Desperate not to be painted as a tax-raiser, it promised not to raise national insurance, income taxes or VAT. These pledges did indeed reduce the risk of losing the election, but they also made it harder to govern. As a result, Labour entered office with no mandate to touch taxes that account for a majority of government revenues or to make radical moves on Europe, the single issue that weighs most heavily on growth.

That same caution means Labour has never defined what it is for (see Britain section). Because of the haplessness of the Tories, it needed only to promise stability and to offer voters competence and integrity. Stories about infighting between aides would matter less if Labour had not based its appeal on managerial effectiveness. If the party had not made so much of its devotion to public service, freebies would not smack of hypocrisy. Without a compelling analysis of what ails Britain and a clear sense of direction, the wheels of government are more liable to spin. Without a vision of what he wants to do and why, Sir Keir will struggle to avoid being distracted by events or to explain the trade-offs that governing demands. A decision to means-test winter-fuel allowances for pensioners was supposed to signal the government's toughness. Instead it has come to stand for its political ineptitude.

It is telling that the area where Labour has made most progress—planning reform—is the one where it has been clearest about what needs fixing and whom it is willing to fight. The best passage of Sir Keir's speech to his party's conference was when he was explicit about the choices involved in building: prisons, pylons and housing have to spoil someone's view.

Elsewhere, however, things are muddier. The government says its central mission is raising the country's growth rate, but that is not how it is behaving. It is unwilling to get a lot closer to Britain's largest trading partner. It claims to be an unalloyed fan of wealth creation, but because of its tax pledges, it is thinking about balancing the books in the budget on October 30th using growth-crunching increases in capital-gains taxes. Rachel Reeves, the chancellor, stresses the importance of infrastructure but is still filling holes in the accounts by cancelling transport projects. An employment-rights bill is more likely to deter hiring than increase mobility. Even in a bright spot like housing, the government has focused on affordability rather than productivity: it should be building more in cities like Manchester and Birmingham.

If *The Economist* had its way, the lodestar of the government would be productivity growth. That is the only means to raise living standards in Britain and to fund public services over the long term. To this end, Labour should press ahead with even bolder planning reforms. It should pursue a closer relationship with Europe. Mending the public finances in the most growth-friendly way possible means raising the very taxes Ms Reeves has pledged not to touch (see Leader). The party should perform a U-turn in the budget, which has become a crucial test of its intentions and ability to carry them out.

Sir Keir will not do all of that. But he does need to grasp that his stumbling start is not just a succession of local difficulties. Britain's centralised system of government rests on the exercise of prime-ministerial authority. Its stagnant economy demands radicalism. If Sir Keir does not set a clear direction for his government, confront the trade-offs growth entails and pick his fights wisely, then he really will be sunk. ■

Letters

LETTERS ARE WELCOME AND SHOULD BE ADDRESSED TO THE EDITOR AT:
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Car safety

The Economist should be congratulated for its analysis of crash data showing the danger that heavy sport-utility vehicles and pickups pose to the drivers of smaller cars in America ("Too much of a good thing", August 31st). Research by the VIAS Institute, which focuses on improving road safety, confirms that your findings also apply to Europe. Its analysis also highlights the devastating impact of large vehicles on pedestrians and cyclists. For a pedestrian or cyclist hit by a pickup the risk of serious injury increases by 90% and of fatal injury by almost 200%. The researchers concluded that when the mass of a vehicle is increased by 300kg (660lb) the risk of fatal injury is 30% higher for these vulnerable road users.

In light of this we are concerned about a loophole in European law that allows large trucks to be imported to the European Union from America despite not meeting local safety standards. According to data from the European Environment Agency, nearly 5,000 Dodge RAMs were brought into Europe in 2023, up by 20% compared with 2022.

Cities are finding ways of cracking down on heavy vehicles. Non-residents are now paying much higher parking fees for heavy cars in Paris. But a piecemeal effort will not be enough. The EU needs to consider structural ways of shifting the market towards lighter cars that make the streets safer for all road users.

DUDLEY CURTIS
European Transport Safety Council
Brussels

This is a global issue that reflects the clash between data-driven policy-making and crude populism. We have the technology to make roads safer. Safe lanes for vehicles equipped with Intelligent Speed Assistance (ISA) and autonomous-driving technologies would allow those who value safety to opt into a controlled environment, free from reckless drivers. In Helsinki, integrating ISA with advanced traffic management has led to significant reductions in accidents. Moreover, the necessary infrastructure investments would not only enhance safety but also provide an economic boost by creating jobs and modernising our transport networks.

DR HENNING STEIN
Finance fellow
Judge Business School
Cambridge University

Children's car seats may be pushing many buyers toward larger vehicles: they are simply much easier to manage in a big car. Car seats are also wide. For a family with three children a minivan or SUV is often seen as essential. Wouldn't it be great if manufacturers offered space-efficient and ergonomic car seats that could be swapped in for the existing back bench seats in a sedan?

CRAIG WILDMAN
Kensington, California

Fatalities are very expensive for insurers, particularly in litigious America. In an efficient market, the difference in insurance costs should cover the social cost of the externality that heavy cars impose on other road users. If there is a role for government, it is to mandate third-party insurance to ensure that drivers are offered appropriate prices and react accordingly.

NICK WILLS-JOHNSON
Perth, Australia

The biased UN

You claimed that the recent UN vote on Palestine underlined America's weakening clout ("UNintended consequences", September 21st). Actually, the vote highlighted the UN's growing irrelevance. Sure, the UN does some good through the provision of humanitarian aid, but it is a net negative contributor to global peace and prosperity. Despite the misnamed Security Council, the UN prevents no conflicts and brings about no peace. Millions of Rwandans, Ukrainians, Sudanese, Lebanese, Syrians, Iraqis and Israelis, among others, can attest to that.

It doesn't follow through on its grandiose but unserious pledges to heal the environment and improve the lot of the world's poorest. It provides diplomatic cover to the world's worst human-rights abusers and physical cover to terrorist groups. It is consumed by a rabid obsession with denigrating the world's only Jewish state. Only 52% of Americans view it favourably, according to a recent poll from the Pew Research Centre.

America's occasional inability to hold sway at such a compromised, ineffectual institution is a reflection of the UN's dysfunction and illegitimacy, not an indictment of its unmatched geopolitical influence.

ADAM KOGEMAN
Aurora, Colorado

Data point

The difference between the balance-of-payments data released by China's State Administration of Foreign Exchange (SAFE) and by customs officials is not the mystery that your briefing on China's opaque economy suggests ("Lowering the veil", September 7th). SAFE began to compile and publish balance-of-payments figures on the basis of the methodology specified in the IMF Balance of Payments Manual beginning in 2015. In 2021 the IMF put out a new guideline to use in accounting for trade involving what it calls "factory-less manufacturing". In its official report on the balance of payments covering the first half of 2022 SAFE explains in some detail the subsequent differences between customs and SAFE data. Some of these have been well known and in effect for years.

In short, SAFE is following the guidelines of the IMF and the customs administration has not changed its methodology. This explains why the gap in the two series started in 2022. I don't think there is any reason to suggest that the statistical authorities are manipulating the data. Rather, we have full transparency.

NICHOLAS LARDY
Non-resident senior fellow
Peterson Institute for International Economics
Washington, DC

We're sorry to see you go

Bartleby's attrition question, "How many people are leaving my team?", is one that most people can answer (August 31st). Some time ago when I interviewed a global head of human resources the head quickly and succinctly responded, "13%...and that compares favourably with our peers". However, the more difficult conversation was the organisation's level of regrettable attrition, people they wished they had retained but who left of their own accord. Regrettable attrition should be measured against a list of key employees each year with executive compensation tied to the retention of those vital few.

Sadly my experience is that when good people leave we usually fall back on the idea that the spilt milk was probably sour anyway.

PETER TINGLING
Associate professor
Beedie School of Business
Simon Fraser University
Burnaby, Canada

The sins of the past

Museum curators should be careful what they wish for. Cancelling Paul Gauguin because he couldn't keep his hands off young Polynesian girls could lead to a ban on other transgressive artists ("Off colour?", September 14th).

Goodbye Pablo Picasso, a serial sexual predator. No more paintings by Caravaggio either; he was a murderer. Norman Mailer, who stabbed his wife, and William Burroughs, who shot his, would be banished from library shelves. Farewell to Ernest Hemingway also. Cancel culture could see the world's art galleries and libraries emptied out.

MICHAEL PHILLIPS
Fort Lee, New Jersey

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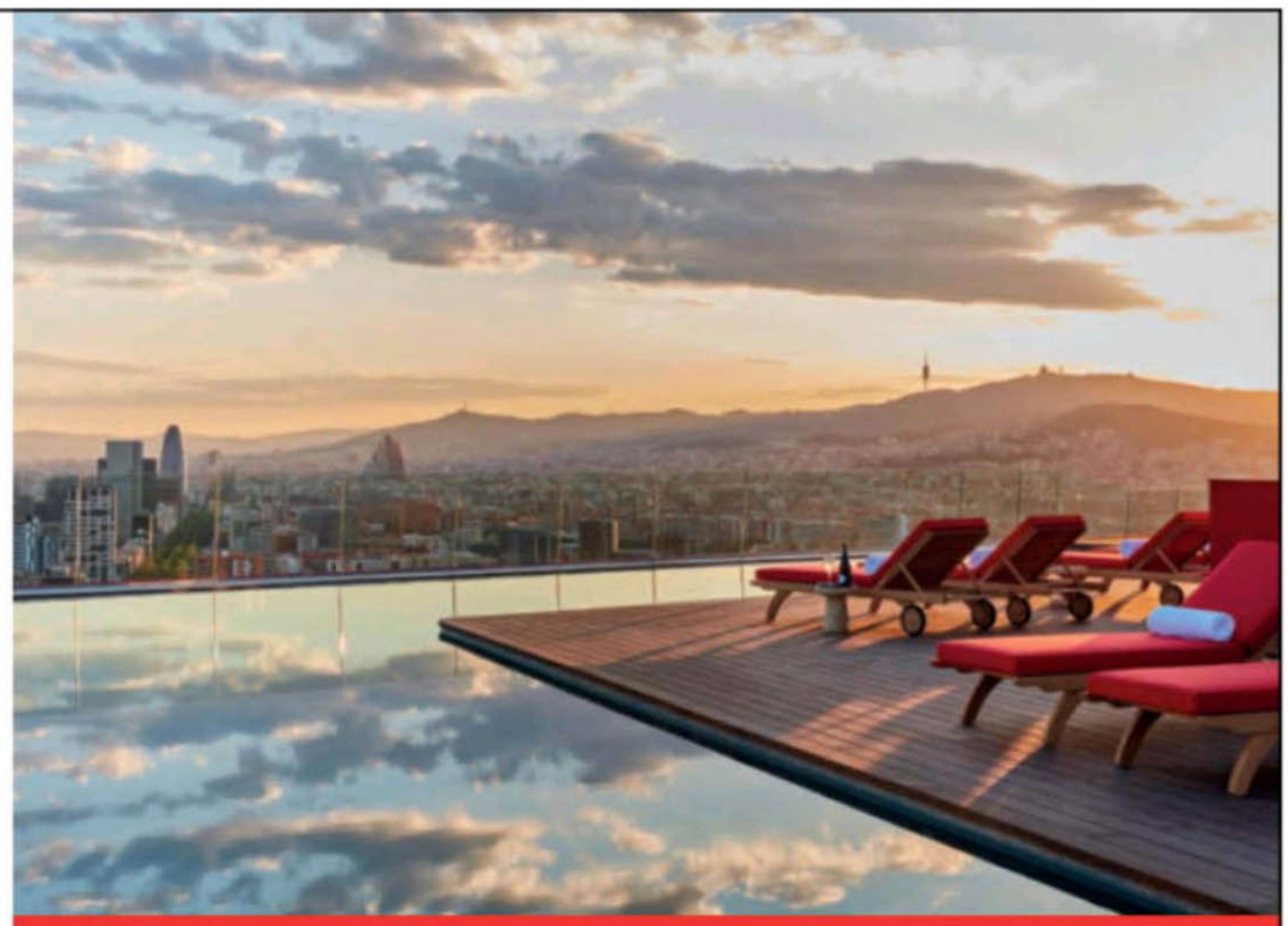

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Briefing Ending the war in Ukraine

A widening breach

KYIV

Ukraine is on the defensive, militarily, economically and diplomatically

"RUSSIA CAN only be forced into peace," Volodymyr Zelensky, the president of Ukraine, told the UN Security Council this week. Mr Zelensky has been touring America, glad-handing the great and the good and talking up his "victory plan" to end two and a half years of war with Russia. As usual, he asked for more military, financial and diplomatic support to help face down Russia's relentless attacks. President Joe Biden obliged, announcing a new consignment of weapons for Ukraine. But Donald Trump, the Republican candidate to replace him, is much less amenable. Mr Zelensky clearly worries that Ukraine, not Russia, may be forced into an unpalatable peace. With his army gradually losing ground, his people's enthusiasm for the war flagging and Western support in doubt, Mr Zelensky is in a bind.

Since Ukraine recaptured the city of Kherson in late 2022, it has made almost no progress repelling Russia's invasion. A much heralded offensive in the summer of 2023 won only tiny slivers of Russian-held territory. Since then, most changes in the front line, although small, have been in the wrong direction. Russia captured the city of Avdiivka in Donetsk province in February. In recent months it has been closing in on several more Ukrainian strongholds in Donetsk, including Pokrovsk and Vuhledar (see map on next page).

In theory, Ukraine remains determined to reclaim all its lost territory, restoring the borders it inherited when the Soviet Union collapsed in 1991. That would entail the reconquest not only of the Russian-occupied bits of Donetsk, Kherson, Luhansk and Zaporizhia provinces, but also of Crimea, which Russia seized in 2014. But that is far out of reach militarily. In practice, the war has become one of attrition, with both sides hoping they can outlast the other, or at least fend the other off for long enough to avoid being forced into a disadvantageous peace agreement.

Ukraine podcast

In a special edition of The Weekend Intelligence, to be released on September 28th, our editor-in-chief, Zanny Minton Beddoes, looks at the war's critical next phase

The blast of war blows

Talk of an end to the war is, for the moment, purely notional. Vladimir Putin, Russia's president, has shown no genuine interest in peace talks. In 2022 Mr Zelensky signed a decree barring Ukrainian officials from negotiating with Russia while Mr Putin remains in power.

Mr Zelensky still talks as if outright victory on the battlefield remains within reach, although he has also mentioned a "desire for dialogue". Ukraine's hope seems to be that an influx of new recruits, a stea- ▸▸

dy supply of Western arms and the clever application of firepower can hold Mr Putin's armies at bay, forcing him to bear the political costs of mobilising more reservists and further straining the economy, and so nudging him towards a deal. But it may be Ukraine's army, economy and society that reach breaking-point first.

Russia's advances are coming at a horrifying cost. Volodymyr Horbatyuk, the Ukrainian army's deputy chief-of-staff, claims Russia has recently been losing six men for every Ukrainian casualty. "They are really pushing everyone into the grinder: drivers, cooks, builders," echoes another high-ranking soldier. An American official says that 100,000 Russians have been killed and 430,000 injured since the start of the war.

The pace of Russian gains, already grindingly slow, has recently reduced even further. It is possible that Pokrovsk may continue to hold out for several more months. Western fears of a Ukrainian collapse and a rapid Russian advance on big cities such as Dnipro and Odessa have receded, provided America does not suddenly cut off the flow of munitions.

Stiffen the sinews

But the balance of attrition nonetheless favours Russia. If Russian forces eventually seize Pokrovsk, as they probably will in the end, the landscape to the west is flatter and so more favourable to further Russian advances. What is more, Russia still enjoys a huge advantage in firepower, even after Ukraine received a big influx of American weapons earlier this year. Russian artillery rules the front line, firing as many as ten shells for every Ukrainian one in some places. Russia also gets an edge from its glide bombs, guided munitions of 500kg, 1,500kg or 3,000kg that can flatten defensive positions and slaughter troops.

Although Ukrainian casualties are much lower than Russia's (but probably not as low as Mr Horbatyuk claims), Ukraine is finding it harder to replace them. It has fewer soldiers at the front to begin with: 450,000 to Russia's 540,000. And whereas most of the Russian troops have signed up voluntarily for generous pay, Ukraine is relying ever more on conscription. Officers complain that many of those drafted into service are ill-suited to fighting: too old, too ill, too drunk. There is no clear path out of the army once in it, which makes being mobilised seem like a one-way ticket to the morgue. Some 5-10% of soldiers on active duty are absent without leave. The authorities are prosecuting lots of deserters, but they do not command as much fear as Mr Putin's regime. Fewer than 30% of Ukrainians consider draft-dodging shameful, according to an opinion poll.

These problems have been exacerbated to some extent by Ukraine's incursion into the Russian province of Kursk, which began in August. Although this offensive reaffirmed Ukraine's capacity to seize the initiative, outsmart Russian forces and embarrass Mr Putin, it also extended the front lines and stretched Ukraine's supply-lines. It has not prompted Russia to slow its offensive in Donetsk, as hoped, although some Russian forces have been diverted to Kursk's defence. And it has reduced the resources available for the defence of Pokrovsk: Oleksandr, an officer stationed near the city says his unit has received less air support since the incursion began.

Stabilising the front line will require more firepower. Senior Ukrainian officials says their forces need a layered defence, including artillery, missiles, warplanes and drones, to force Russian troops and weapons away from the front line and so make further advances impossible. Ukraine has been asking for permission to use powerful Western missiles to attack military targets deep inside Russia, such as air bases, factories and infrastructure. A trio of audacious Ukrainian drone and missile strikes in recent weeks—one against an arms dump in Toropets, 500km inside Russia, on September 18th and two others days later against depots in Krasnodar, 200km away—have served as powerful illustrations of what is possible.

But American officials worry that using Western weapons in this way might prompt Russia to retaliate by making life difficult for Western countries in other ways, by arming Houthi rebels in Yemen, say. Anyway, they argue, there are not enough missiles available to make a big difference. Instead, they are focusing on building up Ukraine's domestic defence industry, especially its drone-making capacity. Ukraine has had great success with daring drone attacks, which have not only hit places like Toropets but also helped to drive Russia's fleet out of the Black Sea, in effect. According to Oleksandr Kamyshin, an adviser to Mr Zelensky, Ukraine's arms production is roughly tripling year on year.

The main problem, however, is not capacity, but cash. Ukraine's government does not have the money to buy local arms manufacturers' output. Order books are less than half full in some cases. Ukraine could produce more than 3m short-range attack drones a year, for instance, but the army has only been able to contract for 1.5m of them.

Mr Kamyshin wants to fund domestic arms purchases by lifting export controls and selling weapons abroad. He is also urging Western allies to pay for arms to be made in Ukraine. The Danish government, for example, has bought 18 Bohdan self-propelled artillery pieces for Ukraine in this way.

But Russia, too, is making more weapons. Mr Putin has pledged to increase the production of drones by a factor of almost ten this year. The manufacture of glide bombs and Iskander missiles has surged sevenfold since late 2022. Russia has also been able to buy big batches of ammunition and missiles from North Korea and of drones and missiles from Iran.

Among other things, these weapons have allowed Russia to launch nine waves of attacks from March to August against Ukraine's power plants and electricity grid. It has hit targets in almost every province under Ukrainian control, according to a recent UN report. This onslaught took out some 80% of Ukraine's coal- and gas-fired generation.

Many of the damaged facilities are functioning again, but remain vulnerable to future attacks. Ukraine's air defences have improved, but Russia's attacks have also become more sophisticated, using flares, decoys and other tricks to outwit anti-missile batteries. On August 26th Russia targeted the wiring connecting Ukraine's three nuclear power stations to the grid, threatening to cut off over half of the country's power supply in a single day.

Russia's intention is to freeze Ukraine into submission, Mr Zelensky argued at the UN, since much of Ukraine's heating depends on the power supply. As it is, there is a shortage of power. The deficit will become more severe as the weather gets colder—and as Russia's blitz intensifies. There are fears of rolling blackouts of as long as 12 hours. In the worst case, pipes may freeze and burst, disabling heating systems even after power has been restored. Squads of technicians are stationed near important nodes in the grid, armed with replacement parts, ready for quick repairs.

Concrete carapaces have been built to protect power plants. In cities near the front lines, such as Kharkiv, small, mobile generation units are being deployed to reduce the risk of a disastrous power failure.

To cope with power cuts, big industrial enterprises such as steel mills are investing in their own gas turbines. The chairman of a Ukrainian bank says his firm, too, is installing its own generation capacity. Even small businesses have bought generators or made other contingency plans. "It will be a very difficult winter, but I'm confident we will avoid catastrophe," says Oleksandr Lytvynenko, head of Ukraine's national security council.

On the face of things, most Ukrainians are equally confident and combative. Almost three-quarters tell pollsters that military victory remains possible. Only 9% say they would accept an end to the fighting that simply cements the current front lines without any other concessions.

But these figures disguise a growing generational rift. Those older than 60, who do not risk being drafted, are much more gung-ho about the war than the young: 54% of them believe that Ukraine is winning, compared to 31% of those between 18 and 25. By the same token, 60% of the elderly say Ukraine must continue fighting until all its territory is liberated, compared to only 40% of 18- to 25-year-olds. What is more, the number of Ukrainians who say they would be willing to cede territory to Russia under certain conditions has been rising steadily. The share willing to accept the current front lines rises to 38% if Ukraine were admitted to the European Union and given funds for reconstruction. If Ukraine were admitted to NATO as well, 47% would be willing to accept the current front lines. And fully 57% would be ready to make peace if Ukraine regained control of the occupied parts of Zaporizhia and Kherson regions, while ceding control over Crimea, Donetsk and Luhansk.

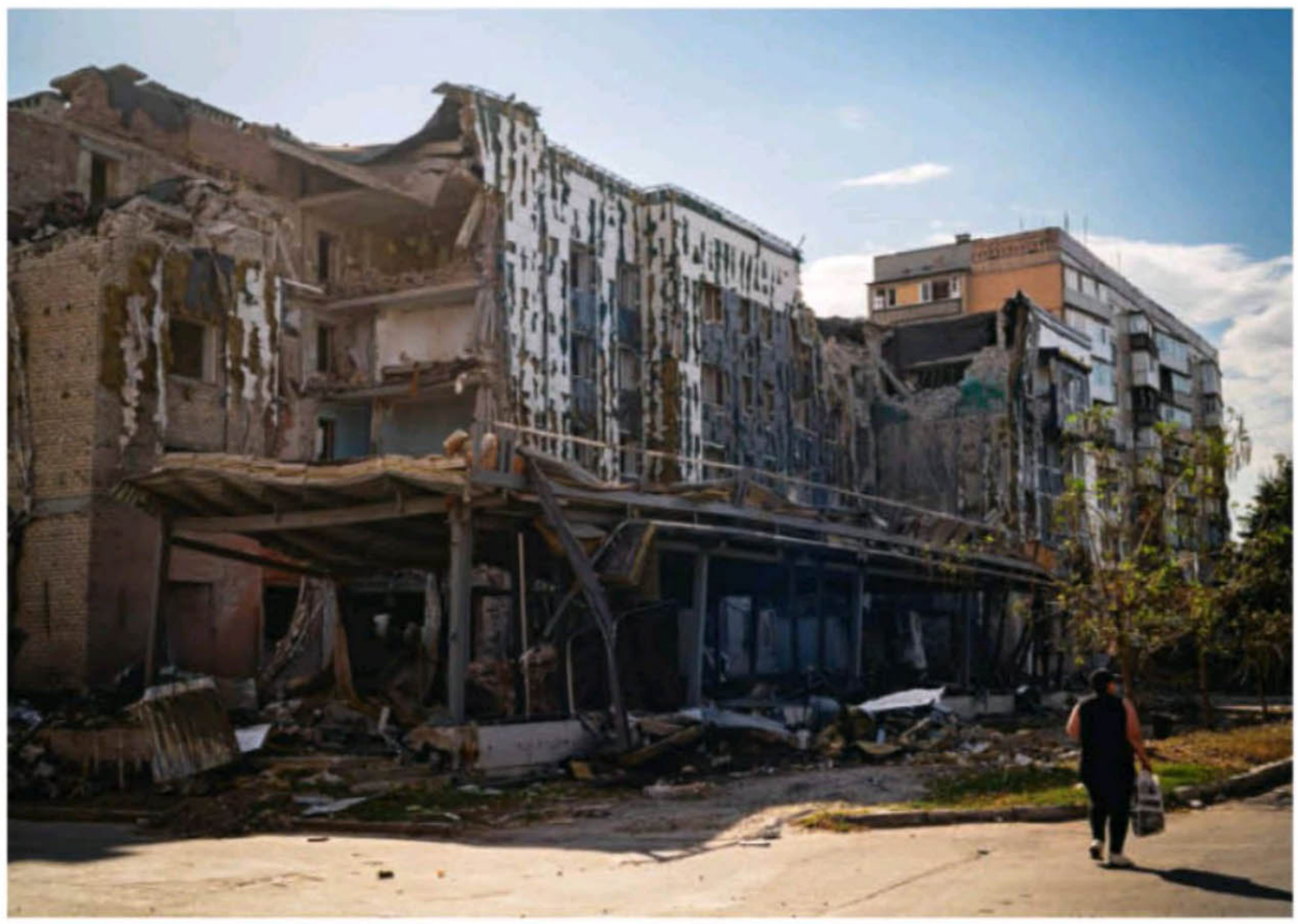
Life can seem deceptively normal in big cities like Odessa, where open-air restaurants are packed, spinning classes sell out and people taking selfies obstruct the seaside promenade. But 77% of Ukrainians say a friend or acquaintance has died in the war; 22% have lost a relative. Expectations of how long the war will last are increasing.

Although the economy has stabilised, and is even growing, it remains far smaller than it was before the war. Some 6.5m people, almost a fifth of the population, have fled the country. More than 60% of those who remain tell pollsters their income has shrunk and they are struggling to cope. The government is even harder up. Its revenues are barely projected to cover half of its spending in 2025. It needs grants or loans to cover the remaining $38bn or so. Although allies including America and the EU have agreed to fund the deficit using earnings from frozen Russian assets, the process is bureaucratic and leaves Ukraine hostage to its benefactors' whims.

All this is feeding bitterness about the war's toll. "The West and the United States in particular have an unequivocal responsibility for the deaths of Ukrainians," says Yuriy Fedorenko, who commands a drone unit. "Russia kills us openly. The West, with its helpless and impotent reaction, gives silent consent to this destruction."

Perhaps inevitably, Ukrainians' trust in Mr Zelensky has fallen, from 80% in May 2023 to 45% this year, according to America's National Democratic Institute. Trust in the government in general is much lower still. Even though all big political parties agreed last year to defer elections until the end of the war, Mr Zelensky is said to be considering calling a presidential election next year to consolidate his power.

"The political process has definitely started," says Yulia Tymoshenko, a veteran politician. There is much debate about potential rivals to Mr Zelensky, such as Valery Zaluzhny, who was sacked as army chief in February. Polling suggests Ukrainians like the idea of being led by a former soldier. "The country is pregnant with expectations of new political leaders," says Yulia Mostovaya, journalist.



Victory still seems a long way off

Hold hard the breath

It is against this unpromising backdrop that Mr Zelensky has travelled to America in search of further support. Mr Biden's aides, although prone to grumbling about Ukraine's endless demands, are trying to help as much as possible in the four remaining months of his presidency. The new military assistance is part of a push to spend the aid that Congress has already approved. They are also trying to unravel bureaucracy around the lending backed by frozen Russian assets. Some even express hope that Congress might be persuaded to approve more aid for Ukraine between the election in November and the inauguration of the new president in January.

If the new president is Kamala Harris, the Democratic candidate, Ukraine expects a broadly similar approach to Mr Biden's. But if Mr Trump wins a second term, the outlook is much less predictable. His camp includes both hawkishly pro-Ukrainian types, such as Mike Pompeo, who served as secretary of state during Mr Trump's presidency, and people who seem happy for Russia to defeat Ukraine, such as J.D. Vance, Mr Trump's running mate, who said just before Russia's invasion in 2022, "I don't really care what happens to Ukraine one way or another."

Mr Trump's latest rhetoric on the war is not reassuring. He joked this week that Mr Zelensky is "the greatest salesman on Earth" who walks away with $100bn every time he comes to America. He also mused that Russia tends to win wars and complained that Mr Biden is not planning for that possibility. Mr Trump's eldest son, meanwhile, denounced Mr Zelensky's mild scepticism about his father's insistence that he can bring the war to a speedy conclusion as "disgraceful".

At the UN General Assembly this week, Mr Zelensky talked about the dangers of appeasing belligerent powers like Russia and the injustice of trying to impose a lopsided peace on Ukraine. But he has yet to spell out what an acceptable end to the war might be, short of total victory. But in Ukraine's current straits, total victory does not look like an option. ■

United States

The donor race

Money for nothing

WASHINGTON

Kamala Harris is outspending Donald Trump. Will it matter?

CAMPAIGN FINANCE has changed dramatically over the past 15 years, but not in ways that many expected. The Supreme Court's landmark decision in 2010, *Citizens United v Federal Election Commission*, enabled expansive corporate spending and ignited fears among Democrats that business-friendly Republicans would gain an irreversible advantage. "I don't think American elections should be bankrolled by America's most powerful interests," Barack Obama warned. But two years later Mr Obama out-raised Mitt Romney while winning re-election. Political money rules kept easing, and Democrats kept benefiting. In 2016 Hillary Clinton enjoyed a nearly two-to-one advantage over Donald Trump, and Joe Biden easily out-raised Mr Trump four years ago in the most expensive campaign ever, at nearly $6bn.

Democrats are once again on pace to beat Mr Trump in the money race, despite a tumultuous year in which some big party donors withheld funds from an unpopular Mr Biden before he withdrew and Kamala Harris stepped up to reopen wallets. And yet despite being roundly outspent, Mr Trump has so far won one close White House race and lost another, and *The Economist*'s 2024 election forecast suggests that this year's contest remains a toss-up. That prompts a question campaign fundraisers are loth to ask: does raising more money than your opponent matter?

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The advantage Ms Harris enjoys is eye-watering. She raised $190m to Mr Trump's $45m in August, according to the most recent Federal Election Commission filings. Her campaign has $235m in cash against $135m for the Republican. Mr Trump enjoys a lead with allied groups, but the most recently available data show that the vice-president's overall tally amounts to around $1bn, while Mr Trump's campaign fundraising and spending by outside groups totals $692m (see charts on next page).

"I look with jealousy at Democratic friends who can ask anyone they know for money for Harris," says a big-dollar Trump donor. "The number of people who would donate to Trump is limited. They already have or they never will." He adds that Mr Trump's choice of J.D. Vance as his running-mate went over poorly with donors.

The modern, billion-dollar presidential campaign is a strange enterprise. Massive sums chase a shrinking pool of persuadable voters. Money pours in quickly and must be spent just as fast, with limited evidence about what works. Aside from legal wrangling, any spending after November 5th is virtually useless.

Team Harris and the Democratic National Committee employ about 1,200 staff; in August alone the Harris campaign spent $4.9m on payroll. Outlays for air travel exceeded $6m. Those sums look puny ▸▸

next to the $135m allocated to advertising over the same period. Team Trump has also put most of its money into ads. All told, the campaigns and allied groups have spent nearly $1.4bn on advertising for the 2024 general election. Around $1.1bn of that has gone to seven swing states.

Lynn Vavreck, a scholar at the University of California, Los Angeles, says that in the 2020 race she and her colleagues could not find any effect from advertising, though she still believes there may have been a small one. This year seems to be no different. Yet the prospect of a small margin of victory incentivises candidates' search for any edge. "If you told Kamala Harris, right now, 'I can guarantee you a half a point of votes here in Michigan,' she would be like, 'I will pay you any amount of money to tell me how'," Ms Vavreck says.

The money is there to be had—and it certainly can't hurt. "If she's winning the election by tens of thousands of votes in a handful of states...then you look back and say maybe it mattered," reckons John Sides, a political scientist at Vanderbilt University. "If I were the Republican Party, I would look back at the last few cycles and say, 'Why are we fighting presidential elections with one hand behind our back?'"

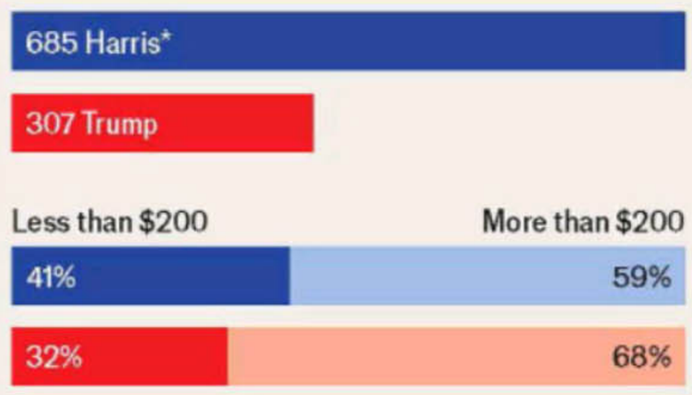
A well-heeled get-out-the-vote operation identifies voters, registers them and makes sure they cast their ballots. Like advertising, such operations are expensive, and their power to persuade is up for debate. Yet campaigns don't want to risk falling short. "The Harris campaign is very flush. They're able to do things outside of paid advertising in areas like direct voter contact," says Michael Vachon, a longtime political adviser to George and Alex Soros, who are giving about $75m in this cycle to Democratic causes. "In an election that's very, very close, the marginal impact of that is greater."

One reason for the Democrats' strength in the post-*Citizens United* era is the rise of small-dollar donors, or those who contribute less than $200. Here, too, Ms Harris does better than Mr Trump (see chart 1). "I know $15 is a big sacrifice to make," Mr Trump wrote in a fresh solicitation on September 24th, "especially when our country is being run by *COMMUNISTS*."

Spikes in small contributions tends to follow big news events, such as an assassination attempt or a strong debate performance. They indicate enthusiasm in a candidate's base, but lots of small-dollar donations don't guarantee electoral success. Ken Goldstein, a professor of politics at the University of San Francisco, notes that "an unenthusiastic vote counts just as much as an enthusiastic vote". In an increasingly negative campaign, Mr Trump will be banking on that. ■

Big and small 1

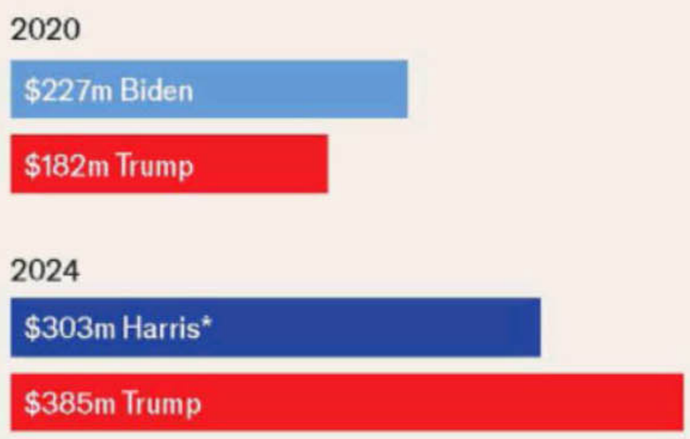
US presidential election 2024, official campaign committee donations, to Aug 31st, $m



Source: OpenSecrets *Including donations to Biden campaign before July 22nd 2024

Outside in 2

US presidential elections, spending by outside groups in support of candidates, to Sep 20th



Source: OpenSecrets *Includes spending in support of Biden before July 22nd 2024

Eric Adams

Hizzoner and dishonour

NEW YORK

New York City's mayor is indicted

WHEN ERIC ADAMS, New York City's mayor, was 15 he was arrested and beaten by a police officer. He went on to become a police officer himself, rising to captain before entering politics. He used that powerful anecdote from his youth to launch his mayoral campaign in 2020. His story resonated with New Yorkers. Nearly four years later, the mayor's time at City Hall looks precarious. On September 25th the *New York Times* revealed that Mr Adams faces federal criminal charges in an indictment and he may be arrested again.

It seems likely that the (still sealed) indictment will entail charges related to the many investigations that have been swirling around City Hall and Mr Adams's inner circle. Many of his closest advisers, among them two deputy mayors, have had their mobile phones seized by federal investigators. Some had their homes raided. Mr Adams's own phone was seized in November. His police and health commissioners, schools chancellor and legal adviser have all stepped down in recent days.

Some speculate that Mr Adams could be charged with acting as an unregistered foreign agent after receiving donations from foreign sources, maybe including Turkey. The FBI is also said to be looking into whether Mr Adams pressed the fire department to fast-track the opening of the new Turkish consulate, despite some unresolved safety issues. Mr Adams said any charges made against him are "entirely false" and "based on lies", insisting he was being targeted because he had "stood my ground" for New Yorkers.

Many politicians, including Alexandria Ocasio-Cortez, a congresswoman representing the Bronx, and some rivals in next year's mayoral race, have called on him to resign. "This is a sad day for New Yorkers," said Brad Lander, the city comptroller who wants to be mayor. "Trust in public institutions—especially City Hall—is essential."

Mr Adams may not have much choice. It is within the power of New York's governor, Kathy Hochul, to remove him from office. Ms Hochul may worry about his ability to do the job under such a dark cloud. She also may feel pressure to act from Kamala Harris, the Democratic presidential nominee, if the scandal becomes distracting. Ms Hochul drew the wrath of Democratic leaders when Democrats lost crucial seats in New York in the 2022 midterm elections. New York's governors have used this removal power sparingly and never directed it at a mayor of New York City. Franklin Roosevelt came close in 1932. He began the process to remove Jimmy Walker, who was embroiled in a bribery scandal. Walker resigned before he was ejected.

If Mr Adams is removed—or resigns—Jumaane Williams, the city's public advocate, an elected watchdog, becomes mayor automatically. He could then set a date for a special election.

The scandal is sadly familiar for New Yorkers. It took decades to throw off the lingering power of Tammany Hall, once the Democratic Party's corrupt machine in the city. As well as Walker, Bill O'Dwyer, a former cop, resigned as mayor in 1950 amid police-corruption allegations. More recently state lawmakers, including an Assembly speaker and a state-senate president, have spent time in prison for corruption. Prosecutors looked at whether Bill de Blasio's campaign tried to dodge contribution limits. Rudy Giuliani, then a tenacious federal prosecutor, who would later become mayor himself, investigated Ed Koch's allies for corruption in the 1980s. Though Koch was not suspected of wrongdoing himself, his reputation took a hit.

Talking to a local news channel on September 25th, Mr Adams said that government meant "constant change". Change may be coming his way soon. ■

Campaign calculus: special elections

The meaning of mini-landslides

Positive pointers for Democrats

IF REPUBLICANS WERE about to experience a breakthrough among black voters, as some polls had suggested, New Jersey's tenth congressional district (which includes Newark) might be a place to start. Around half its residents are black. But in the special election on September 18th to fill the district's vacant House seat the Democratic candidate, LaMonica McIver, won in a landslide. She defeated her opponent by 81% to 16%—a larger margin than President Joe Biden managed there in 2020.

It is no shock that a Democrat won the deep-blue district. But the result is the latest in a string of strong scores for Democrats in special elections. This yardstick could endorse recent polls showing Vice-President Kamala Harris's party taking the lead—or merely confirm the popularity of Democrats among the few motivated, hard-core voters who reliably show up for off-cycle elections.

In past presidential campaigns special elections have not carried much of a message about the contest at the top of the ticket (at least, none that could not anyway be gleaned from opinion polling). But in congressional elections, which have relatively few polls, the results can be revealing. In 17 elections to the House of Representatives since 1990, the party performing best in interim elections went on to win the popular vote 13 times (see chart). Moreover, special elections provide a valuable complement to polls, since they are unaffected by survey methods. Combining them with polls yields much more accurate predictions than either indicator does on its own.

This prognostic power is one reason why, for the 2022 elections to the House, *The Economist* predicted fewer Republican seats than some other forecasts did. Democrats faced an uphill battle to defend control of Congress. Though Mr Biden's poor approval rating pointed to a "red wave" and polling suggested a narrow Republican victory, Democrats' strong performances in special elections nudged our forecast towards a closer result. The Republicans won 222 seats, just four more than the minimum for a majority and far below expectations.

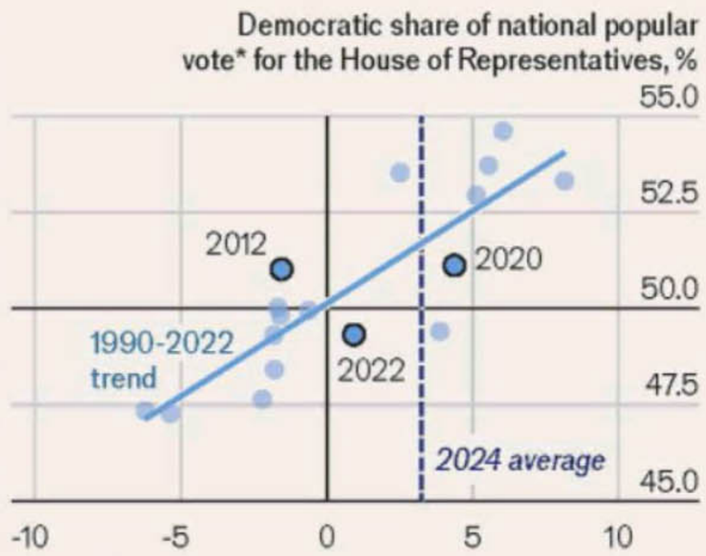
This year Democrats are doing even better in special elections. To estimate their performance, we compare both parties with a "benchmark" for each ballot, based on the most recent regularly scheduled election result for the same seat. In New Jersey's tenth district Ms McIver outperformed her benchmark vote share by three percentage points. A moving average of these scores, with greater weight for federal than local elections, gives the Democrats a 3.3-point edge. Such an advantage will give the party a boost in our forthcoming forecast of the congressional elections.

There are reasons to be sceptical, however. In recent years the Democrats have found greater support among college-educated voters, who are more likely to turn out in off-cycle elections. In the general election the party will have no such advantage. This might explain why Democrats did worse in the general elections of 2020 and 2022 than you would expect from special elections alone. The Republican nominee, Donald Trump, has shown he can mobilise less engaged, non-college voters. These voters might not choose to turn out for an interim contest, but they are likely to support his congressional colleagues if he can coax them to the ballot box.

Although this dynamic complicates the picture, special-election results should still cheer Democrats. With less than six weeks left in the race, you would rather be the party winning landslides.

Harbinger of the House?

United States



*With missing votes in uncontested districts imputed. Excluding third parties †Average weighted by recency and state/federal special-election type, relative to previous general-election result
Sources: The Downballot; *The Economist*

North Carolina

The Robinson affair

BOONE, NORTH CAROLINA

A scandal damages Republican chances in a vital swing state

"THIS IS Martin Luther King on steroids," Donald Trump told a crowd in North Carolina three days before Super Tuesday. Mark Robinson, the lieutenant-governor and Republican candidate for governor whom Mr Trump was endorsing, might not like that, he went on to say. Mr Robinson, who is black, had called King an "ersatz pastor" and the civil-rights movement the "Communist Rise Movement". On September 19th CNN unearthed comments that make it even clearer that Mr Robinson—now the party's nominee, with less than 40 days to the election—is no justice-loving preacher. Writing on Nude Africa, a porn site, he called himself a "black NAZI", noted he wasn't in the Ku Klux Klan because "they don't let blacks join" and said that if they brought back slavery, which he wished they would, he would "certainly buy a few".

More screenshots from the forum, where over a decade ago Mr Robinson signed up with his full name, show the candidate describing sex with his wife's sister and his appetite for "tranny on girl porn". In a video posted to X Mr Robinson denied the words were his and called the report a "high-tech lynching". This week his top campaign staff resigned and the Republican Governors Association said it would not buy him any more ads.

At a diner tucked into the Blue Ridge Mountains, Mr Robinson rallied supporters on September 23rd with the fury of a coach whose team is down in the fourth quarter. "They might be hitting us pretty good right now but guess what, we're not going anywhere," he bellowed. Sitting in one of the booths, Rivera Douthit, a friend who lost in the primary to replace him as lieutenant-governor, says southern women who love Jesus will forgive him if the allegations are true. His campaign is blaming the media for diverting attention from policy. "If the folks who support the Second Amendment abuse the Second Amendment like these folks abuse the First Amendment, there wouldn't be one of us left," the candidate said, to "Amens".

When Mr Robinson got the nomination, seasoned Republican operatives warned he was far too extreme to win the state. Though he has a working-class story to tell on the trail—he grew up the ninth of ten children in a desperately poor and violent home and only finished college while in office in 2022—his views that abortion ▸▸

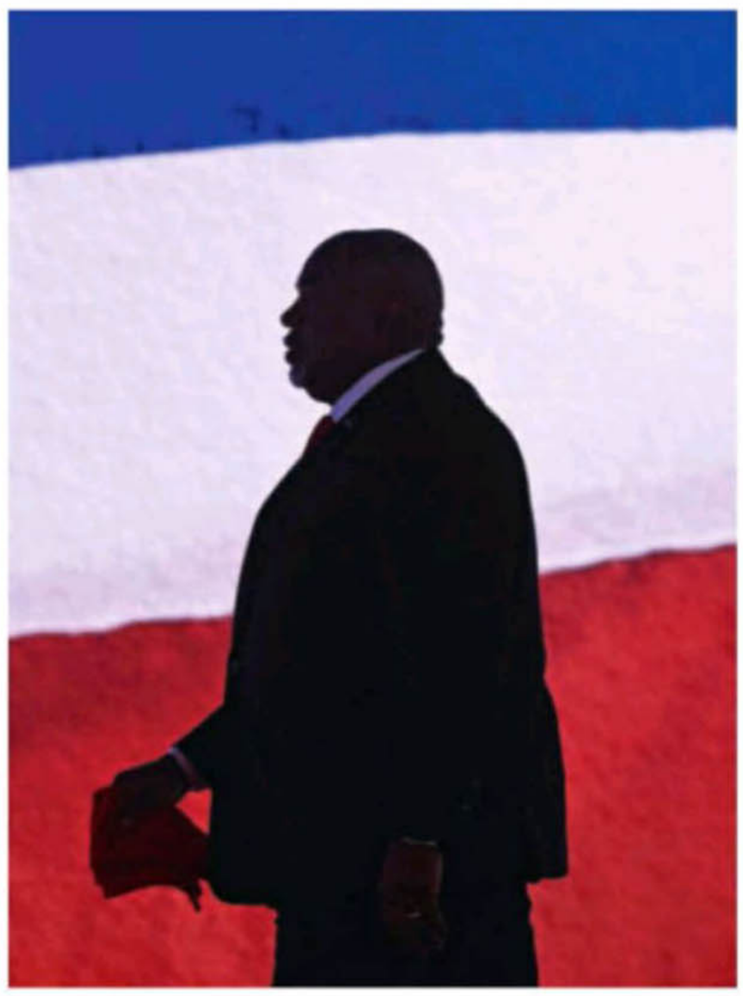
should be illegal at "zero" weeks, that women ought to control their genitals better, that gay people are "maggots" and that "some folks need killing", referring to his political enemies, have not gone over well. Josh Stein, his moderate Democratic opponent, has been up by five to 15 points in the polls all summer.

The eye-popping crudeness of the new comments in effect ends Mr Robinson's chance of winning. The question is how much damage the fallout will do to other Republicans in the swing state.

They have two big concerns. The first is the presidential race. By entering the contest in July, Kamala Harris put the state that Mr Trump won by 1.4 points in 2020 back in play. According to *The Economist*'s forecast model, North Carolina is as competitive for Democrats as Georgia, a state with the same number of electoral-college votes (16) that went for Joe Biden. Mr Trump's endorsement of Mr Robinson now looks a liability. The Harris campaign plans to tie the two men to each other as much as possible in the hope that the scandal will cause right-leaning independents to sit out the election. Because Mr Trump needs North Carolina to win, he will have to campaign there. But until he disavows Mr Robinson publicly, his messages on Democrats and the economy may fall flat, says Chris Cooper, a political scientist at Western Carolina University. At a rally in Wilmington two days after the news broke, Mr Trump avoided the matter.

Congress is the Republicans' second problem. North Carolina is among a handful of states that will determine control of the House of Representatives this year because it is home to one of the country's tightest races. For the Democrats, Don Davis is fighting to keep his seat in the state's first district after Republicans redrew the maps to their advantage. At the end of June Laurie Buckhout, Mr Davis's opponent, had outspent him four to one. But having proudly campaigned with Mr Robinson, she may be in trouble with the 40% of district residents who are black. Just before the CNN report surfaced, Ms Buckhout deleted a photo of the two of them from X.

For months Republican strategists have hoped that voters will apply the same logic to Mr Robinson as many do to Mr Trump: despite not liking him, they vote for him because they like his policies. That looks like wishful thinking. The last stretch of the election in North Carolina will now be a test of whether the party's brand can be tainted by one man. Jonathan Felts, a consultant for Mr Robinson, reckons Republicans will prevail if they keep talking about petrol prices and fentanyl. Personal attacks, he says, won't go far if the candidates are good. Across the state, members of his party are praying that he is right. ■



Flagged

Abortion

Back on the ballot

MIAMI

Democrats hope referendums in November will lift their chances

ESTHER DE VARONA, a 77-year-old activist, wants her fellow *Miamianos* to vote in November to enshrine a right to abortion in Florida, one of ten states holding a referendum this year on whether to make this part of their state constitution. Ms De Varona and her group, Cuban American Women Supporting Democracy, have learned to stay away from phrases like "abortion rights" and to focus relentlessly on "the health of the woman", she says. Polls suggest they are within striking distance of the 60% majority needed to pass the initiative in Florida.

Since 2022, when in *Dobbs v Jackson* the Supreme Court overturned a federal right to abortion, debate about the procedure's future has become a remarkable exercise in direct democracy. By the end of this year 43% of Americans will live in states that have held plebiscites on abortion since *Dobbs*. So far, abortion-rights promoters have won every time, including in conservative states like Kansas and Kentucky.

Polls suggest that most of this November's rights-promoting referendums are also likely to prevail, although initiatives in Missouri, Nebraska and South Dakota face stiff challenges, as does Florida's because of the 60% threshold. The measures vary in scope, from New York's expansive equal-rights amendment to South Dakota's proposal to offer unqualified access to abortion only in the first trimester. Most referendums, including Florida's, would enshrine access until viability, about 24 weeks from conception.

Democrats retain hope that ballot measures in the presidential swing states of Arizona and Nevada will lift turnout to the benefit of Kamala Harris, as well as candidates for the US Senate. Although all the campaigns say they are non-partisan and seek the support of "pro-choice" Republicans, volunteers speak of new energy and optimism since Ms Harris became the Democratic nominee. The rights-promoting campaign appears to be well ahead in Arizona; a recent *New York Times*/Siena poll reported that it had 58% support. (Only in Florida is such a high margin needed for the proposal to pass.)

In Montana Donald Trump is all but certain to win the state, but a Democratic senator, Jon Tester, is struggling in a re-election race that could decide which party controls the chamber. The Planned Parenthood Action Fund co-hosted a recent rally for Mr Tester in Bozeman. Alexis McGill Johnson, the president of Planned Parenthood, told a crowd of canvassers later to vote for the abortion amendment to "protect Montanans" and to vote for Mr Tester "to protect the rest of the country".

Florida's referendum will have the greatest impact on abortion access. America's third-largest state by population, Florida currently has a ban on abortion after six weeks and is surrounded by similarly strict states in the Deep South. An army of 10,000 volunteers assembled to collect signatures to get the amendment on the ballot is now focusing on turnout. Volunteer numbers are "through the roof", says Natasha Sutherland from the campaign. Although hopes have dwindled among Democrats that the amendment's turnout machine could put Florida within reach for Ms Harris, they are still bullish on the impact on down-ballot races.

Anti-abortion campaigners have been outspent across the country. Their strategy in Florida is "to be strategically targeted toward turning out key voters", says Aaron DiPietro of the Florida Family Planning Council, which opposes the amendment. The campaign has one voter secured: after initially saying the six-week law was "too short", Donald Trump came out against the proposal to change it. Mr Trump's decision inspired a surge of volunteers, anti-abortion organisers say.

Anna Hochkammer of the pro-abortion-rights campaign sees a "sea-change" in the way Americans talk about the procedure. She compares it to the normalisation of breast cancer, a health issue that was also once taboo to discuss. Suddenly, she notes, millions of Americans are "allowed to talk" about the details of abortion, and in many places, vote on its regulation. ■

Prisons

Hard cell

Are policies for transgender prisoners endangering female inmates?

IN THE SPRING of 2023 Jennifer Barela returned to her cell at the Central California Women's Facility (CCWF) in Chowchilla to find "a large man" sitting there. Her new cellmate had been sentenced to life in prison in 1982 for murder, had changed name, self-identified as a woman and been transferred to CCWF.

Other female inmates have had similar experiences since California passed law SB132 in 2020, allowing prisoners to be housed according to self-defined "gender identity" not biological sex. The law does not require them to change their body before transferring, and then lets them request their cellmate. When it was passed, Shawn Meerkamper of the Transgender Law Centre (TLC) said, "This bill is a necessary...harm-reduction measure that will allow our trans family to seek safer situations while incarcerated." Trans inmates have spoken of the benefits. In other states, too, laws and policies are allowing a trickle of trans prisoners to transfer.

But some female prisoners claim that inmates from men's prisons are gaming the new system and that a small but growing number of men convicted of violent and sexual crimes are being locked in cells with women. Some women's groups warn that other proposed laws could turn this initial trickle into a flow. A bill at committee stage in New York state would "presumptively" house inmates based on their self-declared "gender identity".

"We are not against trans people," says Ms Barela, who was released last year after serving 15 years. "But we are against those pretending to be transgender, who are predators, to get into a women's prison, where there is lots of prey." The website of the California Department of Corrections and Rehabilitation (CDCR) says that 42 inmates have been transferred from men's to women's prisons since 2021, with more than 100 applications under review.

SB132 allows transfers to be turned down for "management or security" reasons; CDCR says 83 inmates have been denied. A review by California's prison inspector in 2023 "did not substantiate any allegations of sexual assault", but it "sustained numerous allegations of consensual sexual misconduct between transferees and other incarcerated people". Many female inmates "reported witnessing transferees abusing their romantic partners". After the report was published Tremaine Carroll, a transferred inmate serving 25 years to life for violent crimes, was charged with raping two women in CCWF and faces trial soon; Carroll denies the charges. In 2022 an inmate moved to Rikers Island women's prison in New York received a seven-year sentence for attempted rape.

CDCR responds that all requests "are reviewed by a multidisciplinary classification committee chaired by a warden". It adds that "CDCR has a zero-tolerance policy for sexual abuse." But the inspector's report admits that, if a person with a history of raping women applied to transfer to a women's prison, the wording of the law "may prohibit the department from denying the person's transfer request" based solely on their "history of raping women".

Prisoners' dilemma

Women's Liberation Front, a campaign group, is challenging the legality of SB132. In a statement, TLC and the American Civil Liberties Union (ACLU) said: "Transgender women are women and unfortunately CDCR has a...history of failing to protect...the transgender women and the cisgender women in its custody." It went on: "We will fight to ensure that...the constitutionality of SB132 is zealously defended."

A freedom-of-information request in May by Keep Prisons Single Sex, another campaign group, found that 48% of the 1,433 inmates in federal male prisons who identify as women are there for sex offences, nearly four times the share in the general prison population. (The share is also high in Britain, where 74% of those in male prisons who identify as women are in for sex offences or violent crimes; and in Canada, where, in 2017-20, 86% of "gender diverse" inmates were violent offenders and 33% had a history of sexual crimes.) Furthermore, inmates identifying as women in federal male prisons are three times as likely as the general prison population to be classed as high-security.

Still, in federal women's prisons only nine inmates have come from male prisons. In California, another public-records request found that 34% of the 287 inmates in state men's prisons who applied in 2022 to transfer to its women's prisons were registered sex offenders.

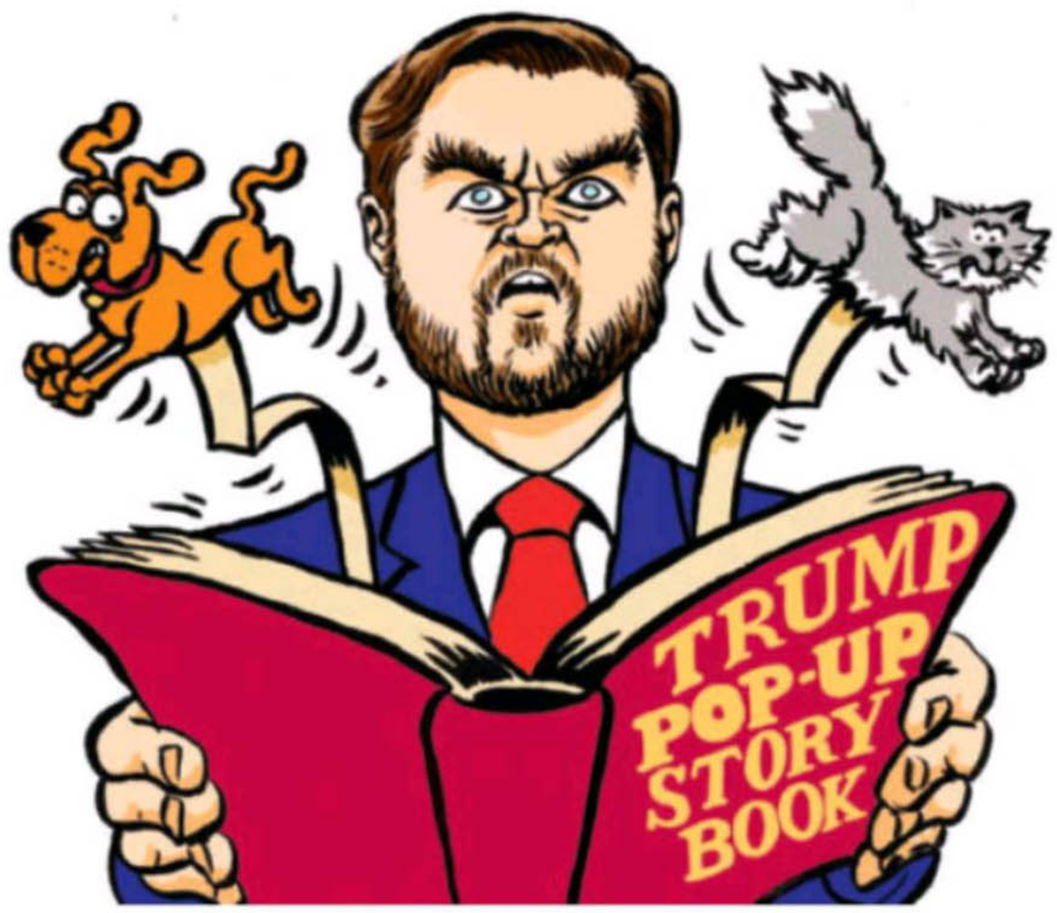
Undoubtedly some transgender prisoners are vulnerable. TLC says that "prisons and jails routinely subject transgender people in their care to...harassment, sexual assault and violence". The inspector's report said 19 of the 22 inmates transferred, and 16 of the 28 due to be, said that they had been victims of violence because of their gender identity; 20 of the 22, and 17 of the 28, said they had been threatened. Some change is now happening, as trans inmates win lawsuits for being denied "necessary" medical care.

The women's groups point out that women are vulnerable, too, and should not be put at risk in order to protect vulnerable inmates in men's prisons. Studies in 2016 and 2017 found that nearly 90% of women in American prisons are victims of previous sexual assault. Help from civil-rights groups is scarce. In response to an inquiry about inmates moving from male to female prisons in Washington state, the ACLU sued to block release of the data. ■

LEXINGTON

What J.D. Vance is learning from Donald Trump

The vice-presidential candidate is devising his own tactics for bending the truth



THE REPUBLICAN candidate for vice-president, J.D. Vance, warns that Democrats could win the election for what, in Donald Trump's party, is a shocking reason: more people might vote for Kamala Harris. Mr Trump is still attacking mail-in ballots and early voting, insisting they help Democrats commit fraud. "We don't need the votes," he said late last month in Arizona. "We just want to make sure that they don't cheat."

But Mr Vance says they need the votes. He sounds less worried about Democratic chicanery than Republican complacency. "We've got to be honest about this," he declared at a rally in Leesport, Pennsylvania, on September 21st, "because the Democrats have done better at this than us. They get so many votes by mail and they get so many early votes." It would be nice if this dissonance heralded a return, post-Trump, to more fidelity to reality. But something else is going on, as is suggested by Mr Vance's zeal for promoting doubts, in retrospect, about the 2020 election: Mr Vance is more discriminating, or more clever, than Mr Trump in when and how he insists on alternative facts. In style and execution he is a much more conventional politician and thus a harbinger of what Mr Trump is making conventional in politics.

That is one lesson of the furore Mr Vance created by posting claims that Haitian migrants were barbecuing their neighbours' pets in Springfield, Ohio. Mr Vance's staff contacted Springfield's city manager on September 9th to check the rumours and were told they were baseless, the *Wall Street Journal* reported. But Mr Vance repeated them the next day, and that night Mr Trump declared them to be fact during his debate with Ms Harris.

Mr Vance has been righteous in defence of his rumour-mongering. Where Mr Trump might just repeat lies ("many people are saying" is his habitual dodge), Mr Vance argues that the facts are beside the point because spreading the claims has a higher purpose: "If I have to create stories so that the American media actually pays attention to the suffering of the American people, then that's what I'm going to do," he said on CNN on September 15th. He said he meant not that he was making anything up himself but that by amplifying unverified tales he was forcing the press to cover the larger story, of how migrants blight Springfield.

What a peculiar claim of constructive leadership. The Republican governor of Ohio, Mike DeWine, has acknowledged that the migration of Haitians, which is legal, has strained Springfield's services, but argued that it has benefited the community overall by reviving the economy. He may be wrong. But how does an uproar over a nonexistent problem (or even a marginally existent problem, should it ever prove so) defeat his cost-benefit analysis? Knowing the facts, hard as that work can be, remains basic to understanding and alleviating suffering.

This is only Mr Vance's second campaign—he was elected to the Senate from Ohio just two years ago—but he has got stronger as a candidate. His poise in adversarial interviews suggests he will be a tougher opponent in the vice-presidential debate on October 1st than Mr Trump was for Ms Harris. Although Mr Vance cannot cast Mr Trump's strange political spells, he charms audiences with stories about his young sons and makes a cogent case against Ms Harris. In Leesport he accused her of "running from every position she has ever had", and drew a big laugh when he said he had told Mr Trump, "She's going to show up at one of these rallies with a long red tie and a make-America-great-again hat."

At 40, Mr Vance has had radical conversions of his own, not only to Mr Trump, whom he once privately compared to Hitler, but also on many issues, including immigration (he once ridiculed the idea of deporting undocumented immigrants as "failing to pass the laugh test"). His changes of mind appear to have left him unburdened by humility that he might have it wrong again.

They have also put him in the vanguard of a fascinating project, assembling the impulses and reflexes of Trumpism into the new ideology of his party. He appeared on September 21st in Hershey, Pennsylvania, as the guest of the "Tucker Carlson Live" show, part of a national tour by the former Fox News host. Thousands of excited fans packed an arena to hear the two men—allies and possibly competitors one day for the Republican nomination—kick around the tenets of this new ideology: a leftist's critique of American intervention abroad and of big business; a populist's loathing of "elites"; a New Dealer's zest for intervening in the economy; a libertarian's obsession with free speech.

His numbers game

For Mr Vance, what binds this amalgam together appears to be illegal immigration. He blames it for everything from the price of eggs to the cost of housing, from the state of the schools to addiction, crime and the deficit. The Department of Homeland Security estimates that 11m people lived illegally in America in 2022, the most recent year for which it has data. Yet Mr Vance routinely insists that Ms Harris has admitted 25m people illegally. Like claims of voter fraud or Haitian pet-eating, his number is both misleading and unfalsifiable. Can you prove there are no Martians stealing Americans' Amazon packages off their front steps?

"Rational truth", Hannah Arendt wrote, could rebound from the assault of political power. Banned in one era, Euclidean geometry might be rediscovered in another. "Factual truth" is more vulnerable and thus more precious. It is "the very texture of the political realm", she wrote. Indeed, she warned, "Freedom of opinion is a farce unless factual information is guaranteed and the facts themselves are not in dispute." Mr Trump is teaching the next generation of politicians that such dispute is the short-cut to power. Do not be surprised if Mr Vance is less open to the possibility that Ms Harris got more votes should she, in the end, actually do so. ■

The Americas

Evelyn Matthei

The woman who will lead Chile's counter-revolution

SANTIAGO

Chileans tried youthful utopianism. Now they crave maturity and moderation

THE GRAFFITI are still visible. Walls shout: "Death to the police!" Bus shelters demand: "No more private pensions!" Yet the occasionally violent social upheaval that rocked Chile from 2019 to 2022 is past. And the radical left-wing movement it propelled to power is now unpopular, having discovered that governing is harder than protesting.

Chileans are fed up with extremism and yearn for moderation and common sense, argues Evelyn Matthei, the mayor of Providencia, a posh part of Santiago, the capital. Polls suggest that in the election next year, voters will replace Gabriel Boric, a leftist firebrand who cannot seek re-election, with a bastion of the right. Many expected that to be José Antonio Kast, an ultraconservative who scooped up 44% of the vote when he came second to Mr Boric last time. Instead the more centrist Ms Matthei has emerged as the front-runner.

The contrast between Mr Boric and Ms Matthei is striking. He sports ornate tattoos and made his name as a student leader. He was elected in 2021, at only 35, following large protests against inequality. As president, he has proved less radical than the movement from which he sprang. And he deserves credit for his full-throated condemnation of the electoral fraud in Venezuela, a test most leftists in the region have failed. But he backed a utopian and barely intelligible draft constitution, which would have defined Chile as a "plurinational, inter-cultural, regional and ecological" state, banned for-profit universities and granted rights to nature. Voters roundly rejected the draft in 2022, and shot down another effort from hardline conservatives.

Ms Matthei, a former labour minister, is nearly twice Mr Boric's age, dresses conservatively and talks about productivity and public order. This goes down well in a country where growth has stagnated and the homicide rate hit a record of 6.7 per 100,000 people in 2022, nearly double what it was a decade ago.

Murders are rare by Latin American standards, and have fallen since 2022, but Chileans are scared. In a poll in November, 51% said tackling crime should be the government's priority. Only 6% said inequality should be. A recent poll has Ms Matthei handily beating possible opponents on the centre-left: she bests the interior minister, Carolina Tohá, by 61% to 26%, and a former president, Michelle Bachelet (a childhood friend to whom she lost the presidential race in 2013), by 54% to 38%. Ms Matthei also thumps her main opponent on the right, Mr Kast, by 61% to 21%.

Mr Boric has promised to get tougher on crime. But many Chileans still associate him with the excesses of the protest movement, and Ms Matthei is keen to encourage this. "The left wanted to weaken the police, almost to get rid of them," she told *The Economist* in an interview in her office.

Some 70% of Chileans think a surge in immigration has made crime worse. "We've let in all these foreigners and they steal and steal and you have to look around you all the time," says Lucy García, an off-duty cleaner, clutching her bag to her chest in a shopping centre in Santiago.

The vast majority of immigrants are law-abiding, notes Andrés Velasco, a former finance minister. But their numbers ▸▸

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have risen dramatically: the foreign-born share of Chile's population of 20m jumped from 1% in 2006 to almost 9% in 2022. The recent influx included gangs from Venezuela, where the economy has collapsed under a leftist dictatorship. "Chile never really had gangs before," says Mr Velasco. "Now we have them settling scores with machineguns."

Asked about crime, Ms Matthei talks of prevention: "When a kid stops going to school at 14, he [may be] engaging with drug dealers. Nothing's being done about that." She says "nothing is being done" about criminals showing off their loot on Instagram, either. The state should know which judges and prison guards are living beyond their means, she says, and should block phone signals in jails to stop gang bosses running rackets from their cells.

She stresses that most immigrants come to Chile to work. But the gangs have brought kidnapping and contract killing, she says, and are well organised. She recalls a gang of 75 Venezuelans in her area who snatched phones and escaped on motorbikes. When one was caught, police would find that his motorbike had been rented to him by another Venezuelan, who would deny any knowledge of the crime. "They were all part of the game," she says.

She grumbles that there are perhaps 200,000-300,000 illegal migrants in Chile, largely Venezuelans. Many pass through Bolivia and simply walk across the long land border. Ms Matthei wants aerial drones at the frontier and stricter enforcement. Some migrants, she says, "you will have to send back".

She is serious about adapting to climate change, stressing Chile's need for "water, water, water". The country is the most water-stressed in the Americas. Ms Matthei reels off a list of sensible proposals: better collecting of rainfall, reuse of wastewater and more permits for desalination plants.

Some of the protesters' complaints during the social unrest were reasonable, Ms Matthei concedes. Many Chileans were "very angry" because they felt economically precarious. "They knew that if they lost their job, or had a serious illness, or grew old, they could go back to being poor."

Asked to explain how she differs from Mr Kast, she says that she cares about inequality and believes in compromise. Income per head in Chile is over seven times what it was in 1990. That success, Ms Matthei argues, was based on a political consensus that fostered stability. Her play for the centre ground appeals to Chileans who, at the previous presidential election, faced a choice between the far left and the hard right.

Her biggest challenge, should she win the top job, will be boosting growth, which has slowed from about 5% in the decade up to 2013 to less than 2% since. An economist by training, Ms Matthei says she would curb spending to control public debt, rely on growth rather than higher taxes to bolster government revenues, and cut red tape for big projects.

The first prescription is sensible, if not urgent. Public debt has risen to about 40% of GDP today. But that remains one of the lowest rates in the region. Chile needs investment in infrastructure, but she argues that much of it should be done with private-sector concessions. Streamlining permits would help a lot: businesses grumble that Mr Boric has stuffed government agencies with anti-capitalist ideologues who slow-walk everything. But challenges loom. Chile's growth is still closely linked to the price of copper, which accounts for about half of exports. Agriculture, another big export, faces disruption from climate change. Farmers may have to move south.

Ms Matthei says she is optimistic about the future, with one big caveat. Chile's education system is failing, and as a former maths teacher she feels this acutely. Test results are "embarrassing"; the difference between rich children and poor ones is "scandalous". The state needs to do more at very early ages, she says. "Of course it is expensive, but we should set national goals and this should not be political."

She has not yet formally announced she is running, but there seems little doubt that she will. "If things go well, I will run," she says. "She's very intelligent and energetic," says a politician who has worked with her. "On the downside, she has difficulty controlling her temper, and is a bit of a free-market zealot. But overall I think highly of her. She's much better than Kast, who's a cross between [Donald] Trump and [Nigel] Farage." ■

Remote workers

Nomads' land

MEDELLÍN AND MEXICO CITY

The laptop crowd is a force for good in Latin America

IN A CAFÉ in Mexico City, Itandehui Ruíz rolls her eyes. Her *chilaquiles* (fried tortilla chips in salsa) are missing something: spice. "The foreigners can't handle it," says a waiter. Some locals blame outsiders for diluting not only condiments but culture, and making life unaffordable. Mexico City was Latin America's most expensive city in 2022 and 2023, according to the Economist Intelligence Unit, a sister company.

Digital nomads are remote workers from rich countries who move every few months in search of tropical climes, cultural experiences and cheaper living. During the pandemic these travellers, often working in tech, flocked abroad. Top destinations are in Asia and Europe, but Latin America holds its own. Mexico City was the seventh-most-popular place in 2023. In 2022 there were 263 nomads for every 100,000 inhabitants in Medellín in Colombia, more than any other Spanish-speaking city, according to Nomad List, a website.

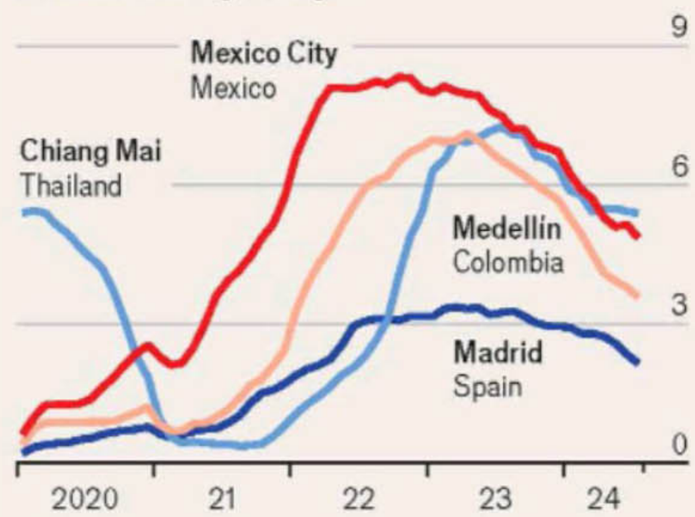
The authorities are keen. We want to be "a global player among digital nomad cities", says José Alejandro González, Medellín's tourism secretary. Over 20 countries in the Americas now offer a digital nomad-friendly visa. These short-stay permits usually require a minimum salary and health insurance, and often exempt the holder from paying tax for a period.

But many residents are less convinced. They see wealthy workers living like kings and pushing up prices. In Cuauhtémoc, a municipality of Mexico City home to hip neighbourhoods, rents rose by 35% between June 2022 and 2023, compared with 14% for the city as a whole. "Gringo go home" is scrawled across a wall. In Medellín the number of short-term rentals in the hillside area of El Poblado leapt by 46% in the two years to the end of 2023, according to AirDNA, a data firm. The newcomers added pressure to an already overburdened housing market, says Luis Miguel Peláez of Acrecer, a property company.

Cultural complaints follow. Sceptics often equate foreigners with drugs and sex tourism. They see tech bros spreading their homogenous global taste for exposed-wood coffee shops and co-working ▸▸

The magic down there is so strong

Estimated monthly arrivals of digital nomads, '000
12-month moving average



Source: Nomad List

spaces. Many speak only English, which can annoy and alienate locals.

Yet demonising nomads is wrong-headed. Rent rises are largely thanks to other factors. Medellín needs around 14,500 new homes this year, but is building only some 2,000, according to Camacol Antioquia, a trade body. The link between short-term rentals and the distorted housing market is overblown, says Eugene Towle of Softec, a Mexican research firm. Airbnb takes up just 3% of the capital's rental housing. New construction permits in Mexico City fell by two-thirds between 2018 and 2022.

Overall, like other immigrants, nomads bring more benefits than downsides. Teleworkers plough their earnings into the local economy. In Medellín, they spend $1,400 a month on average, compared with $575 for a local. Josh, from Scotland, says he spends $1,500 on rent and another $800 a month on a chef, kick-boxing instructor and salsa teacher.

Businesses are benefiting. Profits have risen, says Pedro Echavarría of Pergamino, which runs a café chain in Medellín. He adapted the spaces to suit remote workers—and runs Instagram campaigns about etiquette (packed lunches are a no-no). In Mexico City, Iván Sánchez, the manager of Taquería Orinoco, a taco shop in Roma Norte, says he has never paid for marketing because nomads queuing around the block do the job. Mexico City's government reckons remote workers contributed 9.3bn pesos ($532m) to the economy in 2021, 15% of that year's tourist revenues.

Highly-skilled immigrants, as most digital nomads are, boost innovation too. Newcomers' ideas help develop products and introduce their host cities to global markets. In Medellín, Joel Elster, a Brit, trains locals in sales. One of them now earns $5,000 a month, he claims. And it is hard to pin cultural decline or crime on nomads. "They don't come to destroy the city because they live here," says Mr González. After decades of isolation and drug wars, remote workers are helping Antioquia, the region around Medellín, to boom.

Officials like Mr González see their job as showing locals the benefits and managing the downsides. In Medellín the city is linking businesses with nomads. The authorities have clamped down on people illegally subletting their flats. Developers are building sleek "co-livings" (apartment blocks with in-house shared working spaces) outside residential zones.

Mexico City, which was brimming with global talent long before the laptop crowd turned up, is taking a more *laissez-faire* approach. Foreigners made Mexico's capital vibrant throughout the 20th century. The remote-work tribe could do the same for other regional cities in the 21st century—even if the insipid salsas get some folk hot under the collar. ■

Mexican politics

Military might

MEXICO CITY

The latest constitutional reform will complicate the fight against drug gangs

THE AYOTZINAPA case typifies Mexico's law-and-order problems. In September 2014 in a town close to Mexico City, 43 trainee teachers were abducted and killed, with the involvement of government security forces. Yet a decade later President Andrés Manuel López Obrador, who once promised to resolve the case, has used his last month in power to push through a constitutional reform that will fully militarise federal forces. It bodes badly for both public safety and democracy.

On September 25th the upper chamber of Mexico's Congress voted to move responsibility for the National Guard from the public-security ministry to the defence ministry—a shift that the Supreme Court ruled unconstitutional in 2023 when Mr López Obrador attempted it using secondary laws. The reform codifies the situation. Although the National Guard was constitutionally under civilian control, in practice it has had military command and discipline. Some 80% of its roughly 120,000 members are soldiers.

Mexican presidents have long involved the armed forces in public security, especially from 2006 with Felipe Calderón's "war on drugs". In large part that is because the country lacks a well-trained civilian police force. But Mr López Obrador has gone further. He started by dismantling the federal police, which he deemed corrupt, and in 2019 created the National Guard. Former federal police commanders have indeed been charged with crimes. But the National Guard is far from unblemished either.

Paramilitary pat down

The elimination of the federal police was a "serious setback", says a former public-security minister. Almost 80% of Mexicans are satisfied with the National Guard's performance. But there is no reason to think that militarising security will reduce the country's entrenched crime problem, which sees around 30,000 people murdered each year and criminal groups controlling about a third of Mexican territory. Although Mr López Obrador's reform strengthens the force's powers to investigate, even a National Guard leader frets about its lack of tools and training for police work. In 2018 the federal police arrested 21,702 people; in 2022 the National Guard arrested just 2,814.

Indeed Mr López Obrador, who hands over to Claudia Sheinbaum on October 1st, has presided over Mexico's bloodiest six-year presidency to date. Over 70 people have been murdered so far this month in clashes between rival factions of the Sinaloa cartel following the capture of two drug barons in July.

Few deny that Mexico needs some military involvement to combat its heavily armed gangs, but what is really needed is better policing. The militarisation of the National Guard complicates life for Ms Sheinbaum, who has said she wants to replicate at the national level what she did to improve security as mayor of Mexico City: professionalising the police, increasing their salaries, and bolstering their intelligence and investigation capabilities.

Like many of the other reforms that Mr López Obrador has been busily pushing through during his last month in power, this one also threatens Mexico's democracy. Handing the National Guard to the armed forces reduces civilian oversight, upsetting the balance of power. In addition to turbocharging the soldiers' role in public security, the president has handed them a raft of civilian functions, such as running airports, many of which come with cash. In a country that has never experienced a military coup, in a region that frequently has, that is dangerous.

Militarising policing often leads to more killings and human-rights violations, too, says Daniel Torres, a constitutional lawyer. Complaints against the National Guard are fewer than those against the federal police, but rose by more than 60% from 350 in 2020 to 577 in 2022. Any alleged abuses by the guard will be judged by secret military courts.

Ayotzinapa is a reminder of the dangers. In 2023 an international group called in to investigate the case left, citing a lack of transparency. As Mr López Obrador finishes his term he has not only failed to resolve Ayotzinapa, but instead could be paving the way for more cases like it. ■

Asia

South Asian politics

All change

COLOMBO

An upset in Sri Lanka propels an outsider into power

TWO YEARS have passed since Sri Lanka—crippled by covid-19, excessive borrowing and a series of policy blunders—defaulted on its debts. Inflation soared, the rupee plunged in value and fuel supplies ran out. Massive protests toppled the China-friendly president, Gotabaya Rajapaksa, who promptly fled to the Maldives. Things are no longer so terrible. Leaders have tamed inflation, secured a bail-out from the IMF and reached agreement with the country's creditors on restructuring its debts.

Yet many Sri Lankans continue to demand fundamental change. It is not only austerity that angers them: they are fed up with the corruption and cronyism they spy among the country's elites. All this helps explain the victory of Anura Kumara Dissanayake, an outsider from a party with Marxist and insurgent roots, in a presidential election on September 21st. He easily beat Sajith Premadasa, the son of a former president, in the second round of counting (Sri Lanka uses a preferential voting system). Just 17% of voters selected Ranil Wickremesinghe, the incumbent (who has been prime minister six times) as their first choice.

The result was Sri Lanka's biggest electoral upset since it gained independence from Britain in 1948. It was also the latest in a series of political upheavals across South Asia that could tilt the balance of power there between China and India. Although Chinese influence has waned lately because of debt problems linked to infrastructure lending, India suffered a setback in August with the overthrow of Sheikh Hasina, a close ally, as prime minister of Bangladesh. A government collapse in Nepal in July brought a pro-China prime minister into office. And in the Maldives India has had to work hard to mend ties with a president who came to power last year on an "India out" platform.

Unlike most previous Sri Lankan leaders, Mr Dissanayake, also known as AKD, comes from humble roots. He is the son of a daily-wage labourer in rural Sri Lanka. He is the first president from the Janatha Vimukthi Peramuna party (JVP), which led two failed uprisings in the 1970s and 1980s before renouncing violence. It was close to China and fiercely hostile to Indian influence for many years. Though Mr Dissanayake has sat in parliament since 2000, his only prior experience in government is a year spent as the agriculture minister two decades ago. When he ran for president in 2019 he got just 3% of the vote.

This time he hooked voters in part by promising to renegotiate the terms of the IMF's bail-out, and by pledging to curb corruption and recoup money that he alleges was pilfered from the country by previous leaders (particularly Mr Rajapaksa and his brother, Mahinda, who was president from 2005 to 2015). "We will work hard to rebuild the trust that people have lost in politics," Mr Dissanayake said in his inauguration speech. "I am not a magician; I am not a miracle-worker. There are things I know and don't know. But I will commit myself to doing the right thing at all times."

Mr Dissanayake's mandate may be clear, but his ability to bring change is much less so. Mr Wickremesinghe has warned that attempting to renegotiate the IMF programme would delay its next ▸▸

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tranche of lending, of around $350m. Others involved say there may be some scope to tweak tax rates and other parts of the government's existing plan for meeting the IMF's benchmarks. But such minor changes may not satisfy voters. More substantial revisions could also require renegotiation of the debt-restructuring deal with Sri Lanka's creditors, the last part of which (with bondholders) was agreed to on September 19th.

Mr Dissanayake may well struggle to combat corruption, too. This will be especially difficult if his National People's Power (NPP) coalition does not do well in the next parliamentary election, which will be held on November 14th. Under Sri Lanka's constitution the president heads the government and appoints the prime minister, who must be a member of parliament (as must all ministers). The NPP currently has just three legislators, two of whom have so far joined Mr Dissanayake in an interim cabinet. A disappointing result could force Mr Dissanayake into a coalition government with more established outfits, which might not share his enthusiasm for fighting corruption.

A third challenge for Mr Dissanayake will be to maintain friendly relations with all the big foreign powers. The JVP has had ideological ties, and regular contact, with China's Communist Party since the 1960s. For decades, opposing "Indian expansionism" was one of five core tenets of JVP training. That is a potential worry for India, which has re-established its clout on the island in the past two years following more than a decade in which China made major inroads through military assistance and infrastructure lending.

Lately the JVP has taken to advocating good relations with both of Asia's giants. In February Mr Dissanayake visited India and met its foreign minister, Subrahmanyam Jaishankar. But Mr Dissanayake also received a high-level Chinese Communist Party delegation in Colombo in April. And he has since promised to cancel a controversial wind-power project being built by India's Adani Group, which has close ties to India's prime minister, Narendra Modi. An early test could come with a decision on whether to extend a year-long moratorium on visits by foreign research vessels, imposed in January after Indian and American protests over several such Chinese visits.

Prolonging that moratorium may be the best choice, says Paikiasothy Saravanamuttu of the Centre for Policy Alternatives, a think-tank in Colombo. He doubts Mr Dissanayake will do anything to threaten India's security interests, even if China tries to exploit its ties to the JVP. The new president's immediate priority is to prove to supporters and opponents that he and his party can govern the country competently, despite having almost no experience in power. But pressure to make good on his election promises may mount swiftly—both from ordinary Sri Lankans and from his own party's leftist old guard.

Much will depend on how much sway the old guard still enjoys. Supporters say the JVP's ideology has evolved, especially since a radical faction splintered off in 2011. But the JVP retains many traits of a Marxist-Leninist organisation. It has a politburo and central committee. Members call each other comrades. And recent visitors to its headquarters have been received in a room decorated with photographs of Marx, Engels and Lenin. Mr Dissanayake bills himself as a pragmatist and social democrat, rather than a radical. He may need to be all three to deliver the change that Sri Lanka needs. ■

Making stuff in South Asia

Tailored solutions

MYSORE

How India can compete in labour-intensive manufacturing

HARISH AHUJA is the chairman of Shahi Exports, India's biggest exporter of clothes. Two things about his business surprise. With some 50 factories and $1bn in annual revenues, Shahi is managing to expand even as most peers in its sector struggle. It is also short of workers, says Mr Ahuja—at a time when many young Indians complain that their country offers too few jobs.

Shahi's experience helps inform a debate about India's economy. The share of Indians who work in manufacturing is lower than in comparable countries, at 11%, and has not much budged for years. Exports of textiles and garments, one of the biggest sub-sectors, have actually fallen in value over a decade (see chart on next page). Some economists think the time when India could develop through labour-intensive manufacturing of this sort has passed. Yet the achievements and challenges of a superstar exporter suggests that there are still lots of ways to help such firms grow.

Snazzy dressers

India's clothing and textile industry is the third-largest sector by employment, after farming and construction. Yet only a fraction of its 45m workers labour in the formal industry, meaning for firms that are registered and pay tax. Shahi is the most successful exporter among those. It has made great leaps since it was founded in the early 1970s by Mr Ahuja's mother, Sarla, in her home in New Delhi. These days most of its business is conducted in southern India.

It does a lot of things differently from its competitors. More than many other Indian family businesses, Shahi has sought to place experienced professionals, not lucky scions, into its top jobs. The firm owns the mills that produce fabrics for its clothing, which makes it easier to meet tight deadlines imposed by the likes of Nike and Uniqlo. Demanding foreign buyers have helped instil good business practices, says an executive at a rival firm: in one Shahi factory, whiteboards help supervisors keep track of targets; its workers, mostly women, seem motivated. While Shahi has been accused of permitting poor working conditions in the past, it seems to have improved.

In some other regards, however, Shahi has struggled to surmount limitations that also inhibit its peers. Despite being the market leader, it is smaller than you would expect: it accounts for only 2.5% of India's exports of clothes and textiles. And it participates in an industry that, as a whole, exports far less than it could. Mr Ahuja compares India (and particularly West Bengal) with Bangladesh. They are in the "same region, [have the] same types of people, the same culture". But Bangladesh exports four times as many clothes, by value.

For some the explanation is poor education in India, which has left workers short of skills. But "anyone can be trained", says Rags Ramanujam, Shahi's chief executive. Weak infrastructure and insurance markets also get blamed. But an analysis by Gopal Nadadur, formerly of NITI Aayog, the government's in-house think-tank, finds that transport and insurance costs are roughly the same in India, Bangladesh and Vietnam.

Instead three things hold India back. The first are labour laws. India's Factories Act makes it next to impossible for firms ▸▸

with more than 100-300 employees (depending on the state) to fire workers. That makes them risk-averse, which affects how large they grow. Shahi lessens the impact of the law by requiring new staff to go through a one-month training programme, which tests whether they are up to snuff. But other firms get round the problem by using contract labour—which cuts their incentive to invest in training that might make staff more productive. A particular problem with firing restrictions is that they make it more difficult to shut a factory and relocate elsewhere. The chance of getting trapped in one place deters firms from investing. "The whole world would come to India," Mr Ahuja thinks, if business became easier to do.

Shahi finds rules about overtime another challenge. In Karnataka, a south-western state in which it has a lot of factories, firms are required to pay overtime wages of double the standard rate if workers toil for more than 48 hours per week. In Bangladesh, where overtime wages are one and a half times the usual, firms often operate longer days.

The second thing limiting India is its trade restrictions. America revoked India's duty-free status in 2019 because Donald Trump deemed India too protectionist. The EU puts tariffs of 10-12% on imports of clothing from India, while maintaining trade agreements with Bangladesh and Vietnam. This fee demolishes Indian exporters' margins.

The third big barrier is that even manufacturers who are eager to expand can find it difficult to persuade Indian workers to leave farms and join factories full time. Indians sometimes feel compelled to carry on farming land that has been passed down through their family for decades. A popular rural welfare scheme adds to the advantages of village life. Youngsters who do find jobs in the cities sometimes still return to their villages to work the harvest—in part because harvest-time labouring pays wages that are only a bit lower than those paid by many entry-level manufacturing jobs. Were textile firms bigger and more profitable, they might be able to offer salaries high enough to overcome this; as things stand, they often cannot.

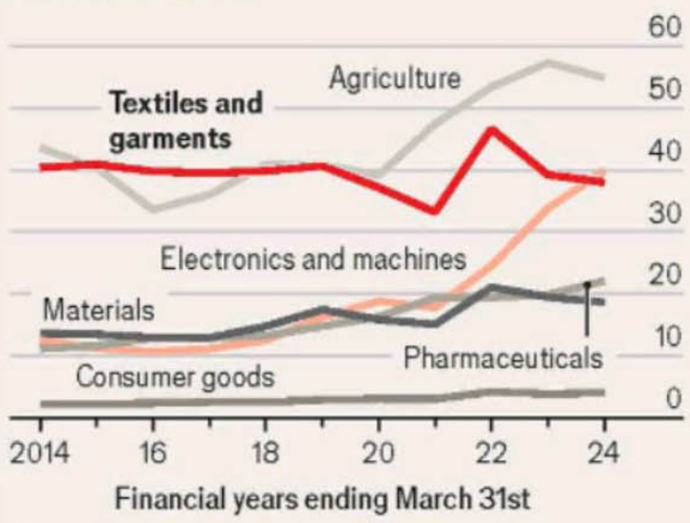
Both Mr Ahuja and Mr Nadadur think that, as a result of all this, workers are some 20-30% more productive in Bangladesh than in India. As for Vietnam, another competitor, it has higher wages but also more business-friendly rules and better access to big Western markets.

What can be done? India's government seems to understand the issues, but politics gets in the way. Amended labour laws were passed a few years ago. But their implementation has stalled at the state level. In any case, say firms, the reforms have not tackled their biggest concerns. Goodies that have supposedly been made available through the government's flagship industrial-subsidy scheme ("production-linked incentives", or PLIs) are "too hard to get", says Mr Ahuja. The subsidy requires a minimum size of investment. Most clothes-makers do not qualify because they split big investments across a number of factories in order to make sure that they are close to workers.

A newer government scheme, "employment-linked incentives", pays the first month of a newly hired worker's wages, and a portion of their first year's salary after that. In theory that may help firms allay their worries about taking on more staff, and perhaps help them pay wages that can attract workers all year round. But it is only a small step towards solving manufacturers' problems. It is time the government stitched together a much more ambitious plan. ■

Dressing down

India, exports, $bn
Selected industries



Source: Ministry of Commerce and Industry

Asian diplomacy

Going soft

SINGAPORE

Has the "Quad" lost its way?

THE IDEA was that grand government buildings in Delhi would host this year's meeting of the "Quad"—a coalition comprising America, Australia, India, and Japan. That was before prosecutors in New York uncovered an attempt to assassinate an American activist of Sikh heritage, allegedly at the direction of Indian intelligence officers. Joe Biden decided against visiting India (though his staff blamed scheduling challenges, not diplomatic worries, for that call). Instead, on September 21st, America's president hosted the leaders of the Quad countries at a suburban school in his home state of Delaware.

Under Mr Biden the Quad has become a fixture of Asian diplomacy. His aides say that it is here to stay. Donald Trump's advisers say that, if elected, he would maintain it, too. The fact that this year's summit took place despite what would have once been an explosive controversy between America and India suggests strong support in both countries for the institution. Yet critics warn that the Quad is losing focus and has lowered its ambitions.

The first meeting of what was then known as the Quadrilateral Security Dialogue took place among foreign ministry officials from the four countries in 2007. Later that year, the four countries' navies exercised together in the Bay of Bengal. China feared the four were plotting to contain it and angrily condemned the grouping; it fizzled out the following year.

But after Mr Trump was elected in 2016, Australia, India and Japan, fearing abandonment, sought to better secure America's involvement in the region. Meetings between the Quad's senior diplomats resumed in 2017. Naval exercises restarted in 2020 (though spokespeople insist that they are not Quad exercises, just drills that happen to include the four Quad countries).

In some ways Mr Biden has moved things up a notch. He has convened six meetings of leaders of the Quad countries, four of them in person. If American assistance for Ukraine is likely to be his main legacy in Europe, then turning the Quad into a lasting institution is his hoped-for legacy in Asia.

Yet the Quad has also adopted some new characteristics on Mr Biden's watch. It has become more focused on providing what its leaders like to call "public goods" for the Asia-Pacific as a region, and a bit less focused on organising closer co-operation in defence. Military officers and defence officials are not invited to the Quad's summits. Its formal agenda has become more focused on things such as vaccine roll-outs and how best to help after natural disasters. At the meeting on September 21st leaders said they would do more to prevent cervical cancer in Asia.

The thinking seems to be that assuming a softer mantle will earn the grouping approval from governments in the region that are sceptical of it. And Dhruva Jaishankar of the Observer Research Foundation, an Indian think-tank, notes that some ▸▸

of the Quad's projects are "defence-adjacent", such as an effort to provide other governments with satellite imagery that can track ships in their waters, and a new programme to manufacture semiconductors for military purposes in India.

But critics of the Quad's new look, such as Raji Pillai of the Australian Strategic Policy Institute, another think-tank, say its activities do not match the moment. They say that with China harassing its neighbours in the South China Sea, the East China Sea, and above all around Taiwan, the Quad must refocus its energies on maritime security. The Delaware summiteers condemned rising tensions in a statement released after their summit (which they grandiosely named "The Wilmington Declaration", after Mr Biden's home town). But they did so without calling China out by name—even though Mr Biden was caught on a hot mic telling his counterparts that "China is testing us".

Kishida Fumio, Japan's prime minister, will not sit that test; he is due to leave office on October 1st (see Banyan). Mr Biden will follow in January. And Anthony Albanese is facing a tough fight in the Australian election due next year. Only Narendra Modi, recently re-elected at the head of a coalition government, is sure to hang around. Next year he will finally get his chance to host the Quad in India. The new faces around that table will have to make some decisions about what exactly they want the outfit to be. ■

BANYAN

Course selection

The race to become Japan's next prime minister

IN A YEAR of startling election results and roller-coaster campaigns, you could be forgiven for failing to notice the battle to lead Japan's Liberal Democratic Party (LDP). But the result of the ruling party's internal vote on September 27th matters a lot. The winner of the contest will become Japan's prime minister on October 1st—replacing Kishida Fumio, the LDP's current leader, who decided last month to stand down. Who takes his job will affect Japan's role in the region, and in the world.

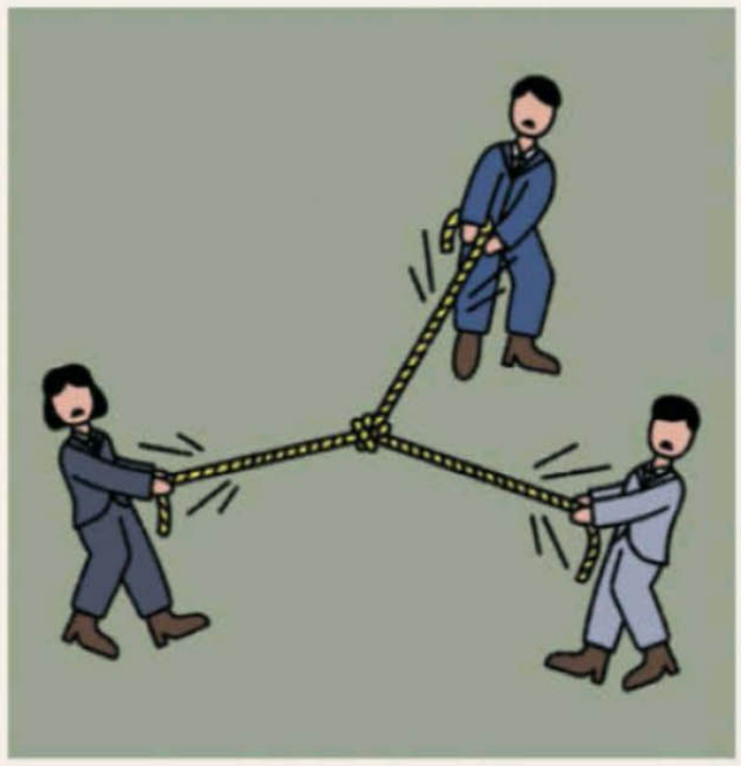
While other rich democracies have struggled with polarisation and populism, Japan has been acting as a quiet stabiliser in world affairs, argues Hosoya Yuichi of Keio University in Tokyo. Mr Kishida has beefed up Japan's armed forces, deepened its alliance with America and helped repair relations with South Korea, which are haunted by the legacy of Japan's colonisation of Korea between 1910 and 1945.

Yet within Japan, voters have been souring on the LDP. It has lost power only twice since 1955 and for the moment remains virtually assured to win the next general election. But many in the party fear that a recent scandal over the misuse of political funds will see it lose a big batch of seats. Nine candidates have promised they can steady the ship. Three front-runners have emerged, each with a vision for Japan.

Koizumi Shinjiro, at 43, would be Japan's youngest post-war leader. In his office in the Diet he keeps a picture of another charismatic youngster, John F. Kennedy—his political hero. His father, Junichiro, served as prime minister from 2001 to 2006 and was known as a reformer; the junior Koizumi has tapped into that legacy. He supports changing Japanese law to allow married couples to keep separate surnames—an issue that has become a proxy for broader battles over sexism and family life. (Most Japanese support such a change, but social conservatives have thus far blocked it.)

Whereas the elder Koizumi fought to privatise Japan's postal service, the younger Koizumi's plans for economic reform involve encouraging competition in ossified industries (he wants to start by legalising ride-sharing, which is long overdue). But shaky performances in debates suggest his policy ideas have yet to be fully formed. And although he is well connected in America, where he has studied and worked, Mr Koizumi does not have much experience of foreign policy.

Takaichi Sanae, a hard-right nationalist, would be Japan's first-ever female leader. Ms Takaichi admires Margaret Thatcher, Britain's "Iron Lady". She presents herself as the ideological heir to Abe Shinzo, a former prime minister who was murdered in 2022. She promises that if she becomes prime minister she will visit the Yasukuni Shrine, which houses the spirits of Japan's war dead, including war criminals. That would infuriate China and imperil rapprochement with South Korea; both associate the shrine with Japanese imperialism. It would also create friction with America. She supports expansionary fiscal and monetary policies. But she has shown less enthusiasm for the third and most crucial aspect of Abenomics: structural reform.



Ishiba Shigeru, an ageing maverick, is making his fifth run for the LDP's leadership. His political mentor was Tanaka Kakuei, a powerful post-war figure who, before being felled by a corruption scandal, was known as the "commoners' prime minister" for his commitment to poorer regions.

Populist flair, and decades of door-to-door campaigning, have made Mr Ishiba the most popular candidate in polls of the general public. But many colleagues regard him as a traitor for abandoning the party for several years in the 1990s. Known as a defence *otaku* (obsessive), Mr Ishiba lines his office shelves with models of warships and fighter jets. He enjoys taking stubborn stances, such as calling for an "Asian NATO". His economic agenda focuses on revitalising Japan's outlying regions.

Whoever triumphs on the 27th will soon face big tests at home and abroad. The new prime minister will have to manage a tense relationship with China and build ties with a new American president. They will need to lead the LDP through upper- and lower-house elections that are due within a year. And they will have to keep control of a fractious party. Missteps could usher in another period of revolving-door prime ministers (the country had seven leaders in the decade to 2012). Can Japan continue to bring stability to the world, or will it, too, go wobbly?

China

The economy and society

Never forget class struggle

As the economy falters, resentment of the elite is growing

THE TERM "three generations in tobacco" has become a common shorthand in China. On social media it means a privileged elite whose members hand out coveted jobs (such as managerial roles in the state's tobacco monopoly) to their own types. Earlier this year a microblogger with more than 850,000 followers invoked the meme. "The result of this hereditary system is a closed circle of power that completely cuts off opportunities for people at the bottom to rise up!" he wrote. Hundreds expressed agreement. "The ruling class is solidifying," one replied. Another fumed: "The children of the elite get ahead, and the children of the poor remain poor."

In the 1990s, as people became free to move from the countryside into cities and to choose what work to do, social mobility soared. With hard work and native wit, the transformation from farmer to factory owner could be completed in a matter of years. But as the meme suggests, optimism is beginning to fade. The economy is faltering. Opportunities for good jobs are drying up. Many Chinese now talk of *shehui guhua*, or social stagnation. Among the less well-off, resentment is growing of what is seen as a self-replicating elite. Class enmity is on the rise.

Research led by two American scholars, Scott Rozelle and Martin Whyte, found that people in China once accepted glaring inequality, remaining optimistic that with hard work and ability they could still succeed. But the academics found they are now more likely to say that connections and growing up rich are the keys to success. This irks the Communist Party, which claims to have established a "people's democratic dictatorship led by the working class and based on an alliance of workers and peasants", as the Chinese constitution puts it. In recent years China's leader, Xi Jinping, has called for greater efforts to promote social mobility while stressing the need to attain "common prosperity".

Such talk has had little obvious impact on the public mood, however, beyond spooking businesspeople and wealthier Chinese. In August a popular user of Weibo, a social-media site, railed against the big pensions enjoyed by the elite. "Common folk, do you get it now?...Vested interests are untouchable, you can't even talk about them," he wrote. "They're all parasites," one person responded. "Vampires," said another. "Social stagnation is getting worse," a third chimed in. Someone even ventured: "Without another revolution, it's impossible to resolve these bizarre injustices." Within days the thread disappeared from China's heavily censored internet.

Is China really becoming more socially rigid? Experts debate the evidence. A common way of measuring mobility is by looking at what economists call intergenera- ▸▸

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tional elasticity of income, or IGE. It compares people's incomes with those of their parents. The closer they are, the less difference there is likely to be between the two generations' social status. IGE represents the ratio on a scale of zero to one, with a higher number indicating less mobility.

A study published in 2019 by the Institute of Labour Economics, a think-tank in Bonn, found that the IGE of those born between 1970 and 1980 was 0.39. It rose to 0.44 for those born between 1981 and 1988. As in rich countries, the authors say, the reduction of social mobility went hand in hand with growing inequality. The gap between rich and poor in China rose sharply in the 1990s as economic reforms took off. In another paper, also published in 2019, Mengjie Jin of Nanjing University of Finance and Economics and fellow authors said the country was more socially mobile than America, but less so than Britain, Canada and Germany.

Mr Xi does not admit that social stagnation is happening, but he has called for efforts to prevent it. "In some countries, the widening gap between rich and poor and the collapse of the middle class have led to social division, political polarisation and rampant populism," he said in 2021. "The lessons are profoundly significant!" In July Han Linxiu of Nankai University, writing in an official journal, said he did not believe there was stagnation but "the widespread presence of this negative emotion" was "a potential political risk".

The C-word

To tackle the problem, the party in 2019 issued its first policy document on the topic of social mobility. As usual, when discussing China, it did not mention the word "class". The idea that new ones might be forming remains unpalatable to the party's ideologues. But it said that eliminating barriers to mobility would be "a powerful support for the sustained and healthy development of the economy". And it correctly identified some of the main obstacles.

The most glaring one is the *hukou* system of household registration, which limits the ability of migrants from the countryside to get access to subsidised urban health care, education and housing. The nearly 300m who have moved into cities in the past three decades have enjoyed a one-off gain in social standing. But in the cities they are treated as second-class, often barred from good jobs because of requirements that applicants have a local *hukou*.

The party's document called for the "equalisation of basic public services...regardless of *hukou* status". Reforms have been gaining pace. Some offer migrants with permanent jobs the chance to enjoy the same benefits as native residents, even without changing *hukou*. But there are still hidden barriers: many migrants do not have contracts to prove their employment or residential status. And the party is reluctant to allow much change in the biggest cities, where the best jobs are concentrated. It fears the impact on social stability if large numbers of migrants become unemployed and do not want to leave.

In the countryside, unequal access to good education is a big impediment to progress. Rural schools pale in comparison to urban ones in terms of funding and staffing. Children with rural *hukou* have far less chance of completing high school. A big increase in the number of places at universities and colleges opened many more doors. But rural students are hugely underrepresented at elite universities. Liu Baozhong of the Chinese Academy of Social Sciences reckons that at such institutions, nearly 40% of students are the children of managers and fewer than 10% are the offspring of farmers—even though more than 35% of Chinese live in the countryside.

China's middle class has expanded rapidly, from almost non-existent in the 1990s to around 400m people today. But within this new class resentments stir, too. Competition for advancement is intense. Parents pour money into helping their children get ahead. In 2021 the government tried to level the playing field by banning most for-profit tutoring services. But this gave the richest an even bigger advantage: they could afford the sky-high prices that tutors began charging for their illicit work.

Many Chinese scholars suggest improving public services to reduce the risk that the poor remain poor, generation after generation, because of health-care costs, inadequate pensions, meagre unemployment benefits and the hidden price of good schooling. But the government is loth to splurge. "To promote common prosperity, we must not adopt the approach of welfarism," Mr Xi warned in 2021. It supported "lazy people", he said.

The party's own elitism doesn't help. For civil servants and white-collar workers in state firms—coveted types of work—membership is essential for advancement. The civil-service exam is highly regarded for its fairness, but who joins the party is at the whim of insiders. And within the state's bastions, nepotism is rife.

In a report on its website in April, even state television concurred. It said public concern about "three generations in tobacco" and similar topics on social media was a sign that "there is still quite a bit of 'inbreeding' within state-owned enterprises and local-government agencies". The scourge, it said, was "proliferating in hidden corners". Netizens leapt on this rare admission. "These people are promoting traditional culture," quipped one, referring to a pet project of Mr Xi. "Dragons give birth to dragons, phoenixes to phoenixes, and a rat's son knows how to dig." ■

China and Japan

Hate thy neighbour

Another attack points to a serious problem in China

A TRAGEDY LIKE this "could have happened in any country", said China's foreign-ministry spokesman on September 19th. A day earlier, in the southern city of Shenzhen, a Chinese man had stabbed a ten-year-old Japanese boy while he was on his way to school. The boy later died from his injuries. The assailant was arrested at the scene. The authorities have released no information about his motives.

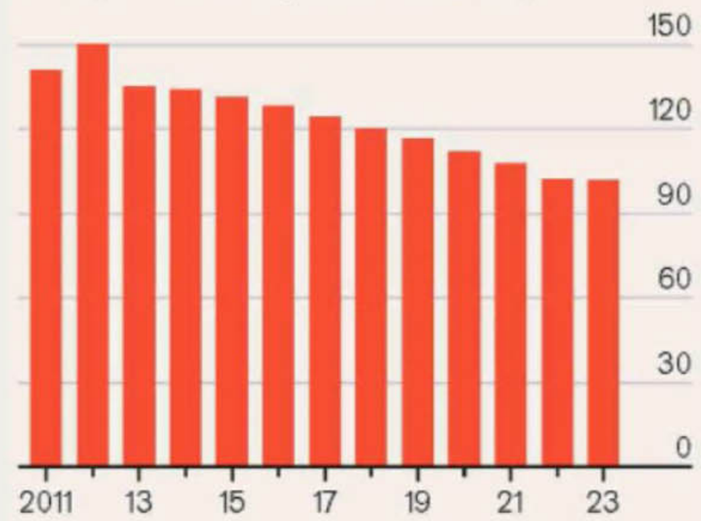
The attack was strikingly similar to another, which also happened in China. In June a Japanese woman and her child were assaulted at a bus stop near a school in Suzhou, a city to the west of Shanghai, by a Chinese man wielding a knife. They were injured and a Chinese woman was killed after reportedly stepping in to protect them. This, too, was an isolated incident, according to China's government.

But many see a link between the attacks: anti-Japanese xenophobia. Chinese schools stir up resentment of Japan over its invasion of China and the atrocities it committed in the 1930s and 40s. (Some note that the attack in Shenzhen occurred on the date of the Mukden Incident, when Japan faked an explosion in north-east China to justify its invasion.) "The evil seeds planted by the Japanese back then have borne an evil fruit," said a commentator on Weibo, a microblogging site. "The real murderers are the Japanese themselves."

To be sure, many Chinese have expressed sympathy for the child's family and anger at the rise of extreme nationalism online. But the anti-Japanese vitriol spouted by nationalists is generally tolerated by the state. They get riled when Japanese politicians express support for Tai- ▸▸

Sayonara

China, number of Japanese residents*, '000



Sources: Japan's Ministry of Foreign Affairs; Nikkei

*At October 1st

wan or when they visit Yasukuni, a Tokyo shrine to Japan's war dead, including war criminals. The Japanese-controlled Senkaku islands, which China claims and calls the Diaoyu, are another sore point.

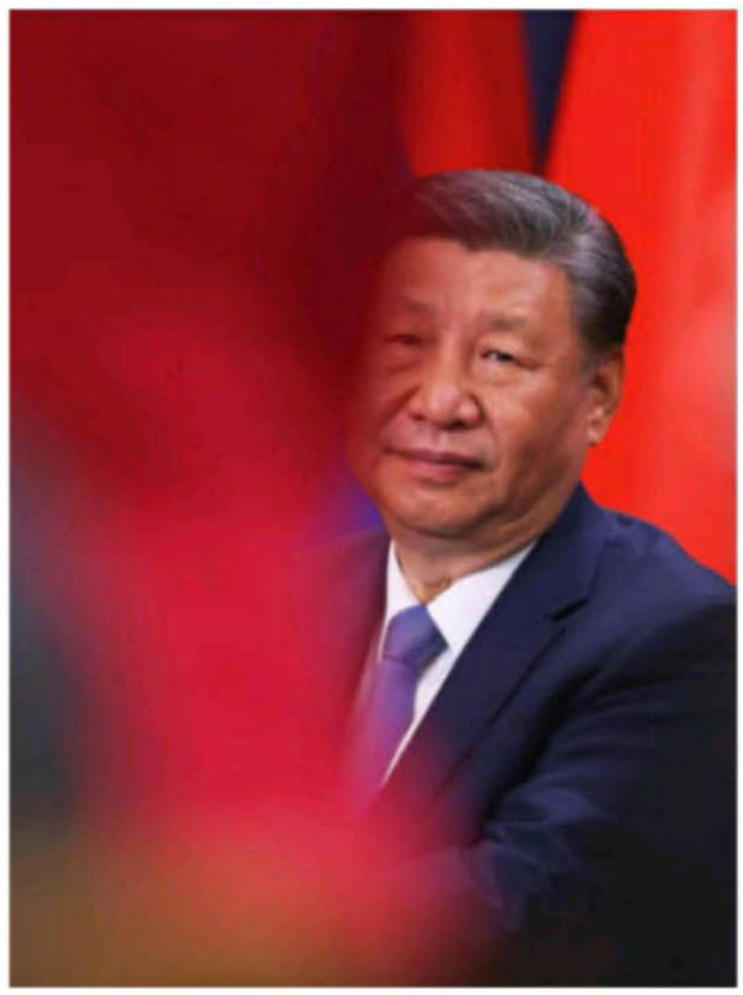
That vitriol has also been aimed at Japanese-language schools, near which both attacks occurred. China has a dozen or so of these schools. *The Economist* found that hundreds of videos about them had been posted on Douyin, a popular short-video app, between late 2021 and September of this year. One, which had over 100,000 views, called them part of a "cultural invasion". Others spread a theory that the schools are training spies. According to our number-crunching, videos that railed against the schools attracted twice as many likes as those that did not.

All this has rattled the Japanese community in China, which had already been shrinking (see chart on previous page). In July the Japanese Chamber of Commerce and Industry in China released a survey of its members. Several said more efforts were needed to keep Japanese citizens safe. Now schools are advising Japanese children to stop speaking their mother tongue in public. Panasonic, a Japanese electronics giant, is offering to pay for employees and their families based in China to return temporarily to Japan. Other companies are considering doing the same.

Japan has demanded more information about the boy's death. The incident has become a talking-point in the contest to lead the ruling Liberal Democratic Party (LDP), which will, in effect, decide who becomes Japan's next prime minister (see Asia section). Some candidates say China's government, which censors content it deems undesirable, is partly to blame for the violence because it has allowed anti-Japanese sentiment to spread. In a meeting with her Chinese counterpart on September 23rd, Kamikawa Yoko, Japan's foreign minister and a candidate to be the LDP's chief, pressed China to curb online hate.

For its part, the Chinese government seems to want better relations with Japan. It recently ended a spat between the countries. China had protested against Japan's discharge of radioactive water into the sea from the destroyed Fukushima nuclear power plant. Experts said Japan's actions were safe, but China banned seafood imports from the country. Now China says it will gradually lift the ban if the contaminated water is independently monitored.

The Chinese government, though, has done little to rein in the nationalists. They are some of the Communist Party's strongest backers. And complaints about Japan distract from the ailing economy. "What Japan did to China during the war was so terrible," says a Japanese woman in Beijing. But now, "hatred of Japan is used as a way of venting general dissatisfaction." ■



Thought leadership

Brains-trust blues

Xi Jinping wants to stifle thinking at a leading government think-tank

THE CHINESE ACADEMY of Social Sciences (CASS) is no ordinary collection of policy wonks. In China's political hierarchy it has the status of a government ministry. It has thousands of staff, some of whom give briefings to the ruling Politburo. Among "think-tanks with Chinese characteristics" that China's leader, Xi Jinping, says he wants to foster, it stands at the apex. But proximity to power offers no protection to its researchers. Mr Xi's henchmen are turning up the heat on those who dare to think independently.

A recent sign of this has been the unexplained purge of a prominent health economist at CASS, Zhu Hengpeng. Until earlier this year, he had been serving as deputy director of its Institute of Economics and director of its Public Policy Research Centre. Now pages mentioning his name can no longer be accessed on CASS's websites. The *Wall Street Journal* reports that he was detained in spring after posting comments to a private group on WeChat, a social-media platform, about China's flagging economy. They included veiled criticism of Mr Xi, the newspaper says.

There has been a wider shake-up, too, at the Institute of Economics. In August CASS announced a sweeping change of the institute's leadership (without referring to Mr Zhu), with the appointment of a new director, deputy director and Communist Party chief. None of these developments have been explained by CASS or any other authority. But they coincide with efforts by officials to press academics and journalists not to express gloom about the country's economic prospects. "Publicly criticising major party policies online is a serious breach of political discipline," a CASS official told staff at the institute in June.

At CASS Mr Xi's discipline-enforcers have been hard at work in every area of research. Since 2018 they, along with CASS's own party snoops, have been conducting annual inspections, stationing themselves in a selected handful of its dozens of institutes for weeks on end to make sure staff are toeing the line. This year the Institute of Economics is among their targets. Employees at CASS have until the end of October to submit any observations on colleagues' wayward behaviour to the inspection teams. Among types to look out for are "two-faced people" (those who express support for the party but privately criticise it) and "road-blocking tigers" who frustrate the party's wishes.

Gao Xiang, who took over as the academy's president and party chief in 2022, has been leading the charge. CASS's websites are filled with his fulminations. Mr Gao calls for "ironclad loyalty" to Mr Xi and the party. He says the academy must "closely monitor...prominent issues that hinder our institution's ability to serve" them. He has introduced "ten strictly forbiddens", including a ban on unauthorised interviews with foreign journalists. Number one on the list is publishing or even making use of any material that "violates party discipline". Staff should have "fear in their hearts, caution in their speech and restraint in their actions", he says. This is a phrase often used by Mr Xi. It refers to the impact that rules relating to party discipline should have on party members.

As Mr Gao doubtless bears in mind, there was a time when CASS was very different. So many of its researchers took part in the pro-democracy demonstrations of 1989 that the government later called it a "major disaster area". Despite that year's clampdown, including purges of its staff, some reform-minded scholars kept their jobs. Some readily gave interviews to foreign journalists.

But Mr Xi's imprint is now all over CASS's research. Last year, at Mr Gao's request, the Institute of Economics set up a Xi Jinping Economic Thought Research Office. CASS says the new branch "strives to produce high-quality research outcomes based on elevated theory, academic depth and scholarly substance". And, it might add, with the help of an intellectually shackled staff. ■

Chaguan, our China column, has been suspended. Our goal is to reinstate it when we have a new columnist resident in Beijing.

Middle East & Africa

Israel and Hizbullah

History repeating

DUBAI AND JERUSALEM

Hizbullah seems to have miscalculated in its fight with Israel

WARLORDS ARE not known for their remorse, but Hassan Nasrallah offered some in 2006, weeks after a war that killed more than 1,100 Lebanese. The fighting began when Hizbullah, the Shia militia and political party he leads, abducted two Israeli soldiers in a raid. Mr Nasrallah said he was surprised by the ferocity of the response and called the raid a mistake. "If I had known...that the operation would lead to such a war, would I do it? I say no, absolutely not," he told an interviewer.

This time was meant to be different. Hizbullah started firing rockets at Israel on October 8th to support Gaza, which Israel had begun bombing after Hamas, a Palestinian militant group, massacred more than 1,100 Israelis one day earlier. It did not force Israel to end its war, but it tied up soldiers and missile-defence batteries and forced 60,000 Israeli civilians to flee their homes. Anxious to avoid a two-front battle, the Israeli army responded in kind with short-range artillery and air strikes. Both sides followed these unwritten rules for months, neither stopping nor escalating.

Yet it now appears that Mr Nasrallah has miscalculated again. What was meant to remain a limited conflict has become much bigger. In the past two weeks Israel has dealt Hizbullah the harshest blow in the group's four-decade history. Mr Nasrallah seems at a loss for how to proceed.

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The shift in Israel's tactics began in July, when it assassinated Fuad Shukr, Hizbullah's military chief, in Beirut, retaliation for a Hizbullah missile that killed 12 children in the Israeli-occupied Golan Heights. It was also a chance to change the dynamics of a conflict that had seemed frozen for months. Hizbullah sought to hit back in late August, but Israel blew up its long-range missiles before they launched.

On September 17th Israel detonated thousands of pagers used by Hizbullah operatives; the next day, hundreds of walkie-talkies exploded. The sabotaged devices killed dozens, wounded thousands and wreaked havoc on Hizbullah's communications. The timing of the blasts may not have been dictated entirely by Israel: its spies worried that Hizbullah would soon discover the sabotage. But they were followed rapidly by a series of assassinations; one killed the commander of the Radwan force, Hizbullah's elite commando unit.

Then came a withering campaign of air strikes in southern Lebanon and the eastern Bekaa valley, both Hizbullah strongholds. Israel's attacks killed almost 500 people in the second wave on September 23rd, the deadliest day in Lebanon since the end of its long civil war in 1990. Having mostly attacked missile-launchers in non-populated areas, Israel is now hitting ones ▸▸

in villages and other built-up areas.

Israeli officials insist this is not yet an all-out war. They have drawn up plans for a ground invasion, but the army has not deployed troops to staging areas. Nor has the air force started bombing vital infrastructure in Lebanon (the airport was one of Israel's first targets in 2006).

Unlike in Gaza, where they vow the total defeat of Hamas, Israeli generals acknowledge it is impossible to end Hizbullah's dominance in Lebanon. Their goal is narrower: to force Hizbullah to halt its fire on northern Israel and withdraw its men from the border. Mr Nasrallah insists that will not happen. In a speech on September 19th he vowed to continue fighting Israel until the latter ends its war in Gaza, a promise he has made often over the past year.

His militia has gradually used longer-range missiles, firing at cities like Haifa and Afula deeper inside Israel. On September 25th it launched a long-range ballistic missile at Tel Aviv, the first time that it had aimed at Israel's commercial capital. The missile was intercepted by David's Sling, an Israeli missile-defence system. It was an escalation, but firing a single missile seemed mostly symbolic, a way for Hizbullah to demonstrate that some of its capabilities were still intact—not the debilitating response that many had expected.

Lonely leader

Mr Nasrallah has never been so isolated. He has lost many trusted lieutenants, some of whom had been members of Hizbullah since its founding in the 1980s. Those who remain are probably suspects: Israel could not have carried out extensive sabotage and assassinations without inside help. His communications are disrupted, and some of his missiles have been destroyed.

Hizbullah's reputation is in tatters. Its Shia constituents long saw it as a mighty protector; now they have doubts. Among the wider population, many are furious with Mr Nasrallah for dragging the country into a fight he cannot win. Lebanon is still grappling with one of the worst economic crises in modern history. Since 2019 its currency has lost 98% of its value and GDP has dropped by half. It can ill afford a long war, let alone the reconstruction bill after one.

The displacement of tens of thousands of people from the south and east is already straining basic services. Some landlords are charging vast sums to rent homes to evacuees or refusing to accept them at all.

All of this is important to Hizbullah—but arguably none of it matters so much as the opinion of Iran, its main sponsor. The Islamic Republic invested billions of dollars to build up Hizbullah's missile stocks, including a concerted effort in recent years to upgrade their accuracy. They were meant to serve as an insurance policy against a direct Israeli attack on Iran's nuclear facilities. Now Iran is watching in dismay as those same missiles are blown up.

It seems unwilling to help its proxy. That fits a pattern of inaction over the past year: Iran worries about inviting more attacks on its soil, and that it too has been penetrated by the Mossad, Israel's foreign intelligence service (see next article).

Some officials in Lebanon muse that Iran might seek to use Hizbullah as a bargaining chip: it could offer to restrain the group in exchange for a deal that eases sanctions on Iran's battered economy.

The Biden administration has been willing to let Israel test its belief that Hizbullah can be pounded into a separate truce. It says it will not support a ground invasion of Lebanon, however. But Israeli generals continue to threaten one: on September 25th Lieutenant-General Herzi Halevi, the army chief, told soldiers training in northern Israel that their "boots will enter enemy territory".

Later that day America joined ten other countries and the EU in calling for a 21-day ceasefire between Hizbullah and Israel. They hope to use that time to implement UN Resolution 1701, the deal that ended the 2006 war, which called for Hizbullah to withdraw to the Litani river, 30km (19 miles) north of the Israeli border.

Israeli officials say they are willing to discuss the proposal, though many will be sceptical about giving Hizbullah a three-week respite in exchange for the promise of further negotiations. Whether Mr Nasrallah will agree is open for debate. Backing down would boost his standing among Lebanese: "He could say he did it for the good of the nation," says one diplomat. Iran probably wants him to hold his fire as well, although its leaders may not give such an order directly.

Yet to do so would be humiliating for Mr Nasrallah. He has spent years touting a concept he calls the "unity of the arenas", the idea that Iran's proxies across the region could co-ordinate joint military action against Israel. For Hizbullah, Iran's strongest proxy, to abandon the fight under Israeli fire would be to admit that the concept has failed.

If he digs in, the fighting could get much worse. Hizbullah has lost some of its arsenal to Israeli bombardment but still has tens of thousands of rockets and missiles. Israel could expand its strikes in Hizbullah's stronghold in south Beirut, a neighbourhood it reduced to rubble in 2006. Neither side would achieve its goals: Israel would not end its war in Gaza, and residents of northern Israel would not feel safe to return home. A truce might be embarrassing for Mr Nasrallah—but the alternative is a ruinous and pointless war. ■

Seeking safety

Lebanon

A swift exodus

BEIRUT

The flight from southern Lebanon

AFTER ALMOST a year of waiting for war, the exodus from south Lebanon came in a dramatic instant. Tens of thousands of Lebanese grabbed whatever and whoever they could and squeezed ten or more to a car to travel north, fleeing Israeli air strikes. The coastal highway was rammed. Aid agencies say over 200,000 Lebanese have been displaced since October 8th.

In a government shelter in Hamra, in west Beirut, groups of women in black headscarves wept as soldiers from the Lebanese army stood guard outside. Umm Rania came from a village close to Nabatieh, in the south. She spent ten hours in the car with her wounded granddaughter. "She had shrapnel [from an air strike] in her leg. The hospitals in the south were full so we wanted to bring her to Beirut. We cried until we were too tired to cry; now we are exhausted."

Some went to stay with relatives in Beirut. Others checked into cheap hotels or bedded down in schools and municipal buildings requisitioned by the government. Still more found themselves on the streets. Some were welcomed by their countrymen, who offered them somewhere to stay. The Israeli offensive has led to some glimmers of solidarity in a country riven by political and sectarian divisions, though some have also taken advantage of it to make money from their desperate compatriots. None of those who had fled from their homes had any idea when they might return.

Since the pager attack many in Lebanon are shocked at just how deeply Israel has infiltrated Hizbullah. Foreigners are increasingly suspect. Journalists have been thrown out of hospitals while reporting and beaten up while trying to interview people in the aftermath of missile strikes. The interior ministry said it was keeping a much closer eye on foreign nationals in the country; anyone could be a spy.

Complacency that Israel did not have the appetite for all-out war with Hizbullah has been replaced by fear that things are almost certain to get worse. And with little support coming from outsiders, the Lebanese feel very much alone.

Iran's diplomacy

Damage limitation

NEW YORK

Iran's president wants to stop the escalation of war on Israel's two fronts

FOR A WEEK all eyes have been on Iran and its response to Israel's pounding of Hizbullah, the Lebanese Shia group that is Iran's beefiest proxy. But at the UN gathering in New York on September 24th Iran's freshly minted president, Masoud Pezeshkian, sounded conciliatory, calling for a "new era" and for the nuclear agreement previously negotiated with America and other global powers to be restored. Despite Israel's battering of Hizbullah, he did not call for "the Zionist regime" to be destroyed. If Israel gave up its weapons, he even said Iran would, too.

He also met interfaith types, including several American rabbis and an Israeli-American Middle East expert, Lior Sternfeld, handpicked by Iran. "He's completely oriented towards restarting negotiations with the West, meaningful engagement and restoring stability in the Middle East," said Mr Sternfeld. He said it was the first time an Israeli had met an Iranian president since the revolution of 1979.

Many Iranians suspect it is just a charm offensive to get Iran out of a tight spot and that the Islamic Revolutionary Guard Corps (IRGC), Iran's praetorian guard, and the ayatollahs are using Mr Pezeshkian as their frontman. Still, after years of confrontation under Mr Pezeshkian's hardline predecessor, Ebrahim Raisi, Iran is changing its tone. Mr Pezeshkian says women should be able to walk the streets of Tehran, the capital, untroubled by morality police. Shervin Hajipour, a songwriter who created a popular anthem for the protests that shook Iran in 2022, says his prison sentence has been quashed. The restoration of the nuclear deal, hopes Mr Pezeshkian, would end American sanctions that have hamstrung Iran's economy and have made its currency plummet.

Iran must feel vulnerable to Israel's deep penetration of its defences. Hamas's leader, Ismail Haniyeh, was assassinated in an Iranian government guesthouse in July. A recent visitor to Tehran speaks of consternation among the IRGC, since its fighters are said to use the same walkie-talkies as those that blew up in Lebanon.

Mr Pezeshkian said Iran would not fall into Israel's "trap" of driving its diplomacy off course. His foreign minister, Abbas Araghchi, said it was for Hizbullah's leader, Hassan Nasrallah, to decide how to respond—a polite way of saying that Lebanon's Shia militia was on its own. Still, Iranian self-restraint has its limits. Israel could next hit pro-Iranian militias in Iraq and Yemen, the Iranians fear. If the "axis of resistance" is to retaliate, it may yet do so before it has been clobbered still harder.

Iran has not met Israel's demand for Hizbullah to stop firing rockets in support of Hamas and to retreat beyond the Litani river that runs about 30km (19 miles) north of Israel's border. But one intermediary advises Iran to do so. "I told them weeks ago, Hamas is finished. Don't lose Hizbullah and your influence in Lebanon, just as you have lost Hamas." ■

Tunisia's election

Democracy delenda est

DUBAI

Tunisia's strongman president is set to win a sham election

IN A SENSE, he kept his promises. Five years ago Kais Saied ran for president as an outsider who would overhaul Tunisia's politics. He has done just that, giving himself powers described by some as a "self-coup" and smothering a nascent democracy. Few Tunisians would say they are better off. Yet on October 6th Mr Saied will stand for re-election in a vote he will surely win.

It is not for lack of opposition. Dozens hoped to challenge him, but their ambitions were thwarted. Some would-be candidates were jailed on bogus charges. Others were disqualified after dubious accusations of vote-buying. A law professor by training, Mr Saied is adept at using the law to squash challenges to his rule.

In the end, the electoral commission approved just three candidates: the incumbent; Zouhair Maghzaoui, an eccentric politician seen as close to Mr Saied; and Ayachi Zammel, a little-known businessman. Lest anyone be tempted to vote for him, Mr Zammel was later convicted of forgery and sentenced to 20 months in prison (he remains on the ballot, though).

The previous election, in 2019, was defined by despair. Tunisians had been hopeful after they overthrew Zine el-Abedine Ben Ali, their longtime dictator, in 2011. Yet eight years later they had lost hope in corrupt politicians who failed to revive a stagnant economy. Mr Saied won 73% of the vote and promised a "new revolution".

What he delivered was reaction. In 2021 he suspended much of the constitution and sent a tank to bar the doors of parliament. The following year he pushed through a new charter that stripped power from the legislature and strengthened the presidency. Since he took office, Tunisia has slipped from 53rd place to 82nd on the democracy index compiled by our sister company, the Economist Intelligence Unit.

The economy remains neglected. Growth has been stubbornly low for years. Adjusted for inflation, GDP is smaller than before the pandemic-induced crash of 2020. Unemployment is 16% and over twice as high for young people. The lone bright spot is an olive-oil industry benefiting from a drought in Spain, the world's biggest producer, that sent global prices soaring. Everything else is moribund.

Public debt is close to 80% of GDP, most of it owed to foreigners; external-debt costs reached 7% of GDP last year. In 2022 Tunisian officials negotiated a $1.9bn bail-out with the IMF. Mr Saied rejected the deal, though, refusing to cut subsidies and the vast public-wage bill.

The government has managed to avoid a default. But it needs to borrow an estimated 14% of GDP next year and struggles to find external funding (its bonds are rated junk). Domestic banks are loading up on public debt. They are expected to lend the state around 10% of GDP this year and more in 2025. This is crowding out private firms and raising fears about the solvency of local banks.

Mr Saied has shown little interest in reforms: his economic policy does not go much beyond ranting about speculators and the odd anti-corruption drive (usually aimed at his political opponents). Another five years of this all but ensures that Tunisia's economy will continue to flounder. ■

Renewables in Africa

Let the sunlight in

BANGUI

A home-grown startup brings solar power to the continent's toughest places

WHEN AN ERITREAN solar salesman called Kidane Tesfamichael arrived in Bangui, the capital of the Central African Republic (CAR), in 2017 he spoke neither French nor Sango, the official languages. He had no means of transport, in a country roughly the size of Texas with only a few hundred kilometres of paved road. And he had no office, so he built himself a single-room bungalow in a car park. To find clients for his firm's main product, an inverter to turn solar power into electricity, he simply knocked on doors.

Powering up

Today Mr Kidane manages an office with 40 employees and solar-energy projects all over the country. What he has achieved in CAR, one of the world's poorest and most unstable countries, his colleagues at Aptech Africa, where he was an early employee, have repeated across the continent. When the solar-engineering, procurement and construction (EPC) firm was launched in South Sudan in 2011, its two Eritrean founders had just $20,000 between them. By 2023, Aptech was worth perhaps $50m, with offices in nine African countries from Sierra Leone to Congo and operations in 20 more. Soon it will open shop in Papua New Guinea, starting an expansion far beyond the continent's shores.

Aptech is riding the crest of several important trends. One is the growth of home-grown African multinationals. In recent years direct investment from outside the continent has fallen, with foreign investors taking fright at political instability and currency volatility. In the riskier sort of markets in which Aptech specialises, the firm often faces limited competition. When civil war erupted in South Sudan in 2013, rebels looted the firm's stock. "We lost everything," recalls Ghirmay Abraham, one of its founders. But while others fled, Aptech stayed put. Soon they were taking over projects abandoned by their rivals.

A second trend is a boom in Africa's solar-power industry. Last year the continent saw a record increase in solar-panel use (though most of this was in South Africa). In Uganda, where Aptech has its headquarters, 38% of the population reported using solar power in 2020, compared with just 18% in 2017. For Aptech, whose main clients in countries like CAR are donors and aid agencies targeting under-served populations, the key factor when considering where to expand is the national electrification rate, explains Mr Ghirmay. Less than 0.5% of rural Central Africans had power to light their homes in 2022, according to the World Bank.

A final trend is innovation in Africa's burgeoning solar industry. As the number of local solar EPCs has grown, many now design their own products, notes Joyce Nkuyahaga, a Ugandan analyst. In Uganda Aptech introduced a pay-as-you-go solar water-pump in partnership with a local firm. Next year it will launch an assembly plant to make its own lithium-ion batteries.

Unlike more high-profile startups in Africa, Aptech has grown without much foreign capital. It has only recently registered a holding company in Mauritius to more easily attract overseas investors. And though it has received money from the British government in the past, in general "we don't want to spend our time applying for grants", says Mr Ghirmay. After all, Aptech's rise is a reminder that success in Africa need not rely on outside help. ■

Conservation in Africa

Shooting elephants

AMBOSELI NATIONAL PARK

Kenya and Tanzania disagree on how to protect endangered wildlife

THE MIGHTY elephant paws at the foot of an acacia tree, his tusks so long they graze the grass. Snow-capped Mount Kilimanjaro shimmers in the distance. This is the kind of view that each year draws tens of thousands of visitors to Amboseli National Park in Kenya, on the southern border with Tanzania. Craig (pictured), the 51-year-old bull underneath the tree, may be the best-known elephant in the world.

Yet while some tourists are content to flash their cameras at Craig, others come bearing rifles. On the Tanzanian side of the border, where trophy-hunting is allowed, five elephants have been killed in recent months. At least two were from a dwindling number of "super-tuskers"—old bulls, like Craig, prized for their unusually weighty tusks—which have been decimated by illegal poaching in recent decades.

The killings followed the decision last year by authorities in Tanzania to issue permits for shooting elephants in the area. Ending a de facto ban, in place since 1995, on touching any of the park's cross-border population, it has caused bad blood between Kenya and Tanzania and revived an old debate over the aims, means and beneficiaries of wildlife conservation.

Scientists have probably been studying the elephants of Amboseli for longer than any other population anywhere. Thanks in part to the local Maasai people, who have traditionally lived peacefully alongside elephants, Amboseli escaped the worst of the poaching that blighted much of Africa in recent decades. As a result "the population has an age structure closest to what one undisturbed by human contact should look like," says Joyce Poole, a specialist in elephants. This means more mature bulls, including the rare super-tuskers that have made the park famous.

Campaigners say that Tanzania's decision imperils the remaining super-tuskers in Greater Amboseli. "Could these be the woolly mammoths, so to speak, of our lifetime?" asks Beatrice Karanja of the Mara Elephant Project, a Kenyan wildlife charity. More than 50 conservation groups from all over the world have called on Tanzania's government to outlaw trophy-hunting of elephants in the area.

Yet the practice has long been seen in a positive light in Tanzania, not least by some conservationists. Proponents argue that letting wealthy foreigners kill a few endangered animals for a hefty fee ultimately does more to save elephants than ordinary tourism. A single elephant hunt can cost hundreds of thousands of dollars.

Tanzania's government believes that this helps fund the protection of the large expanses of pristine habitat which elephants and other large animals need to survive. About 40% of the country's land mass is set aside for conservation, among the highest shares in the world and more than in neighbouring Kenya.

Yet critics say the Tanzanian government, which owns all land in Tanzania and takes a large share of the revenue it generates, is more interested in grabbing money than in conservation. A recent study found that little of the revenue from hunting in a game reserve in Tanzania now known as Nyerere National Park reached local residents. "Trophy-hunting is primarily a money-making tool, rather than a conservation tool," says Ritha Kalokola of the University of Dar es Salaam, one of the authors.

Some say the government's decision to scrap the prohibition against hunting Amboseli elephants was similarly motivated by money. "A quota for five elephants in a single zone is unheard of," says Danny McCallum, a retired professional hunter who spent decades in Tanzania.

Kenya's approach to wildlife conservation is different. Stronger property rights give local residents greater say over how their land is used. Much of the rangeland around Amboseli National Park is owned by Maasai cattle herders, who lease it to conservationists for a fee.

In theory this means few of the forced evictions common in Tanzania, and more money from tourism, which generates 8-9% of Kenya's GDP, in local hands. Big Life Foundation, an NGO that leases and protects lots of "conservancy" land, says that in recent years elephant poaching in Greater Amboseli has become less of a problem, benefiting locals. "If the number of elephants falls, the number of tourists falls too," explains Margaret Nayieso, who lives in a conservancy managed by Big Life.

Yet despite the ban on trophy-hunting, wildlife in Kenya has declined more dramatically than in Tanzania since the 1970s, when the ban first came into force. As Kenya's population has grown, violent conflicts between people and wildlife—and between wealthy conservationists and local pastoralists—have spread. And not everyone is thrilled about the growth of conservancies. One recent study from Mara, in south-west Kenya, found that the chief beneficiaries of these were powerful local elites, in particular older men. "Honestly, if the government ended the hunting ban, most people would support it," reckons one Kenyan conservationist.

That suggests that when it comes to managing Amboseli, compromise is possible. One option would be for researchers in Kenya to share data about the most valuable super-tuskers for hunters to avoid. Alternatively, suggests Amy Dickman of Oxford University, anti-hunting groups could pay land managers in Tanzania to compensate for the revenues forgone by leaving certain elephants untouched.

Any agreement would require better coordination between authorities on either side of the border. Lessons from such deals could help elephants elsewhere: by one estimate, some 76% live in populations that cross borders. Like Craig, they are no single country's property. ■

Europe

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ASTANA

From Istanbul to Astana, a regional bloc takes shape

JUST OUTSIDE Astana, Kazakhstan's capital, a woman whips her horse into a canter, raises a wooden bow and sends three arrows whistling through the air, one after the other, to the delight of spectators. Golden eagles perch on their owners' shoulders. Nearby, men on horseback fight over a goat carcass (made of rubber, a concession to animal-rights activists) in a game of *kokpar*. Smoke from vats of grilled lamb curls past dozens of white yurts.

There is no mistaking the Nomad Games, which closed on September 13th, for the Olympics. They boast athletes from 89 countries, up from 19 at the first tournament in 2014. But they are a Turkic project at heart. "When I do this," says Kyrgyz archer Ishak Tokonov, drawing his bowstring, "I hear my ancestors speaking."

The Turkic world bridges Europe and Asia, covering Turkey, Azerbaijan, Turkmenistan, Kyrgyzstan, Uzbekistan and Kazakhstan. It spills into Russia, with its many Turkic minorities, and China, home to 12m Uyghurs. The idea of a common Turkic identity, a bogeyman for the Soviets and for today's Russia and China, is flourishing. The Nomad Games are one sign.

Another is the Organisation of Turkic States (OTS), which has evolved from a talking-shop for autocrats into a vehicle for co-operation in areas ranging from education to foreign policy. The OTS helps counterbalance other regional groupings dominated by Russia. "These countries are trying to reposition themselves and to keep Russia at bay," says Nargis Kassenova of Harvard University.

Turkey, the biggest and richest OTS country, has taken the lead. Its trade with other Turkic states has doubled since 2015, reaching $12.6bn last year. Turkish contractors built most of Astana's skyline, including the biggest mosque in Central Asia and the arena where the Nomad Games' opening ceremony took place.

Other than the host country, it was the Turkish team that got the loudest welcome in Astana. Turkey's president, Recep Tayyip Erdogan, reviled in the West, is admired across Central Asia. In a survey of Kazakh support for foreign leaders last year, Mr Erdogan easily came first. At the games, Mr Erdogan's son, who heads the World Ethnosport Confederation, got a bigger ovation than Kazakhstan's own leader, Kassym-Jomart Tokayev.

Meanwhile, the war in Ukraine has damaged Central Asian countries' trust in Russia. Support for Russia among OTS countries is higher than in Europe, but has been eroding, polls show. Publicly, Kazakh officials are careful not to offend their northern neighbours. Privately, "they've had it up to here with them," says a Kazakh analyst. "At the defence ministry and the secret services, the mindset has changed completely." Demography matters, too. At independence in 1991 there were nearly as many ethnic Russians as Kazakhs in Kazakhstan. Today they have fallen to 15%.

Turkey has cashed in on the region's need to reduce dependence on Russian arms, underlined by the Ukraine war. Azerbaijan used Turkey's TB2 drones to devastating effect against Armenia in 2020. Now Uzbekistan, Turkmenistan, and Kyrgyzstan have bought them too. Kazakhstan has signed a licensing deal to produce Tur- ▸▸

key's ANKA drones. Officers from OTS countries are flocking to Turkey for training; Turkish military advisers travel the other way. For the region's mostly untested and out-of-date armies, working with Turkey, a NATO heavyweight, has value.

Western sanctions against Russia are reshaping the region's economy. Thousands of Russian companies have relocated to Kazakhstan; some Central Asian ones funnel banned goods to Russia. At the same time, Central Asian exporters who depended on Russia to reach international markets are looking for new routes. This has revived interest in the Middle Corridor, which connects China with Europe by way of the Caspian Sea. The volume of goods it handled rose from 530,000 tonnes in 2021 to a projected 4.2m this year, says Roman Vassilenko, Kazakhstan's deputy foreign minister.

But poor infrastructure and receding water levels in the Caspian mean high transport costs. Corruption does not help. Urgent upgrades, according to the European Bank for Reconstruction and Development, would cost €18.5bn. A container from China can take up to 60 days to reach Europe using the corridor. Removing bottlenecks could cut that to 13 days.

The Middle Corridor cannot replace the route via Russia, which is quicker and much cheaper. Trade between the OTS countries, $42bn last year, is worth much less than their trade with Russia and China. Turkey's ambitions are also hobbled by its economic problems. And cultural affinity only goes so far. In theory, one can walk thousands of kilometres from Istanbul to Urumqi and get by with basic Turkish. In practice, Turkic languages are distinct. In a hotel lobby in Astana, a Turkish businessman praises the ease of doing business in a country where Turks feel at home, only to greet a Kazakh colleague in Russian.

Russia remains influential. About 80% of Kazakhstan's oil exports and 95% of its internet traffic go through Russia. Its army mostly uses Russian hardware. Kazakhstan and Kyrgyzstan are members of the Russian-controlled Collective Security Treaty Organization. Other than their local broadcasters, Central Asians mostly watch Russian television channels. Oligarchs, politicians and spooks across the region have close links to Moscow.

Russia may not be loved by its southern neighbours, but it needs to be feared. In 2022, after Mr Tokayev, the Kazakh leader, refused to recognise Russia's puppet "people's republics" in eastern Ukraine, a Russian court temporarily suspended shipments through Kazakhstan's main oil pipeline. Kremlin proxies have also spread unfounded claims of Kazakh discrimination against Russian-speakers. The message is that Russia could stir up trouble in the country's north, as it did in Ukraine's east a decade ago.

The region cannot pivot away from Russia yet. Officials in Astana speak of a "multi-vector" foreign policy. Co-operation among OTS countries is an alternative to Russia, not a substitute, they say. But by closing ranks and building bridges with Turkey, they can at least balance Russia. They think time is on their side. ■

Austria's election

On the brink, again

The hard-right FPÖ is closer than ever to outright victory

AUSTRIA HAS been here before. On September 23rd Karl Nehammer, the centre-right chancellor, squared off in a televised debate against Herbert Kickl, the candidate of the hard right. The previous day Mr Kickl had refused to join a forum on a different station that included the leaders of the Social Democrats (SPÖ), the liberal NEOS party and the Greens. None of those parties has a realistic prospect of coming first in the election on September 29th. Mr Kickl, whose Austrian Freedom Party (FPÖ) has its best chance ever to lead the next government, got to face Mr Nehammer one-on-one.

Germany and other European countries are watching Austria's campaign nervously. The FPÖ's fortunes have often foreshadowed those of the hard right elsewhere. In 2019 the party nearly collapsed after Heinz-Christian Strache, then its leader, was secretly filmed in a hotel room in Ibiza promising government contracts in exchange for positive news coverage to a woman who claimed to be the niece of a Russian oligarch. Yet since the start of 2023 the FPÖ has consistently been on top of the polls. The latest put it at 27%, Mr Nehammer's People's Party (ÖVP) at 25% and the SPÖ at 21%. Much of the FPÖ's astonishing renaissance is due to the cunning, discipline and marketing talent of Mr Kickl, who has led the party since 2021.

In theory any of the three top parties could form a coalition after the election, but the Social Democrats have shunned the FPÖ since that party's xenophobic turn in the 1990s. The ÖVP, on the other hand, has formed coalitions with them in 2000, 2003 and 2017. If the FPÖ wins the ÖVP would be its logical partner, but Mr Nehammer has vowed not to govern with Mr Kickl (whom he is said personally to loathe). Still, he could join a coalition with the party, with other FPÖ figures as ministers. In the debate Mr Nehammer said he has met many "sensible" FPÖ politicians.

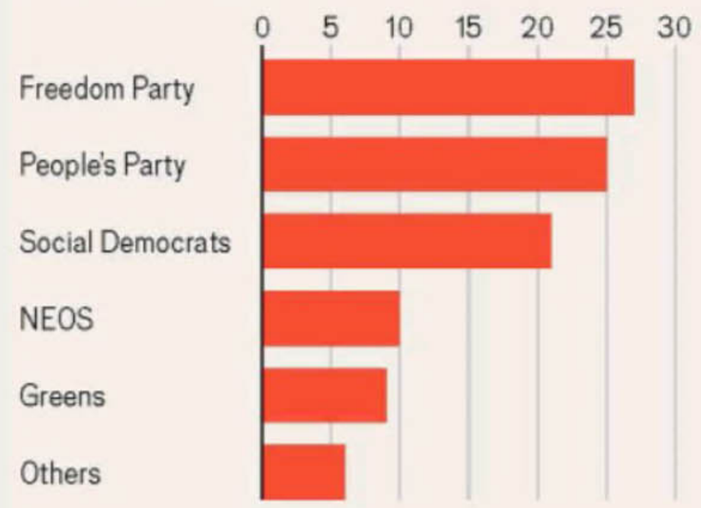
The debate's polite tone suggested that if he wins, Mr Nehammer might lean towards a black-blue combo (black for the ÖVP and blue for the FPÖ). Previously he called Mr Kickl a security risk: the FPÖ's Russia-friendly profile led allied intelligence services to refuse to share information with the Austrians when he served as interior minister from 2017-19.

Such security issues came out during the debate as well. Mr Kickl termed the European Sky Shield initiative (a German-led air-defence procurement plan) a threat to Austria's neutrality. He tried to turn the tables by accusing Mr Nehammer of "radicalisation" over his management of Austria's pandemic response. (The FPÖ has a strong paranoid anti-vaxxer faction.) He spent surprisingly little time on immigration, for a party whose electoral programme (entitled "Fortress Austria") envisages declaring a state of emergency so as to block asylum-seekers entirely.

A coalition between the ÖVP and the SPÖ is still possible. But Mr Nehammer's economic policies are closer to those of the FPÖ. In 2000, when the ÖVP broke the firewall between Europe's mainstream parties and hard-right populists, it was a shock; some thought it was merely an Austrian peculiarity. Today such firewalls are crumbling across the continent, and in Austria they have long gone. The upcoming election could put the Freedom Party back in government—and, for the first time, in the chancellor's office. ■

They're back

Austria, 2024 parliamentary election, voting intention*, %



Source: Politico poll of polls *Average at September 22nd

Governing France

French evolution

PARIS

Michel Barnier's government yanks France a step to the right

EUROPE IS A continent of coalition governments, painful to forge and fragile to maintain. So its politicians find their challenges familiar. For Michel Barnier's new French government, however, which met for the first time on September 23rd, this form of rule is a baffling novelty. For the first time since France's Fifth Republic was established in 1958, the country is now run by a minority coalition government formed by rival parties that stood against each other at legislative elections. Its survival depends on keeping its lumpy mix of centrists and right-wingers together, and the opposition against it divided.

Politically, the new government marks a distinct shift to the right, despite inconclusive elections in July at which the left-wing alliance won the most seats (but not a majority). After two months of talks, President Emmanuel Macron finally asked Mr Barnier (pictured), a 73-year-old conservative, to form a broad "unifying" government. Despite the prime minister's best efforts, however, he recruited only one figure from the left: Didier Migaud, a former Socialist deputy, is now justice minister. Mr Barnier's pick for interior minister was Bruno Retailleau, a right-wing family-values senator with hard-line views on immigration.

Such is the nature of coalitions of circumstance. But France is unfamiliar with them; this one will take time to settle down. One left-leaning member of Mr Macron's centrist parliamentary group has quit the group. Another deputy says that his ongoing support is "conditional". Nor is there any formal coalition agreement. Mr Barnier will make his first speech to parliament outlining his agenda on October 1st. Until then, the best clue to his policy direction is the government's composition.

The coalition is a mix of conservative Republicans and young and mostly untested centrists allied to Mr Macron. It contains none of the heavyweight future presidential hopefuls from either side, which Mr Barnier hopes will keep the team focused on their immediate task and not the presidential election in 2027.

Mr Macron's allies have held onto the foreign and defence ministries, traditionally the president's domain. Sébastien Lecornu remains at defence; Jean-Noël Barrot, a centrist, takes over foreign affairs. Benjamin Haddad, a young deputy who has pushed for more French support for Ukraine, has taken over as Europe minister.

On economic policy Mr Macron's business-friendly approach should in principle be continued. Mr Barnier has put centrists in both the finance and budget ministries. On taking office, Antoine Armand, the little-known new 33-year-old finance minister, declared: "Our task is to make life easier for business." Yet Mr Barnier has also hinted at raising taxes on "big multinationals" and "the wealthiest". With a budget deficit heading for 5.6% of GDP this year, something has to give. Next year's budget is due to go to parliament on October 9th. Mr Barnier may not have the stomach for the spending cuts that France sorely needs.

Mr Barnier at least begins his job as the country's most popular politician, with a 57% approval rating. His old-fashioned style seems to reassure; he has ordered his ministers to avoid "showmanship". Yet the new coalition has not resolved the underlying problem that led Mr Macron to dissolve parliament: it commands only 212 seats in the 577-seat National Assembly.

Together, the left and Marine Le Pen's hard right have the numbers needed to bring down the new government via a parliamentary no-confidence motion. The left says it will table such a motion after Mr Barnier's opening speech. The hard right may reserve judgment for longer. As long as the opposition remains divided, Mr Barnier's government is safe. The moment they vote together, it will fall. ■

A figure of authority, for now

EU food rules

A worrying turn

ISTANBUL

Turkey challenges Germany's definition of the döner kebab

TURKEY AND Germany have tussled over issues like Turkey's human-rights record and protests by Kurds in German cities. Their latest dust-up concerns the döner kebab. Two years ago, Turkey applied to the European Union to have the döner, made from seasoned meat roasted on a vertical spit, protected under the bloc's "traditional specialty guaranteed" (TSG) scheme. If the EU agrees, the döner would have to be prepared to Turkish specifications, including the type of meat (beef, chicken and lamb are fine, veal and turkey are not) and how it is marinated and sliced.

This has not gone down well with döner fans elsewhere. Germany lodged an objection to the Turkish proposal. (Turkey is not an EU member, but can apply under the scheme.) On September 19th the European Commission gave the sides six months to hash out a compromise. If they cannot, the commission will decide the döner's TSG status on its own.

The döner kebabs wolfed down by Germans are a far cry from those in Turkey. The German variation, introduced and refined by Turkish guest workers in the 1970s and then adopted in other countries in Europe, usually comes wrapped in pitta bread, topped with cabbage or lettuce, and splashed with sauces. In Turkey, the döner is generally served on a bed of rice or wrapped in lavash (a different flatbread), along with fries, tomatoes and hot peppers. A few maverick döner masters in Istanbul add melted cheese. But most would rather fall on their knives than use garlic sauce.

Such differences matter. Döner sales across Europe amount to some €3.5bn (around $3.9bn) per year, including €2.3bn in Germany. But if Turkey gets its way, the dish most Europeans have come to know as the döner kebab would have to be sold under a new name.

Turks and Germans can agree on one thing. The döner has become too expensive. Prices at some eateries in Germany and Turkey now approach €10 a pop. In Turkey, that comes to roughly half the daily minimum wage. Chew on that.

Missiles in Europe

OK boomer

Europe welcomes American missiles to counter Russia's threat

WHEN DONALD TRUMP pulled out of the Intermediate-range Nuclear Forces (INF) Treaty in 2019, most European states were aghast. They agreed that Russia had cheated on the cold-war pact, which prohibited all ground-based missiles (conventional and nuclear) with ranges between 500km and 5,500km. But they thought Mr Trump's move reckless. Who in Europe would host such missiles anyway? Pretty much everyone, it turns out.

On July 10th America and Germany announced that from 2026 a trio of American medium-range missiles—all non-nuclear—would be deployed to Germany. It is the latest manifestation of the *Zeitenwende* (turning point) in German security policy. It is also part of a resurgence of European interest in "deep-strike" capabilities, fuelled by the lessons of the war in Ukraine. That has implications for European defence industries, the military balance between NATO and Russia, and the dynamics of escalation in any future war.

America plans to put three missiles in Germany. One is the 500km-plus range SM-6 ballistic missile, currently used as a ship-based anti-air weapon. The second is the 1,600km-plus range Tomahawk cruise missile, largely fired today from ships. The third and most capable is the Long-Range Hypersonic Weapon, also known as Dark Eagle, thought to travel a whopping 3,000km-plus. All far outstrip the longest-range land-based missile in Europe today, the 300km-range ATACMS ballistic missile.

Back in April, Emmanuel Macron, France's president, called for Europe to build a deep-strike capability of its own. On July 12th France, Germany, Italy and Poland agreed to build a cruise missile with a range of more than 1,000km. Many countries operate similar missiles launched from planes and ships. Finland, Germany, the Netherlands and Poland are buying 1,000km-range JASSM-ER missiles for their F-35 jets; the Dutch navy is buying Tomahawks for its ships and subs.

This is not the first time America has stationed missiles in Europe. In the 1980s NATO's decision to deploy medium-range nuclear-capable missiles in European countries prompted huge demonstrations. But those "Euromissiles" were meant as bargaining chips to secure the removal of Soviet ones—a gambit which succeeded with the INF Treaty in 1987. Today's deployments are for the long haul.

Planned US missile deployments to Germany
Approx. range if launched from German-Polish border
*Surface-to-surface missile †If launched from Ukraine ‡Medium-range ballistic missile §Ground-launched cruise missile **Hypersonic glide vehicle Sources: IISS; ISW

German officials point to Russia's deployment of Iskander ballistic missiles, which travel several hundred kilometres, in Kaliningrad, a Russian exclave between Poland and Lithuania. Iskanders can carry conventional or nuclear warheads, and have been much used in Ukraine. "These have the capacity to reach our capital in minutes without [us] having anything to counter that," noted Jens Plötner, foreign-policy adviser to Olaf Scholz, Germany's chancellor, in July.

The new American long-range missiles are meant to serve as a deterrent in what Mr Plötner called the "sub-strategic domain", ie, below full-fat nuclear weapons. If Russia attempts to coerce European allies by striking cities or high-value targets, American missiles can do the same.

Levelling the playing field

In addition to such deterrence, the missiles have military utility. They could target Russia's deep-strike missiles before those were launched at NATO, argue Jonas Schneider of the German Institute for International and Security Affairs and his colleague Torben Arnold, a lieutenant-colonel in the German army.

They could also strike other targets beyond the reach of existing weaponry. Rafael Loss and Angela Mehrer of the European Council on Foreign Relations, a think-tank, reckon that missiles positioned inside Germany would need a range of 1,600km to strike the farthest points in Russia's Western Military District.

Some of Mr Scholz's Social Democrats are nervous that American missiles will expose the country to danger. The hard-left Sahra Wagenknecht Alliance, a significant new Russia-friendly party, vehemently opposes them. Yet they are small fry compared with the mass protests in the 1980s. The deployment was "front-page news in Germany for one day", noted Mr Plötner.

Some strategists worry that long-range missiles might cause inadvertent escalation. Russia might fear that NATO could use Dark Eagle to destroy its land-based nuclear forces or take out its political leadership. That could encourage Russia to strike first. Such fears are "greatly exaggerated", argue Messrs Schneider and Arnold. There will be too few missiles for that.

How realistic are Europe's hopes of scaling up its own firepower? The most prolific European user of long-range missiles is Ukraine. It has built long-range "one-way attack" drones and ballistic missiles to strike deep inside Russia. Its flagship ballistic missile, the Hrim-2, was tested in August. European drone-makers are collaborating with Ukrainian firms on short-range drones. They could one day contribute on longer-range ones like those thought to have blown up the Toropets arms depot, 500km inside Russia, on September 18th, suggests Fabian Hinz of IISS, a British think-tank.

Perhaps the more important question is whether Europeans will be able to fire their own weapons. At present, Ukraine cannot use its British-supplied Storm Shadow cruise missiles to strike complex targets in Russia. That is thought to be largely because they do best when programmed with American data, gathered from satellites and other high-value sensors. America has withheld permission for fear of escalation. If Europeans are serious about deterrence by deep strike, building the missiles is only half the challenge. ■

CHARLEMAGNE
Der Italian job

Forget the single market: a banking raid kicks up an unseemly nationalist defence

MOVE FROM one European Union country to another and most of your stuff will continue to work quite well. A car bought in Poland will still be considered roadworthy in Portugal, thanks to a single set of regulations (though new plates and insurance will in time be needed). Much the same appliances are sold in Sweden as in Greece, given standardised plugs and voltages. With a little fiddling, a Spotify subscription can be made to work too. But using a bank account opened in one EU country while living in another is surprisingly troublesome, even if both use the euro. In theory Europeans, like their American cousins, live in one large single market, free to contract services from business based anywhere in the bloc. In practice payment systems sometimes accept only cards issued by local banks—and good luck getting your Finnish bank to fund a Spanish mortgage. Finance is where the European ideal of a seamless union often falls shortest.

The limits of the European single market were sharply exposed this month as UniCredit, an Italian bank, has made moves to take over Commerzbank, a German rival. A proposed transaction that should have been of interest only to finance wonks—UniCredit and Commerzbank are the EU's 10th- and 17th-biggest lenders, respectively—devolved into an ugly nationalist mêlée. Olaf Scholz, the German chancellor, took time out of his geopolitical agenda at United Nations meetings in New York to thunder against "hostile" Italian bankers on the prowl. Just two weeks ago the EU released a much-hyped report by Mario Draghi, a former Italian prime minister, proposing to juice economic growth in Europe by deepening its single market. A resounding *nein* has put paid to his plans before most people were done reading its 400 pages.

European chauvinism has long had a way of derailing businessmen's best-laid takeover plans. In 2005 France fended off a bid for Danone, a yogurt-maker, on the grounds that it was strategically vital. But that would-be buyer was American. Surely takeovers by firms from other EU countries should be treated more sympathetically, the better to build European champions with the critical mass to compete globally? Apparently *nicht*. Because Commerzbank lends to *Mittelstand* firms and exporters, the German establishment has put it on an economic pedestal; some see it as a national treasure they would rather close down than hand over to grubby Italians. (This is rather amusing to finance aficionados—including your columnist, a former banking correspondent—who recall when the lender was dubbed "Comedybank", thanks to its knack for losing money in a dazzling array of hare-brained lending decisions.) UniCredit's stake was in part bought straight from the German authorities, who bailed out Commerzbank in 2008. In contrast UniCredit is well run and more profitable than its target, thanks in part to a German unit it already owns.

Whether the deal makes sense for either set of shareholders is beyond Charlemagne's remit. Granted, the Italian bank needlessly irked German authorities by using clever financial tricks to conceal the size of its shareholding, which looks set to reach 21%, nearly double the German government's stake. But the vitriol deployed in Berlin to fend off the takeover makes a mockery of Germany's pronouncements that it favours an EU "banking union" (and a related one for capital markets) of the sort Mr Draghi called for. Its visceral response reeks of economic nationalism. To paraphrase: Italians cannot run their own economy; why should we entrust them with one of *our* banks? Italy, in turn, supports the deal—so long as the combined entity remains based on home soil.

"What it comes down to is: do we have 27 national banking systems, or do we have one?" asks Nicolas Véron of Bruegel, a think-tank in Brussels. Like modern nationalist movements, he points out, European banks came of age in the 19th and early 20th centuries, providing a balance-sheet to finance war, empire and whatever else the state needed funding. To this day, politicians like to keep big banks close. UniCredit's chairman is a former Italian finance minister, Commerzbank's an erstwhile head of the German central bank. French lenders are typically chaired by former officials whose key assets are their acquaintances in the halls of power, not their ability to gauge a client's creditworthiness.

UniComedy

Close ties between banks and the state turbocharged the eurozone crisis that followed the financial miasma of 2007. Banks tottered in part because they held debt issued by their home governments, which became distressed as governments in turn needed to rescue banks, and so on. Rejigging the system so that banks were now part of a single EU-wide system, beyond the clutches of "their" governments, was designed to break that doom loop, as well as matching a wider pool of savings to a broader set of potential borrowers. Much—though not all—of the required plumbing for this banking union is in place, notably the supervision of large lenders directly by the European Central Bank since 2014. But the proof of its existence lies in part in whether cross-border deals happen. So far they have been notable for their absence. The upshot is that European banks are small and do less lending than they should. Worse, when carrying out complex financial operations large EU firms call in Wall Street mastodons like JPMorgan—as the German government did to sell its Commerzbank stake.

One of the German arguments for foiling *Der Italian job* is that in a crisis, banks tend to retreat to their home market—ie that Italian authorities would force UniCredit to starve German borrowers. If that is true, the banking union can already be declared a failure, and should be replaced forthwith. If it is not, as seems more likely, politicians should realise that their national interest is best served when European solutions are allowed to work. Not just in theory, but in practice, too. ■

Britain

Politics

A party in search of a project

LIVERPOOL

Labour's stumbling transition from election machine to government

IN A HOT basement room in Liverpool, Pat McFadden, the chancellor of the Duchy of Lancaster and the prime minister's most trusted fixer, was regaling delegates at the Labour Party's annual conference with stories of how the landslide victory in July had been won. As the campaign co-ordinator, Mr McFadden had spent days on end with Morgan McSweeney, another aide, plotting the destruction of the Conservatives in a tiny windowless office they termed "the cell". It was when pizza was passed through the door that they realised they really were prisoners, he joked.

The conference in Liverpool ought to have been a wild victory celebration. Instead the heaving late-night bars were tinged with a deep sense of anxiety. The gear-change from a brutally effective campaign machine to a functioning government has been anything but smooth. The poll ratings for Sir Keir Starmer, the prime minister, are slumping. Sue Gray, his chief of staff, has been involved in a bitter and public struggle with newly appointed officials. "They are still finding their feet and getting across their portfolios," says one corporate attendee. One question in particular hung over the conference. Is the Labour Party really inhabiting Downing Street? Or is its mind still in opposition, holed up in its cell, fighting the Tories?

A focus on winning the next election, due to fall by 2029, was very much in evidence. From the platform, Rachel Reeves, the new chancellor, exhorted delegates to show "iron discipline" as the Tories regrouped. The appointment of Hollie Ridley, who ran Labour's field operations, as the new party general secretary is a sign that it is engaged in a permanent campaign. In his speech, Sir Keir sketched out a trajectory for his first term: one of painful choices being followed by a more prosperous future. That Nike-swoosh story of transformation and reward, noted one party insider, has been told by every election winner since Margaret Thatcher.

But what is alarmingly absent for many delegates is what Sir Tony Blair called "the project"—a deep analysis of the country's strategic challenges and the prescription that flows from it. For Thatcher, that project was rapid market liberalisation; for Sir Tony, equipping Britons to compete in an era of globalisation; for David Cameron, shrinking the state after the financial crisis. Yet for Sir Keir it exists only in fragmentary form. "It all feels driven by 2029," says one new Labour MP. "But the question is, what are we winning for?" Others ask bluntly: Where *is* the project?

The concern aired by many around the party is that an undercooked policy agenda was the price of victory. In opposition, Sir Keir had one priority: to get Labour back into power in a single parliamentary term. To do so entailed shoring up trust in the party on public spending and national security. That meant a slim manifesto, shorn of big spending commitments.

Discipline was prized above all. Labour, Mr McFadden mused, had to be an election-winning machine, not some sort of members' club. Ms Reeves did adopt a sceptical stance on globalisation, which she called "securonomics", but there was little room for deep reflection on questions of ideology. Labour Together, a policy shop close to the leadership, produced a telling report at the conference focused on the 14% of its electorate who switched directly from the Conservatives to Labour in July, whom it characterised as transactional and undogmatic voters with a low regard for political elites.

As a result, the recipe for change now that Labour is actually in power is "discrete rather than systemic", observes one party figure. If there is one central idea to this government it is the pursuit of increased private and public investment in housing, energy and transport to counteract a ▸▸

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chronic productivity problem. Sir Keir has shown flashes of radicalism in promising to liberalise planning laws for houses, electricity infrastructure and prisons. Whatever the manifesto might have said, Ms Reeves made clear in Liverpool she will pursue higher public investment through borrowing and tax rises, to be defined at the budget on October 30th. But until that moment comes, the sense of a government in limbo will persist.

The absence of a clear project has implications for Sir Keir's concept of "mission-driven government". This is meant to be a new, collaborative way of working that would bind the state, business and civil society together to pursue complex, long-term challenges. It is intended to be an antidote to the gimmicky short-termism of Westminster and the departmental silos of Whitehall. But the sorts of big questions that ought to infuse the idea of missions—what is the meaning of social mobility, say, or how desirable is parental choice in education—seem so far to be unanswered. The announcements at conference were just the sort of cheap, eye-catching schemes that Labour criticised in opposition: a £7m ($9.4m) pilot scheme for breakfasts in schools, a law to criminalise the (already illegal) act of assaulting a shopkeeper.

An approach to communication that served the party well in opposition is proving perilous in government. Its method before the election was blunt and highly defensive: the party was quick to rule out proposals it saw as risky, and disinclined to wax lyrical as to its own view of the world. In office that has produced an odd inarticulacy. It is, complain some, a mystery what Sir Keir thinks on swathes of policy, or how he sees problems. "We got too good at just saying 'No'," observes one figure.

To take one example, MPs are frustrated that Ms Reeves's decision in July to restrict pensioners' fuel subsidies was explained on the ground of saving public money rather than a more confident argument about intergenerational justice or the role of the welfare state. Gatherings of Blair-era veterans are laced with black humour at the failure to define and sell the project. "Put your hand up if you can name the five missions," declared one to a bar audience.

Many MPs would like to see the operation in Downing Street dramatically restructured. But it is not clear whether any reconfiguration of people can compensate for the fact of a party coming to power with its thinking only half-formed and a leader with a limited appetite for political argument. In Liverpool Mr McFadden hailed the vim and focus that Sir Keir brought to national-security meetings. "I think he's more suited to the job of being prime minister than leader of the opposition," he said. It is remarkable how many people in his party wonder if that is really true. ■

The budget

Loosening the chains

LIVERPOOL

How much wriggle room does Rachel Reeves have?

THE MOOD MUSIC from Britain's new government about its first budget has been a funeral dirge. "There's a budget coming in October and it's going to be painful," Sir Keir Starmer, the prime minister, warned in August. "The road ahead is steeper and harder than we expected," said Rachel Reeves, the chancellor, at the Labour Party's conference on September 23rd. A day later Sir Keir invoked "the iron law of properly funding policies".

This barrage of misery has served a purpose. Labour wants voters to view the budget, which will take place on October 30th and almost certainly include tax rises, as proof of a grim economic inheritance from its Conservative predecessors. In July Ms Reeves claimed to have discovered a £22bn ($29bn; 0.8% of GDP) fiscal "black hole" in this year's accounts.

The reality is more nuanced. The Tories did plenty to mute growth and muddle the public finances. But Ms Reeves has more wriggle room than she has let on. The constraints she faces on tax are largely self-imposed. Even the £22bn black hole is something of a mirage. Perhaps around half was truly unforeseeable: troubling cost overruns on the asylum system and more. But, as one-offs, these don't affect Britain's fiscal position much. The other half—pay bumps for public-sector workers—will have a fiscal impact but were no surprise.

So just how tough will Ms Reeves have it on October 30th? Britain's main fiscal rule requires that government debt be projected to fall as a share of GDP in the fifth year of a five-year forecast from the Office for Budget Responsibility (OBR), an independent watchdog. Jeremy Hunt, Ms Reeves's predecessor, left Britain with £8.9bn in "fiscal headroom", the amount of borrowing permitted before the government violates its fiscal rules. Since then gilt yields have fallen, growth has been strongish and another fiscal year has passed, which rolls the five-year target on by another year. That should push Britain's fiscal headroom up once the OBR updates its forecasts. Capital Economics, a consultancy, reckons it will hit £22bn.

With tweaks, that headroom could rise further still. One sensible move would be to exclude the Bank of England's losses from quantitative easing from the definition of public debt used for the fiscal rules. Doing so would push headroom up by another £17bn, to £39bn (see chart), estimates Capital Economics. Another option is to exclude Labour's new investment institutions—GB Energy and the National Wealth Fund—from debt calculations.

Practically, higher headroom means more space for the government to borrow. That raises a separate issue: can the market bear it? Nerves have jangled since the debacle of Liz Truss's mini-budget in 2022. But a shift largely within Britain's existing fiscal rules, without high inflation or a spat with the OBR, is unlikely to raise hackles. Even international economic bigwigs at the OECD and IMF have said that Britain's fiscal framework inhibits productive investment. The bulk of any extra borrowing would need to be reserved for investment to stay within Ms Reeves's secondary fiscal rule that day-to-day spending be in balance. That would accord with another bit of her conference speech: "Growth is the challenge and investment is the solution."

Just borrowing more won't suffice to balance the books, however. To stave off spending cuts that Mr Hunt had planned and to cover the public-sector pay rises that Ms Reeves agreed to in July, taxes will need to go up. Most straightforward would be to reverse Mr Hunt's pre-election cuts to national insurance, a payroll tax: that would raise a little over £20bn annually.

Unfortunately, Ms Reeves has boxed ▸▸

Room to breathe

Britain, fiscal headroom, Sep 2024

Mar 2024 budget (OBR)	Additional headroom* made by: Improved economic outlook†	Tweaking debt rule‡
£8.9bn	£13.1bn	£17.0bn

*Capital Economics estimate †Including fiscal year roll-over effect ‡Removing Bank of England Asset Purchase Facility losses
Source: Capital Economics

herself in with her pre-election pledges not to raise income tax, national insurance, VAT or corporation tax. Nick Macpherson, a former mandarin, has said that if he were still at the Treasury: "I'd be endlessly trying to reopen the debate on the red lines." There may be room to fudge a little. Fiddling with how national insurance is levied on pension contributions, which involves raising taxes technically paid by employers, could raise £9bn or so, reckons the Resolution Foundation, a think-tank.

The messier but more likely alternative is that Labour pulls together a bunch of smaller changes. Ms Reeves has already announced that the winter-fuel payments for pensioners will be means-tested. Labour's voter base may be open to some options that the Conservatives shied away from, like raising fuel duty or abolishing some inheritance-tax reliefs. Ms Reeves is also eyeing capital-gains tax (CGT). Changes like removing the uplift at death (whereby a deceased person's unrealised assets are reset to market value, removing any historical gains from the reach of the taxman) could raise a few billion.

Raising the main rate needs more care. Capital income is taxed less heavily than wage or dividend income in Britain; wanting to reduce that wedge is a sensible impulse. But dangers abound. Capital can be flighty; excessively high rates risk deterring investment. If investors see a CGT rise as unsustainably high, they may also hold off on realising gains until a future government lowers it, reducing any tax windfall.

Ms Reeves's task on October 30th was never going to be easy. She wants to be a trusted custodian of the public purse and a bold enabler of growth. Labour's own choices have made the job harder. ■

Reform UK

The right reaction

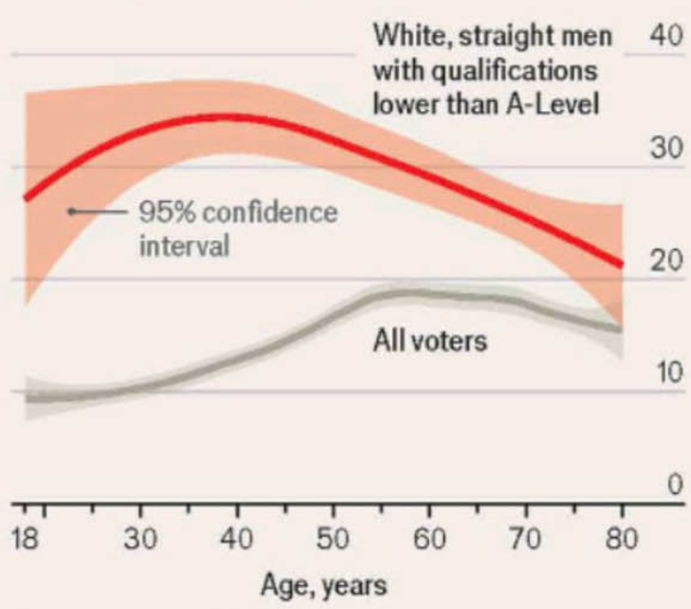
BIRMINGHAM

The demography of the hard-right party's supporters

IN 2023 THE delegates at Reform UK's annual party conference just about filled a smallish room at a hotel in London. This year's conference, on September 20th-21st, took place in a cavernous hall in Birmingham's National Exhibition Centre. Under the leadership of Richard Tice, the party routinely failed to win enough votes to keep its deposit in parliamentary by-elections. This year, under Nigel Farage, Reform UK won more than 4m votes in the general election and returned five MPs to Parliament. No wonder the atmosphere in Birmingham was celebratory—spotlights and whooping, balloons and fireworks.

Right on 1

Britain, Reform UK vote share in 2024 general election, %



Source: British Election Study

Neither of the two big parties can afford to ignore Reform UK's success. Mr Farage has made no secret of his intention to target Labour MPs at the next election. But the burning questions are for the Conservative Party. In July Reform UK drove a wedge through the right-of-centre vote. The next Conservative leader, who will be elected in November, will hope to close this divide. A look at Reform UK's voters shows why that will not be easy.

In demography and policy preferences, Conservative and Reform voters look similar in many ways. They are generally older, less likely to have a degree and more likely to be white, British and straight than other voters. They are sceptical of immigration, authoritarian on crime, opposed to European integration and uninterested in wealth redistribution or climate change. Before the election the most pronounced difference between the two groups was their view of the then government. Pollsters at YouGov found that 73% of Tory voters had a positive opinion of Rishi Sunak, compared with 18% of Reform voters.

Although the policy substance is similar, style matters too. Reform UK voters have an anti-establishment streak that is at odds with the natural instincts of conventional Tory voters. Take the rioters who trashed English cities in August: 51% of Reform UK voters said that rioters' sentences were too harsh, compared with only 20% of Conservatives, according to YouGov. Reform voters are more likely to believe ordinary people are taken advantage of by the rich. They are 20 percentage points less likely to have a favourable view of King Charles III than Tories and 40 points more likely to look kindly on Donald Trump.

This anti-establishment instinct is reflected in the respective voter bases of Reform UK and the Conservatives. Although Reform voters skew older than the British public in aggregate, they are six years younger than Conservative voters on average, according to the British Election Study, a survey of voting behaviour. They are substantially more likely to be male and to have fewer qualifications than Conservative voters. The group that is most likely to have voted for Reform UK in July is 26- to 35-year-old, white, straight British men, whose highest qualification is lower than A-levels (see chart 1).

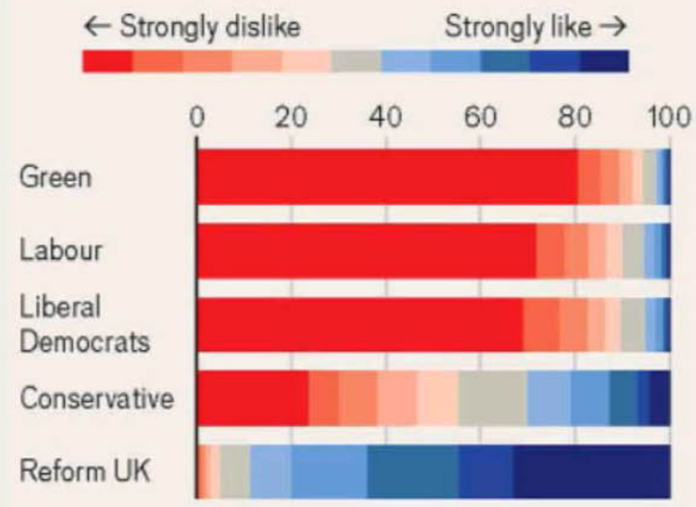
This electoral coalition would be familiar to those who have followed the rise of the hard right in much of Europe, which has built its support on working-age, working-class voters. Conservatives are evenly split between identifying as middle class or working class; Reform UK voters say they are working class by more than two to one. This profile helps explain why Reform UK's success in July was not confined to Conservative-leaning areas. Of the 98 constituencies where Reform UK came second, 89 are now held by the Labour Party.

It is nonetheless the Conservatives who have the most to fear from Reform UK's rise. According to the British Election Study, when given an 11-point scale from zero (strongly dislike) to ten (strongly like), 68% of Labour voters give Reform UK a flat zero. The same is true of only 22% of Conservative voters (see chart 2).

Reform UK's support still has a relatively low ceiling. On the scale above, only 28% of voters scored the party at five or higher. But Reform UK has already demonstrated its ability to wreak havoc on the bigger parties. Its supporters will not be won back easily or without alienating other voters. It will need to keep booking big venues. ■

Bedfellows and enemies 2

Britain, opinion* of Reform UK by vote in 2024 general election, July 5th-19th 2024, %



Source: British Election Study *Excluding "don't know"

BAGEHOT

Inside the chaos machine

Labour promises calm. But British politics is built for chaos

POLITICIANS OFTEN promise what they cannot achieve. Usually it is the prospect of national glory or prosperity without pain. But even the most prosaic pledge can sometimes fail. Sir Keir Starmer, the prime minister, entered office with an offer to bring "calm" to a country fed up after a decade of political ructions. Sadly for Sir Keir, it is not in his gift. British politics is built for chaos.

British politics should not feel feral only three months after Labour won a historic 180-seat majority. Yet voters are in a capricious mood. Labour sit four points above the Conservatives, according to some polls. About one in five Labour voters already regrets their choice. It is rare for an incoming government to be polling so badly, so early. The Conservatives have probably hit their floor. Only the grim reaper can take it much lower (their voters are an elderly bunch). How low Labour can go, no one quite knows.

Capricious voters collide with an electoral system that can no longer properly account for their wishes. For Labour, the margin between a decade in power and a humiliating defeat at the next election is tiny. It would not take much for Labour's huge majority to disappear—a 4% swing against the party would be enough, reckons the Tony Blair Institute, a political advisory firm founded by the former prime minister. The electoral equivalent of a butterfly flapping its wings can create a hurricane in Westminster.

A small swing to Reform UK, an insurgent populist party, could make it a viable opposition; a modest recovery from the Conservatives could put them back in office. In 2019, at the height of the Brexit drama, there were four parties within a few points of each other in the polls, at around 20%. The same could easily happen again in this parliament. At that point, Britain's first-past-the-post system becomes a random number generator. An electoral set-up designed to lock in representative, stable government increasingly guarantees the reverse.

Naturally, the prospect of electoral chaos is cheered on by Britain's media. The British press has always been undomesticated, but it was once easier to control. In the 1990s Sir Tony Blair's team ruthlessly managed the media. But any strategy devised three decades ago is bound to show its age (imagine if Sir Tony's team had tried to ape the media-management tricks of Alec Douglas-Home). Declining circulations mean newspapers today offer only a pastiche of popular opinion; broadcasters reach far fewer people than they once did; deranged TikTok videos will determine the next election as much as what leads the evening news. Where there was once a discernible set of narratives, whether positive or negative, there is now chaos.

For those at the top of the parliamentary party, chaos is a problem. For those at the bottom, it is much worse. Labour now suffers from what Peter Turchin, a historian, calls "elite overproduction". When too many elites chase too few positions, chaos follows. Not all the 404 Labour MPs can expect a long, storied career. This realisation has come early for many. The golden boys and girls of the 2024 intake have already sauntered into government. Meanwhile, those left on the outside can busy themselves making Facebook posts defending the government's decision to cut winter-fuel payments to pensioners.

The lot of a backbench Labour MP is not a happy one. If promotion prospects are slim, job security is non-existent. In 2019 the average Labour MP had a cushion of 12,500 votes. Now it is 7,800. The typical Labour intake is a hyper-ambitious 30-something, who will probably spend five years on the backbenches dealing with insane demands from constituents before being turfed out by those same people. You didn't get four As at A-level for this!

For a man keen on calm, Sir Keir owes his rise to chaos. He is the political equivalent of Forrest Gump, a man who finds himself at the front line of history almost by mistake. He makes no secret of the fact that his initial aim in politics was to spend a few years as attorney-general before retiring. Instead, Brexit, chronic Tory incompetence, a fiscal emergency and an inflation shock dumped him in Downing Street. By contrast, Sir Keir leads a cabinet containing psychotically ambitious 40-somethings, who had their political careers mapped out before they had finished puberty.

How, then, does Sir Keir keep leadership rivals in check? He is not a master of oratory. He is not a parliamentarian par excellence, nor is he a party lifer who knows where every body is buried and who put it there. He styled himself as a bureaucrat, yet the initial errors of his operation stem from bog-standard mismanagement. Sir Keir's legitimacy comes not from his leadership, but from his almost ludicrous success. Practically any criticism can be dismissed by asking whether the person offering it has won the second-biggest majority in almost a century. But that is also a brittle argument. If a repeat of this success looks unlikely, the party will panic. If the polls don't look up, why not gamble on a different leader? The result: more chaos.

Two-year Keir?

Writing off Sir Keir's Labour Party has been a historically bad bet. Since changes of government are so rare, people forget they are, often, chaotic. The coalition government led by David Cameron lost a cabinet minister in its first three weeks in an expenses scandal. Labour's path to a second term is also easy enough to plot. If Labour can improve the lives of Britons, they will be rewarded. Voters have forgotten that things can actually get better.

However, waver from that route, even slightly, and the results will be messy. A fractured and fractious electorate, an increasingly uncontrollable media and an easily frustrated parliamentary party make serene government harder than ever. Sir Keir may want to usher in a period of calm. But he sits atop a system that is far more likely to turn his promises to dust. ■

International

Autocratic alliances

A new "quartet of chaos" threatens America

The rulers of China, Iran, North Korea and Russia are growing worryingly close

ANTONY BLINKEN, America's secretary of state, was unusually blunt on a recent visit to Europe: "One of the reasons that [Vladimir] Putin is able to continue this aggression is because of the provision of support from the People's Republic of China," he said. China was, he added, "the biggest supplier of machine tools, the biggest supplier of microelectronics, all of which are helping Russia sustain its defence industrial base". American officials are reluctant to discuss details of what they think Russia is giving its friends, but Kurt Campbell, deputy secretary of state, recently said Russia has provided China with submarine, missile and other military technology. Separately, America says that Iran has been busy sending Russia hundreds of short-range ballistic missiles.

These revelations are examples of the growing military-industrial ties between China, Iran, North Korea and Russia. "We're almost back to the axis of evil," says Admiral John Aquilino, the recently departed head of America's Indo-Pacific Command, referring to the term applied by George W. Bush, a former president, to Iran, Iraq and North Korea. Others draw parallels with the Axis forces of Nazi Germany, Imperial Japan and Fascist Italy, with worrying conclusions. "Russia, China, Iran and North Korea...have now been co-operating for a longer time, and in more ways, than...any of the future Axis countries of the 1930s," warns Philip Zelikow, in the *Texas National Security Review*, a military and security journal.

The members of this new quartet of chaos—whose ideologies range from Islamism to hardline communism—are riven by distrust, and they have very different visions of the world. Yet they are united by a shared hatred of the American-led order, and are keen to deepen their economic and military-industrial links. Their relationships amount to a kind of "strategic transactionalism", says an American official. That is, the four regimes share a systematic intent to conduct bilateral deals that are in each participant's narrow self-interest, and sometimes in the collective interest, too.

To get a sense of how deep co-operation is so far, consider three buckets: bullets (ie, weapons transfers), brawn (industrial support) and brains (technology diffusion). Although the first two present the most immediate danger, it is the exchange of military know-how that poses the greater long-term threat to the West's security and ability to deter adversaries.

Start with bullets. North Korea and Iran are transferring hundreds of missiles, including more than 200 Fath-360 short-range ballistic projectiles, to Russia, having already sent millions of artillery shells and thousands of attack drones. Analysts expect Russia will use them to overwhelm Ukrainian air defences, freeing up its own more capable missiles to conduct long-range strikes elsewhere. Russia has fired around 65 KN-23s, a North Korean short-range missile, since the start of the war.

Mateship, missiles and muscle

Industrial brawn has been just as important. Although China has not sent arms, its vast supplies of dual-use components are being "applied directly to the Russian war machine", Mr Campbell said recently. China accounts for 90% of Russia's microelectronics imports and 70% of its machine tools, the American government reckons. These inputs have enabled Russia to churn out cruise missiles and drones. China's support has had surprising effects else- ▸▸

where on the battlefield: a jump in imports of diggers from China in 2022 helped Russia build formidable defences, which foiled Ukraine's counter-offensive last year. Russian companies are conducting more trade and financing in Chinese yuan to bypass Western sanctions.

Less well known is the booming exchange of technology—the brains. Wars in Ukraine and the Middle East have created abundant opportunities to swap technical know-how. Ukraine is a "laboratory of knowledge and learning" for the Iranians, says Dima Adamsky of Reichman University in Israel. It gains real-time insight into the effectiveness of its weapons against Western defences, while Russia learns from Iranian advisers how to conduct air attacks that mix drones and missiles. Russia is sharing information about its jamming of drone-control and GPS signals with Iran. It is also sending the Islamic Republic captured Western kit, to be stripped for technical examination.

A different kind of tech boom

North Korea, too, receives "valuable technical and military insights" on the performance of its missiles against Western air defences, notes Mira Rapp-Hooper, an American security official. China's strategists have been studying the performance of HIMARS, landmines and drones—capabilities it expects to encounter in a war over Taiwan—in the Ukraine war, says Lyle Goldstein, an expert on China's armed forces at Brown University.

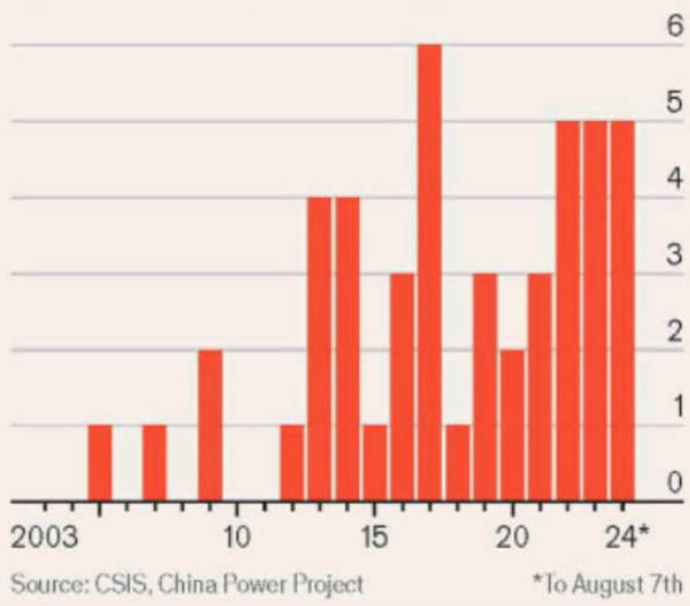
Increasingly, the flows of technology are extending beyond these ad hoc arrangements to long-term deals. Sino-Russian co-operation, once hampered by mutual suspicion, is surging in areas including submarines, aeronautics and missiles. Russia is willing to help China build missile-warning and defence systems, according to the research arm of the US air force.

It reckons that there is now a serious degree of co-operation in space, too. This is not confined to China. Russia is helping Iran's space programme, which is widely considered to be no more than a front for developing intercontinental ballistic missiles (ICBMs). North Korea has also been promised unspecified technological assistance by Mr Putin. That could include helping North Korea develop re-entry vehicles for its ICBMs, suggests Victor Cha, a Korea expert at the Centre for Strategic and International Studies (CSIS), a Washington-based think-tank.

Although there is little evidence of a surge in nuclear-weapons collaboration, the spread of the most advanced military technologies is accelerating. "Whether Russia will part with the crown jewels is hard to say, but Putin needs his ammunition," says Mr Cha. Avril Haines, America's director of national intelligence, has indicated that Russian "concessions" to North Korea have been potentially undermining to long-held non-proliferation norms. And there are some signs of joint military actions or obligations. There have been naval drills in the Gulf of Oman by Russia, China and Iran. Russia and China have flown joint bomber patrols near Alaska. A deal signed by Mr Putin in Pyongyang in June commits Russia and North Korea to "immediately provide military and other assistance" to each other in the event of war, which would imply Russian involvement in any conflict on the Korean peninsula.

Play together, stay together

China and Russia, bilateral military exercises



Source: CSIS, China Power Project *To August 7th

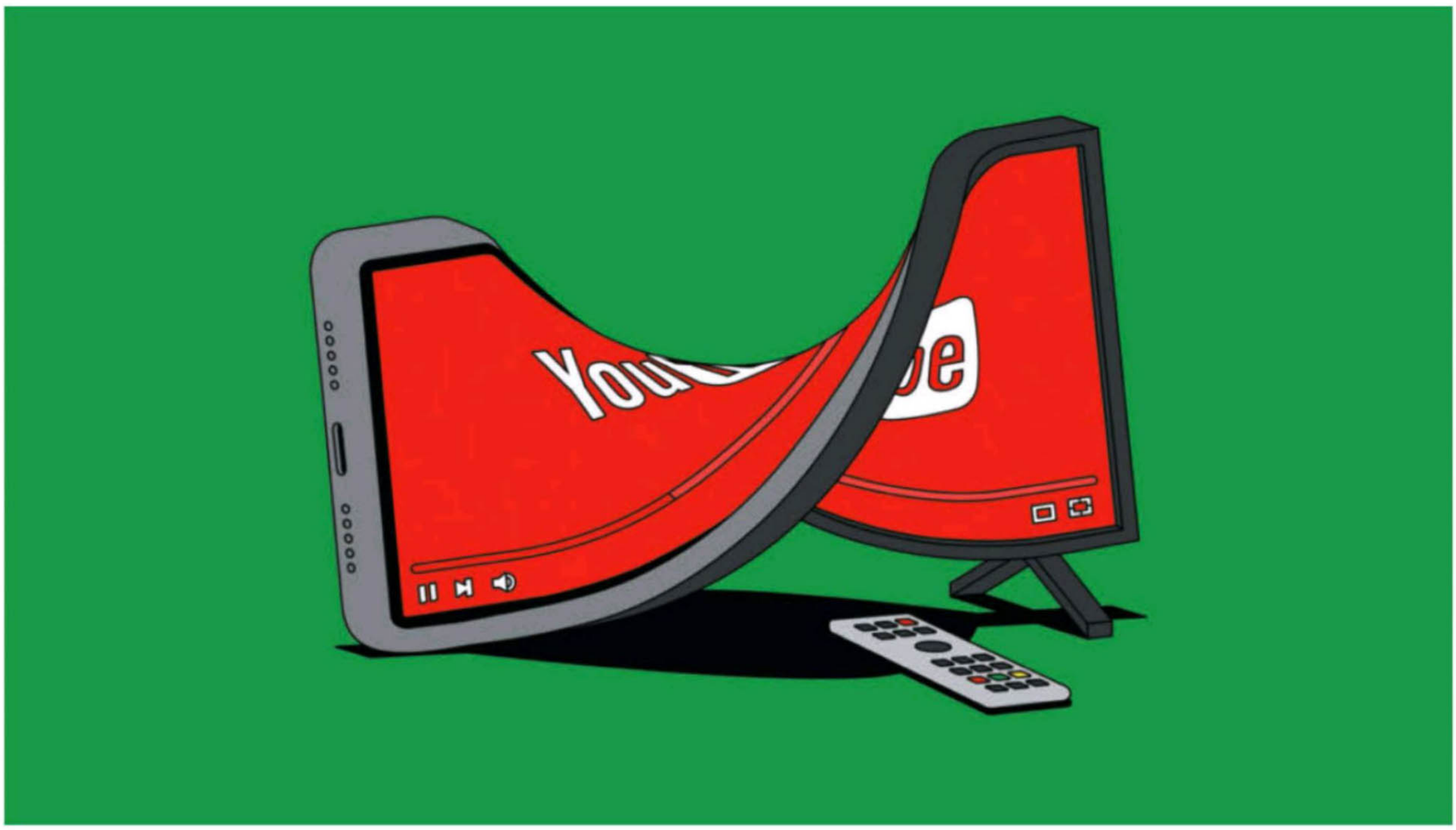
The quartet of autocracies still faces a number of constraints that may limit the extent of its members' co-operation. One is that their appetite for risk varies. China's defence industry is big enough to tip the scales in Ukraine, yet the country has held back from providing lethal assistance, not least because doing so would also undermine its ability to present itself as a neutral mediator in world affairs and jeopardise its economic links with the rich world. Russia, Iran and North Korea—pariah states already under sanctions—may have fewer qualms. But even so, Russia seems to have backed down for now from sending anti-ship missiles to the Houthis, an Iranian-backed militia, following economic pressure from the Gulf monarchies and possibly China, all of which need stability in the Red Sea for trade.

Another constraint is mistrust. China, which still has unresolved territorial disputes with Russia, is jostling with its neighbour for influence in Central Asia and is wary of Russia's growing defence ties with North Korea, which it sees as its own client state. Meanwhile, many Iranians remain well aware of the Soviet invasion in 1941. "All of these countries have bilateral ties, but there is not any kind of quadrilateral co-operation," notes Nicole Grajewski of the Carnegie Endowment for International Peace, another think-tank. "This isn't an alliance," says Jon Alterman of CSIS of the quartet. "This is a pickup game." The shortcomings of the grouping are most starkly revealed by a comparison with NATO, the West's main security pact, most of whose members share a deep alignment of political values, similar economies and a high degree of trust.

Yet despite its limitations, the quartet is already beginning to give the West headaches, and the pain looks likely to intensify. America's armed forces, organised to fight one major war at a time, are being forced to make hard choices and accept risky trade-offs over scarce resources. This was starkly illustrated by a shortage of 155mm artillery shells last year, when in January America drew down emergency stocks stored in Israel to send them to Ukraine, only to have to reverse course in October, diverting shells intended for Ukraine to Israel. Similarly every anti-aircraft missile fired by Western ships at Houthi drones in the Red Sea is one less available to defend Taiwan. The exchange of technical know-how will dilute the efficacy of Western weapons around the world—Russian jamming has reduced the effectiveness of Excalibur, a GPS-guided artillery round, to below 10%, according to Mark Cancian, also of the CSIS.

It could, of course, be far worse: the four autocracies have yet to co-ordinate their nuclear-weapons efforts or conduct joint military campaigns. Yet for all their shortcomings and differences the autocracies operate according to a simple shared calculus: the more powerful and troublesome each member becomes, the greater the opportunity the others have to capitalise on chaos. This "distraction dividend", argues Hal Brands of Johns Hopkins University, can "multiply the challenges that their members pose individually and collectively". The risks posed by the quartet's ever-closer alignment do not need to be vastly exaggerated, nor extrapolated far into the future, to be causes of concern. They are worrying enough as they are. ■

Business



Old v new media

YouTubers are coming for Hollywood

The lines between social media and television are blurring

FIVE MILLION DOLLARS were on offer to contestants in "Beast Games", a new game show being made for Amazon's Prime Video streaming service. Instead, some participants received physical injuries, emotional distress and sexual harassment, according to a complaint filed in a Los Angeles court on September 16th. Amazon and the show's creator, Jimmy Donaldson, a 26-year-old YouTuber known as MrBeast, have not commented on the lawsuit. But the fiasco has reassured some Hollywood executives that they have little to fear from social-media upstarts.

Should they be so confident? On the face of it, social-media stars are struggling to break into traditional media. MrBeast, who with 317m followers runs YouTube's biggest channel, is not the only one to stumble. Ryan Kaji, a 12-year-old YouTuber, released a feature film last month which bombed in theatres. Disney's reality show about the D'Amelios, a TikTok dynasty, was cancelled in June. Television presenters such as Tucker Carlson, who makes a show for X, have embraced social media only after being dropped by the mainstream sort.

But in the battle for viewers and advertising dollars, the amateurs are increasingly beating the pros at their own game. Americans now spend more time watching YouTube on their televisions than any other source of content, according to Nielsen, a data company (see chart 1 on next page). Worldwide, 2.5bn people tune in monthly. When YouTube's chief executive, Neal Mohan, boasted in May that "creators are the new Hollywood", some in Tinseltown scoffed. But admen are listening, and siphoning TV budgets into the medium. As social media and television blend into one, two previously distinct markets are being thrown into fierce competition.

The gap between user-generated video and television is real, but narrowing. "It's way bigger than just a bunch of guys in their bedroom filming," says Jordan Schwarzenberger, manager of the Sidemen, a group of seven British YouTubers with a combined subscriber-count of more than 100m. The group has a staff of 40, from set designers to thumbnail-graphic artists, based in a studio in Hoxton. Their weekly videos of an hour or two often have six-figure production budgets; a trip to shoot three episodes in America cost millions, says Mr Schwarzenberger. The group's biggest revenue stream is the 55% cut of advertising revenue that YouTube gives to creators who clear a popularity threshold. Like MrBeast, the Sidemen are exploring sidelines, including a restaurant chain and a vodka brand.

Few YouTubers have such a sophisticated setup, but professionalisation is becoming more common. In Britain alone more than 15,000 creators employ others to work on their YouTube channel, the video site estimates. Technology is raising production quality. "The tools are becoming much more sophisticated...and it really is blurring the lines of what I would call inde- ▸▸

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pendent and studio-backed content," says Mary Ellen Coe, YouTube's chief business officer. Hardware such as 4K cameras and software for special effects has got cheaper. Drones stand in for helicopters. Artificial intelligence promises to unlock more professional-grade features: "Aloud", an AI-powered dubbing tool made by YouTube, already lets creators switch between English, Spanish and Portuguese.

Audiences, meanwhile, seem to be turning to social media for the kind of programming they once got from television. A survey of the videos on YouTube's "UK Trending" page by Enders Analysis, a research firm, found that about 60% of views were of genres usually associated with traditional TV, such as drama and sport. Videos are getting longer, too: nearly a third of videos on the UK Trending page today last between 20 and 60 minutes—about the length of a TV episode—up from a tenth in 2020. And whereas traditional TV is increasingly available on-demand, with catch-up services such as the BBC's iPlayer, social media is becoming more linear. Live streams are the third-most popular genre of online video (after music and comedy), watched by 28% of internet users, according to a report by Kepios and GWI, a pair of research firms.

Nature of the Beast

Social media may not have seemed like a rival to Hollywood while it was confined to computers and smartphones. But it has begun to colonise the living room. Close to 45% of YouTube viewing in America takes place on TV screens, according to a report last year by the *Information*, a news site. YouTube says that among its 100 most watched channels worldwide, more than 40 count the television as their most watched screen. Other social platforms are trying to pull off the same trick: TikTok launched a TV app in 2021 (which has struggled, partly owing to its vertical videos); X released one on September 3rd. Hollywood is responding with a counter-invasion of mobile, particularly in countries where internet-connected TVs are scarce. Of the half-billion Indians who watch streaming video, 81% do so only on a smartphone, according to Ormax Media, a research firm. Streamers such as Netflix and Disney+ have launched mobile-only plans in developing markets.

With increasingly similar content, delivered on the same devices, it is no surprise that new and old media's business models are also overlapping more. The bulk of YouTube's revenue last year came from $32bn in advertising sales. But it has also been selling ad-free subscriptions, for $13.99 a month. In February the company announced that it had passed 100m subscribers (albeit including some on free trials), putting it ahead of many Hollywood streamers (see chart 2).

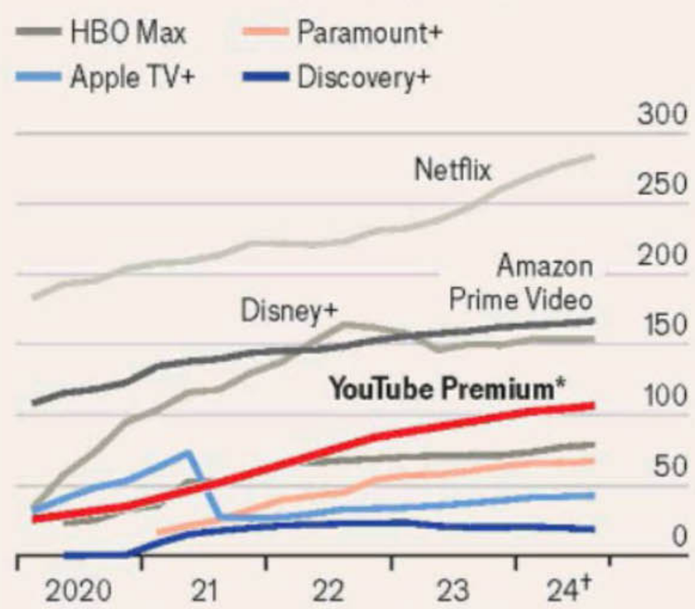
At the same time, streamers that are historically subscription-driven have been pushing into advertising. Netflix and Disney+ launched ad-supported tiers in late 2022; Amazon followed suit earlier this year. For now, advertising remains a small part of their business. Although nearly half of new Netflix members are signing up to the ad tier, as of May its ads were reaching only about 40m viewers per month, less than 2% of the number reached by YouTube. Amazon has made a bigger splash, imposing ads on all 160m or so of the households that watch Prime Video, unless they pay extra to avoid them. Amazon is also the only streamer that can compete with YouTube in terms of ad-tech expertise and depth of customer data, where it rivals YouTube's parent company, Google.

The battle for audiences and ads is heating up. As broadcast and cable television wane, video advertisers are looking for a new home. TV commercials made up a third of all ad spending in America in 2019, but this year will make up only a fifth, according to MoffettNathanson, a firm of analysts. Many advertisers still see social media as a different channel from traditional television. "There's this comfort level with TV having been the dominant medium for so many years," says Jasmine Enberg of eMarketer, a research firm. "Consumers aren't as concerned as to where they are watching videos...but marketers just haven't quite caught up there."

The more that platforms like YouTube can highlight their TV-like content, the easier it will be to unlock those TV advertising dollars. Yet this professionalisation has a cost. Over the past three years YouTube has paid out an average of $23bn a year to creators and media companies—substantially more than the $15bn that Netflix is expected to spend this year on its shows and movies. And whereas Hollywood studios' content spending is fixed, YouTube's revenue-sharing model means that its costs rise inexorably in tandem with its ad revenue. In Britain, for example, the number of YouTube channels earning more than $10,000 a year has risen by 30% in the past 12 months, the company says. As social platforms get closer to Hollywood quality, they are taking on blockbuster costs, too. ■

Like and subscribe 2

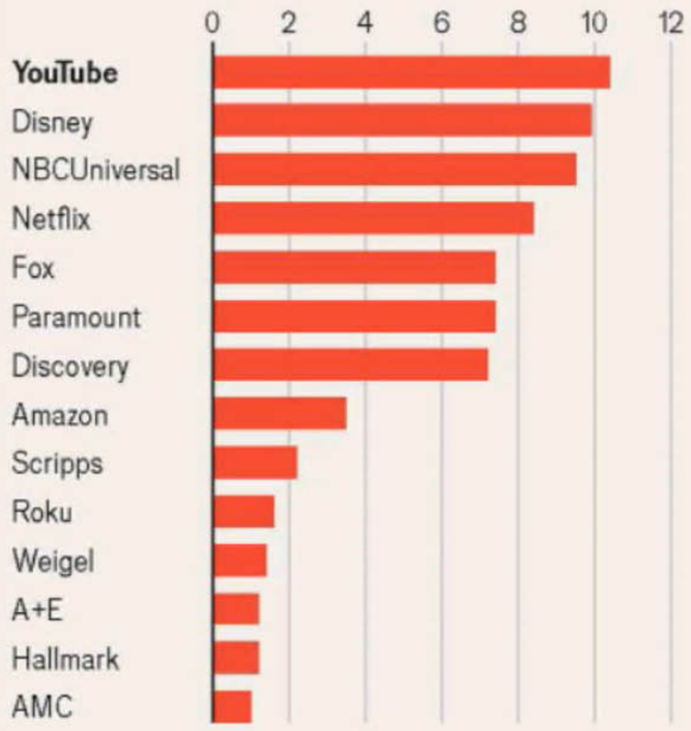
Worldwide streaming subscriptions*, m



*Includes YouTube Music and free trials †Q3=forecast
Source: Ampere Analysis

Tube strike 1

United States, share of television viewing, July 2024, %



Source: Nielsen

Batteries

Electric shock

Europe's battery-making champion scales back, worrying investors

NORTHVOLT HAD all the trappings of an industrial champion. Capital had poured in from Wall Street titans such as Goldman Sachs and BlackRock. Assorted governments had blessed its plans with generous grants and big customers had vouched for its technology. But on September 23rd the seven-year-old Swedish battery-maker announced that it would suspend work on one of its new manufacturing plants, slow the expansion of its research and development (R&D) unit and lay off a fifth of its workforce. It was the second round of cutbacks in a month.

Peter Carlsson, Northvolt's boss, has blamed "headwinds in the automotive market, and wider industrial climate". Carmakers, including Northvolt's biggest investor, Volkswagen, have struggled with ▸▸

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the economics of electric vehicles (EVs), with some posting losses from their electric divisions. Demand for EVs has slowed, draining demand for the cells that power them. Even big battery-makers like South Korea's SK On and LG Energy Solution are facing thinner margins. Northvolt lost $1.2bn last year, four times its loss in 2022.

Yet Northvolt's bigger problem is self-inflicted. As its cumulative funding in the form of debt, equity and grants swelled to $15bn last year, the company spread its technology bets far and wide. It developed a new sodium-ion cell battery, invested in wood-based batteries with Stora Enso, a paper company, and backed batteries for aviation through Cuberg, a startup it bought in 2021. It expanded its R&D facility and waded into artificial intelligence—in vogue with investors—as it set up a new software team. It backed Liminal, a battery-analytics startup, and entered joint ventures such as an R&D centre with Volvo Cars and a Portuguese lithium refinery.

As a result of this splurge, 2023 was its "heaviest investment year", Northvolt said, with investment averaging $200m-300m a month. The aim was for Northvolt to become a vertically integrated European battery giant, quickly. With capital-intensive manufacturing sites in Canada, Germany, Poland and Sweden, Northvolt hoped to have more than 150 gigawatt-hours (GWh) of cell-making capacity by 2030, ten times its current capacity. (Sceptics pointed out that if Northvolt's $15bn pot of funding had gone to incumbent battery-makers, such as the South Korean firms with factories in Europe, it could have almost doubled Europe's battery-making capacity, to more than 300GWh.)

Instead the young company has been distracted from its central purpose: producing batteries for EVs, on time. On June 20th BMW, a German carmaker, cancelled a $2.1bn order from Northvolt because of delays. None of this should surprise Mr Carlsson: "overrun of plan given multiple expansion projects" is listed as a risk in Northvolt's annual report. Its problems mar Europe's efforts to nurture a strategically important industry on the continent.

Reining in Northvolt's sprawling operations will ease the cash burn, but investors and creditors are getting jittery. Northvolt counts the likes of JPMorgan Chase, an American bank, among the 25 lenders that in January gave it a $5bn loan. Creditors are reportedly set to meet on September 27th to decide whether it can tap that loan. In recent days some lenders have brought in advisers to assess their options if the cash crunch deepens. To avoid a serious crisis of confidence, Mr Carlsson will need to start delivering—promptly—Northvolt's order book, which was worth $53bn last year. At the same time, he will have to shrink the overcharged company still further. ■

Restaurants

Star-crossed

The curse of gastronomy's greatest accolade

THE TWELVE new restaurants added to the New York Michelin Guide this month, serving up cuisine ranging from "haute French" to "eco-chic", will be toasting their success. Being featured in the handbook of the tyre-maker-turned-restaurant-critic is the first step towards receiving a Michelin star, the most coveted award in fine dining. Yet according to research recently published in the *Strategic Management Journal*, an improbable source of culinary intelligence, restaurants might be better off remaining starless.

Daniel Sands of University College London's school of management tracked the fortunes of restaurants that opened in New York in 2000-14 and received a starred review in the *New York Times*. He found that, of this promising group, establishments which went on to get a Michelin star were more likely to close down in the years that followed than those which did not. The relationship remained even when factors such as location, price and type of cuisine were taken into account. All told, 40% of restaurants awarded Michelin stars in 2005-14 had closed by the end of 2019.

A Michelin star boosts publicity: the study found that Google search intensity rose by over a third for newly starred restaurants. But that fame comes at a price. First, Mr Sands argues, the restaurants' customers change. Being in the limelight raises diners' expectations and brings in tourists from farther away. Meeting guests' greater demands piles on new costs. Second, the award puts a star-shaped target on the restaurants' back. Businesses they deal with, such as ingredient suppliers and landlords, use the opportunity to charge more. Chefs, too, want their salaries to reflect the accolade and are more likely to be poached by competitors.

Food is not the only industry where awards are a mixed blessing. Several studies have shown that companies run by award-winning bosses underachieve relative both to their previous performance and to non-garlanded rivals. Like Michelin-starred chefs, superstar CEOs demand fatter pay packets and are more easily distracted, spending more time writing books and joining boards. In publishing, too, awards bring peril. Prizewinning books are reviewed more harshly than before their success, and worse than runners-up.

For restaurateurs who are in it for the glory, Michelin's top award will probably remain too enticing not to pursue. But for those who simply want to stay in business, it may be safer to not quite cut the mustard.

Take it with a pinch of salt

Gyms

Barbell effect

Customers want either luxury or thrift

IN MAY EQUINOX, a luxury gym, launched a membership that costs $40,000 per year—half the median household income in America, where the chain is based. The plan includes blood tests, a sleep coach and a nutritionist, as well as access to the group's swanky clubs. Julia Klim of Equinox explains why people pay: "You can buy a Chanel bag every year, but health and looking well is the ultimate luxury symbol."

Analysts proclaimed the death of the gym during the covid-19 pandemic, when fitness centres shut and people got used to online workouts with a towel in place of a yoga mat and a couple of bottles of pinot noir for weights. Customers signed up for at-home alternatives such as Peloton, a maker of high-tech exercise bikes, which hit a value of almost $50bn in January 2021.

But since March 2021 footfall at gyms across America has been growing, according to Placer.ai, a location-analytics firm. The global market for physical activity, including everything from apparel to equipment, will grow by 8% a year in 2023-27, forecasts the Global Wellness Institute, a non-profit group. Peloton's value has fallen by 96%. As Fritz Lanman, head of Classpass, an exercise subscription firm, puts it: "There is nothing that replicates that in-person experience yet."

Industry watchers have spotted a "barbell effect", where mid-range gyms are losing out. PWC, a consultancy, says the budget segment has doubled its share of Britain's fitness industry in the past decade, to almost a fifth of the private market. Will Orr, head of the Gym Group, a low-cost chain, compares gyms to airlines: "People buy into that no-frills proposition," he says.

The rich still want frills, however, so luxury gyms are also thriving. The pandemic got wealthy folk worrying about their health; wearable devices now tell them how well they sleep or respond to sugar, creating new nudges to work out. In a survey by Mindbody, which makes fitness software, in 2021 most Americans said they exercised to control weight. In 2023 most said it was to live a long, healthy life.

The buzzword in the industry is "wellness". Third Space, a high-end gym group in London, is installing cold plunges, cryotherapy chambers and red-light therapy rooms. "Five years ago if you asked someone why they used the sauna they would have said, 'It feels quite nice'," says its boss, Colin Waggett. Now they talk about "recovery, sleep and mental well-being".

Gyms now face a test. A new generation of slimming drugs such as semaglutide are selling fast. Bloomberg, a data provider, reckons worldwide sales will reach $94bn in 2030. Why sweat away in the gym? Mr Waggett argues that slimming drugs can cause users to lose muscle as well as fat; shedding weight also inspires people to tone up, he believes: "It gives them a catalyst for change."

There is another reason to hit the gym. As youngsters battle loneliness, gyms are hosting socials. At Equinox, Friday evenings are a new peak time. "The gym is the new happy hour, the new dating place, the new connector," says Ms Klim. Would a $40,000 membership be worth it if you left the gym fitter, calmer—and with a date? ■

Financial engineering

Can dealmaking save Intel?

The next move for America's failing chip champion

INTEL HAS spent two decades missing the next big thing. The chipmaker's dominant PC business blinded it to the opportunity from mobile phones in the 2000s. More recently, the firm was slow to adopt extreme-ultraviolet lithography, an expensive chipmaking process that was originally funded by Intel itself. Now Nvidia dominates the white-hot market for designing artificial-intelligence (AI) chips, becoming the world's most valuable semiconductor company. Investors in Intel have voted with their feet (see chart).

As when any corporate icon falls on hard times, dealmaking rumours are swirling. Qualcomm, an American chip-designer, is reported to be interested in buying Intel. Apollo, a financial firm, is also mulling an investment. Any buyer must confront a vexing problem. Intel's manufacturing business, or "foundry", is viewed as strategically important by American policymakers, who want more chips to be made at home. It is also deeply unprofitable. Enormous and relentless investment is required for it to compete with TSMC, a Taiwanese chipmaking giant. The story of Intel is a marvel of American engineering. The firm's survival now requires a financial-engineering miracle, too.

Pat Gelsinger, Intel's boss, acknowledged as much on September 16th when he said that Intel Foundry would become a distinct subsidiary with its own board. The firm's separation of church and state should convince potential customers that Intel's manufacturing arm isn't entirely captive to its chip-design division. At least that's the theory. Only 1% of Intel Foundry's revenue came from external customers during the first half of this year. A splashy announcement that Intel will make custom AI chips for Amazon's cloud-computing arm has failed to convince many people that it can leap from making its own chips to ones for outside customers, as TSMC does. "I'm like five foot six and 50 years old, and even if all the politicians in the world would love for me to play in the NBA, it's probably never going to happen," says Christopher Danely of Citigroup, a bank.

Without profits to reinvest—and with $53bn of debt already—Intel relies on a growing pile of subsidies and private financing. The firm has been promised more than any other under America's CHIPS Act, legislation passed in 2022 to boost domestic production. On September 16th it was awarded up to $3bn to make chips for the armed forces, in addition to up to $8.5bn of grants and $11bn of loans announced earlier this year. In June Intel said it would finance a plant in Ireland through a joint venture with Apollo, which has a big life-insurance arm. "Intel has bank debt. Intel has public bonds. And now, Intel has $11bn of investment-grade private credit," said Apollo's boss of the deal. What the chipmaker does not have, to the torment of its increasingly subordinated shareholders, is a credible plan to turn a profit.

Neither America's government nor its financiers can fund Intel for ever. But beyond firing workers and delaying projects, it has few options to raise cash. One may be to sell Altera, the programmable-chip business it bought for $16.7bn in 2015. It could offload its majority stake in Mobileye—though the automotive-technology firm's valuation would surely reflect the current troubles in the carmaking industry. A radical deal involving the full separation of Intel Foundry is hard to imagine, given its precarious financial position, even in the unlikely scenario that potential customers decided to invest in the business. ▸▸

Intel outside

Share prices, Sep 25th 2023=100, $ terms

Source: Bloomberg

What about a full takeover? An acquisition by Qualcomm, which designs chips for phones, would be the largest in the industry's history. It would produce a chipmaking giant—call it Qualtel, Incomm or Americhip—with $90bn of annual sales, and create a huge new customer for Intel Foundry. For American regulators, the perceived security benefits of a stronger combined firm could allay concerns about antitrust. "I think the US government would be a huge proponent of the deal—it would create a massive US-centric company that they can then throw a ton of support to," reckons Angelo Zino of CFRA Research, a firm of analysts.

Yet any deal would be hard to pull off. Qualcomm has no manufacturing experience, designs its chips using the architecture of Arm, a British rival to Intel, and would struggle to afford such a deal—it has $13bn of cash and securities and its market value is less than twice that of Intel. Regulators outside America would also balk at a tie-up. Intel recently shelved a project in Germany, in effect scuppering Europe's chipmaking ambitions; the continent's regulators will be in no mood to help. Nor will those in China, as Qualcomm's board already knows—in 2018 Qualcomm abandoned a $44bn deal to buy NXP, a Dutch manufacturer, after failing to win Chinese approval. That would leave Intel returning to the drawing board, by which time things may have got worse. Inaction, however, is not an option. ■

BARTLEBY

The hell of the sandwich lunch

Working and eating do not go together

THE COMPETITION to be the worst two words in the English language is extremely hard-fought. Surprise party. Cruise holiday. Rice pudding. Keen golfer. The list goes on and on. But right up there is "sandwich lunch". Separately, each of these words contains lots of promise. In combination they spell unmitigated disaster.

Most obviously, they signal that your lunch is ruined. You might have been planning to stroll through a park, eat with a friend or chew your way through some YouTube videos. Now you will be spending your break working, trapped in a meeting room with several of your colleagues. Even more gallingly, your manager has announced that sandwiches will be provided as though you should be vaguely grateful. "It's more fun because food is being laid on," doesn't ring true in prison, and it doesn't in offices either.

The actual food choices are not yours. Instead they appear to have been made by a six-year-old. The centrepiece is a platter of sandwiches cut into triangles. There are paper plates. You are tempted to look around for party hats and balloons. (You do see a clown, but that's a column for another week.) The fillings are unidentifiable. One is either cheese or polyurethane. You know that consuming it will not provide clarity.

Not that you actually eat much. The etiquette of the sandwich lunch requires everyone to take less than they want, in order to signal to the wider group that they are team players who know how to share, not gluttons bingeing on free food. People politely wait their turn and then restrict themselves to a few items. Your own paper plate is fairly typical: two triangles of bread, four salt-and-vinegar crisps, a limp salad leaf and one plum tomato. It's about as appetising as a cup of sand and much less filling.

Once everyone has loaded up from this feast of delights, someone will expansively encourage you to dig in. "Where to start?" you think to yourself gloomily. You pick up the biggest of your four crisps and put it in your mouth just as the boss begins to lay out the agenda for the discussion.

Crisps are never noisier than when eaten at a sandwich lunch. Every bite thunders through the room; eyes flick your way with each crunch and then back to the speaker. You wonder how long it takes for a crisp to dissolve through the action of saliva alone, and conclude it is better to just get the whole thing over with. Cue a desperate staccato burst of chomping. All eyes are now on you. The boss has stopped speaking. One final crunch, and a swallow. The crisp is dead. So are your promotion prospects.

Your colleagues have now absorbed the risk of eating crisps. But danger lurks everywhere. In fact, the whole thing is an extended lesson on the perils of eating and working. Someone attempts to spear a tomato with a plastic fork and it zooms across the table like a precision-guided missile, seeking out the lap of their manager. Someone else takes a bite of a beef sandwich and realises too late that there is no way human incisors are going to be able to tear through it; they end up with a perplexed expression and a carcass hanging out of their mouth. Another colleague has managed to spill unimaginable quantities of egg on the table and uses a napkin to smear it everywhere. Jackson Pollock would have been pleased with the results.

The chair of the meeting appears to be operating on a simple principle: ask for someone's opinion only if they have just taken a bite of something. There is a pause for rapid chewing and a poorly suppressed belch, before they make a series of surprisingly cogent points that interest people much less than the spinach between their teeth. And so it goes until the group concludes that the very worst thing you can do at a sandwich lunch is lunch on the sandwiches.

From here on in, nothing more will be eaten. The work will take over, conversation will flow and progress will be made. As the discussions continue, the remaining triangles of bread will start to curl and yellow. You and your colleagues will occasionally glance at the full plate of brownies that sits in the middle of the table. They actually look delicious—here, the six-year-old has chosen well. But now that no one else is eating, there is an unspoken agreement that they should be left untouched.

When the meeting wraps up, someone will take them to the staff kitchen, where the real beneficiaries of the sandwich lunch will tuck in. And you will head outside, so that you can finally get some food.

SCHUMPETER
An inside shot

Is a Nike lifer the best person to revive the swoosh?

THE 2015-16 season was an epic one for Nike's athletes. LeBron James led the Cleveland Cavaliers to basketball glory in the NBA play-offs and the Denver Broncos, quarterbacked by the Nike-shod Peyton Manning, triumphed in American football's 50th Super Bowl. In proper football, Cristiano Ronaldo won both the UEFA Champions League (with Real Madrid) and the European championship (with Portugal). In tennis, Serena Williams secured her seventh Wimbledon singles title. At the Olympic games in Rio de Janeiro, 89 track-and-field medallists plus the entire male marathon podium wore Nikes, and Simone Biles, who had clinched an endorsement deal with the sportswear giant the year before, tumbled her way to four gymnastics golds and a bronze.

Things were looking just as golden for Nike in the corporate arena. Revenue in its financial year to May 2016 clocked in at $32bn, up from $24bn in the one leading up to the 2012 London games. The firm's operating margin was a strong 14%. In September 2015 its market capitalisation Fosbury-flopped over the $100bn bar. It was around that time that Elliott Hill was emerging as a star player on the management team of Mark Parker, then Nike's chief executive. A couple of years later Mr Hill would take charge of the company's commercial and marketing operations—and become a contender in the race to succeed Mr Parker. But then, in early 2020, he lost that contest to John Donahoe, a former Bain consultant tasked with ushering Nike into the digital age, and retired.

On September 19th Mr Hill was back, this time as CEO, after Mr Donahoe made a hash of his effort to make Nike less about sports, more about fashion and all about selling directly to consumers. Investors cheered their lungs out. Nike's flagging share price leapt by nearly 10% on the news. The hope is that the Nike lifer, who began as an intern in 1988, can restore the magic of the 2010s, when product innovation was faster, morale among employees and athletes higher, and relations with retailers stronger. But is a former insider really the right man for the moment?

Choosing between insiders and outsiders is seldom easy, and never in a crisis. Insiders possess intimate knowledge of a firm's inner workings and culture. Outsiders have less to lose. Unhelpfully for boards, literature and anecdote offer conflicting counsel.

One recent study found that internally promoted CEOs oversaw marginally better returns on assets amid the covid-19 pandemic in 2020 than external hires. Another concluded that share prices of insider-led companies were less liable to crash. Yet other studies paint a more nuanced picture. Research by Spencer Stuart, a firm of headhunters, on 300 CEO transitions at big American firms suggests that insiders are better for shareholder returns and growth in revenue and profits—except when a firm is in trouble, when outsiders outperform. Non-executive directors, who combine inside and outside views, do best of all when appointed CEO. Tell that to Nike's board, which counted Mr Donahoe as one of their own before making him boss.

Business annals are likewise a mixed bag. For every successful insider like Arvind Krishna, who has reversed IBM's long fall from tech grace, there is an inept one like Dave Calhoun, who failed to put an end to Boeing's engineering failures and was ejected last month, and an able outsider like Larry Culp, who saved GE from a slide into industrial irrelevance. Go figure.

The evidence is more compelling on former bosses who ride back to the rescue. In a paper from 2019 Chris Bingham of the University of North Carolina at Chapel Hill and colleagues looked at 25 years of data on such "boomerang CEOs" in America Inc. Although Steve Jobs reimagined Apple after his return from corporate exile, the authors calculate that, in general, rehires do "significantly worse" by shareholders, especially in fast-changing industries, possibly because they "drag organisations backward instead of pushing them forward".

Tales of boomerangs gone astray are easy to find. Think of Howard Schultz, who two years ago brought a bit of froth back to Starbucks in a third stint as barista-in-chief—but also ushered in Laxman Narasimhan, his disastrous external successor, who was sacked in August after 16 months on the job. Or of Bob Iger, who left Disney in 2020 only to return in 2022 after botching his own succession. Mr Iger has improved on his hapless heir when it comes to shareholder returns, but has underperformed some of Disney's showbusiness rivals. Jack Dorsey's second turn at Twitter in 2015-21 looks immaculate beside the cesspool that is now X, but shabby compared with Mark Zuckerberg's stewardship of Meta.

A Hill to climb

Mr Hill might appear better placed. In contrast to the boomerang CEOs he is humble, never having been top dog, but shares some of their virtues. Like Mr Iger, he is loved by the rank and file. Like Mr Dorsey back in the day, he is devoted to his company, to the point of welling up when talking about colleagues. Like Mr Schultz, he helped oversee global expansion.

Yet the travails of two struggling high-profile bosses, whose careers closely mirror his own, provide a cautionary tale. Pat Gelsinger and Oliver Blume started at Intel and Volkswagen, respectively, straight out of school. Both rose up the ranks, then left (Mr Blume to run VW's independent Porsche subsidiary). Both came back as CEOs at a time when the market was shifting: away from central processing units, Intel's forte, and internal-combustion engines, which were VW's. Despite their best efforts, both have been value-destroyers. After all, understanding what made firms great in the past may be less relevant now that the world around them has changed. One of Nike's strengths in its heyday was its willingness to take risks on products and athletes. Its board may be playing it too safe with Mr Hill. ■

Finance & economics

Political economy

Lumbering Leviathans

SAN FRANCISCO

Governments are bigger than ever. They are also increasingly useless

YOU MAY sense that governments are not as competent as they once were. Upon entering the White House in 2021, President Joe Biden promised to revitalise American infrastructure. In fact, spending on things like roads and rail has fallen. A flagship plan to expand access to fast broadband for rural Americans has so far helped precisely no one. Britain's National Health Service soaks up ever more money, and provides ever worse care. Germany mothballed its last three nuclear plants last year, despite uncertain energy supplies. The country's trains, once a source of national pride, are now often late.

You may also have noticed that governments are bigger than they once were. Whereas in 1960 state spending across the rich world was equal to 30% of GDP, now it is above 40%. In some countries growth in the state's economic power has been still more dramatic. Since the mid-1990s Britain's government spending has risen by six percentage points of GDP, while South Korea's has risen by ten points. All of which raises a paradox: if governments are so big, why are they so ineffective?

The answer is that they have turned into what can be called "Lumbering Leviathans". In recent decades governments have overseen an enormous expansion in spending on entitlements. Because there has not been a commensurate increase in taxes, redistribution is crowding out spending on other functions of government. This, in turn, is damaging the quality of public services and bureaucracies. The phenomenon may help explain why people across the rich world have such little faith in politicians. It may also help explain why economic growth across the rich world is weak by historical standards.

America, which has some of the best fiscal data, shows how one government became a Lumbering Leviathan. In the early 1950s we estimate that state spending on public services, including everything from paying teachers' salaries to building hospitals, equalled 25% of the country's GDP (see chart 1 on next page). At the same time, entitlements spending, broadly defined, was a small line item, with outlays on both pensions and other sorts of welfare equivalent to about 3% of GDP. Today the situation is very different. The American government's outlays on entitlements have swelled and spending on public services has crashed. Both now equal around 15% of GDP.

Other countries have followed a similar path. We have examined long-run GDP data, looking at how much governments spend each year on social benefits and transfers. This includes standard entitlements, such as pensions and tax credits, ▸▸

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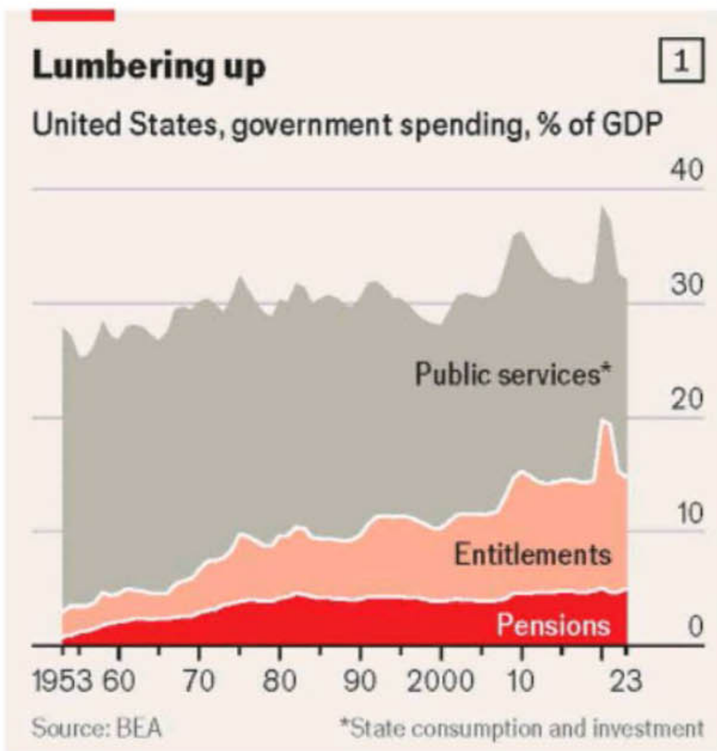
but also the provision of transfers "in kind", such as discounts on health insurance and help with housing. Both types have become a lot bigger. On average across the OECD, social expenditure in countries with available data rose from 14% of GDP in 1980 to 21% in 2022.

Moreover, conventional statistics understate the scale of the change. Governments have accumulated mind-boggling off-balance-sheet obligations to dole out money in the future. Adapting work by James Hamilton of the University of California, San Diego, we estimate that America's federal government has made pledges of compensation to different groups worth, in aggregate, six times America's GDP (see chart 2). In addition to reported public debt, Uncle Sam guarantees people's bank deposits, health-care payouts and mortgages. He will also need to make good on promises to future retirees. In the history of the modern state, this represents a uniquely large financial commitment.

Some of the growth in entitlement spending has been unavoidable. In 2022 there were 33m people over the age of 85 in the rich world, representing 2.4% of the total population—a huge rise on the 5m, representing 0.5% of the total population, around in 1970. Governments have not helped themselves by failing to raise the retirement age: the average person in the rich world currently retires at age 64, no older than in the late 1970s. But it would have been hard (and unwise) to have stopped pension spending from growing.

Because entitlements for the old tend to be universal—European countries, for example, have little private pension provision—more cheques are going to the well-heeled. We estimate that in the OECD between a fifth and a third of entitlements spending, broadly defined, goes to the richest 20% of households. The American government spends about $400bn, or roughly half the budget of the Department of Defence, on transfers for the top income quintile. In 2019 an average household in the top 1% received $16,000 in transfers from Uncle Sam, including from things such as Social Security and Medicare.

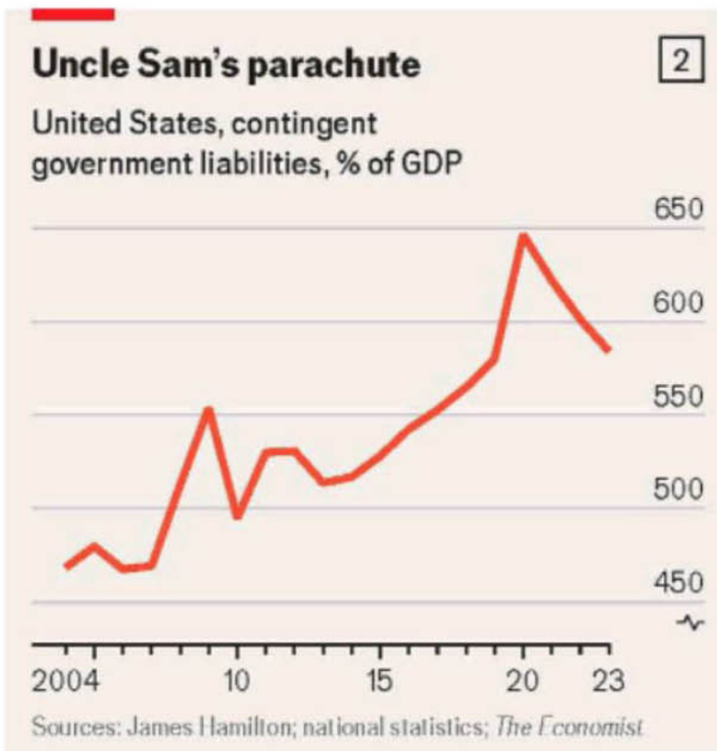
Transfers to the working-age population have increased even faster, making the system more redistributive. In 1980 the bottom fifth of American earners received means-tested transfers equal to a third of their gross earnings. By the late 2010s the figure had doubled, before the covid-19 pandemic sent it higher still (see chart 3 on next page). A similar pattern is evident in Canada and Finland, two other countries with good data. Spending often follows a ratchet effect. For instance, since the 1970s the share of Americans on food stamps has doubled, to one in eight people. In recessions the number of recipients rises like a rocket; thereafter it falls like a feather.



Across the board, governments have become more generous in times of trouble. During the pandemic they shovelled money to affected workers and companies, as well as to many that were carrying on largely as normal. Throughout the energy crisis of 2022, lots of governments threw caution to the wind. Even the German government, historically among the more tight-fisted, allocated 4.4% of GDP to measures shielding households and firms from its effects. More recently, some have lost the plot. In Italy a project to encourage homeowners to make their homes greener has spiralled out of control, with the government so far disbursing support worth more than €200bn (or 10% of GDP).

Nordic nirvana

A rise in entitlement spending is not necessarily a problem if governments are able to adequately and efficiently fund themselves. Textbook economics says that the societal cost of redistribution comes from the distorted incentives tax and welfare spending can create. These cannot be judged merely by the size of redistribution—the design of the system is what matters most. Indeed, Scandinavian countries have long sustained big states alongside thriving market economies, in part by funding redistribution with high rates of VAT, one of the least-distorting taxes, and by keeping down taxes on capital, which are particularly harmful to growth.



But in recent years politicians have preferred to act as if extra spending can happen with little more taxation of any kind. From the 1960s to the 1990s the tax take, as a share of rich-world GDP, rose steadily. Since the 2000s it has hardly grown. A database of tax reforms maintained by the IMF, and last updated in 2018, suggests that whereas in the 1970s and 1980s reforms were evenly split between revenue-raisers and revenue-cutters, more recent ones have focused on cutting taxes.

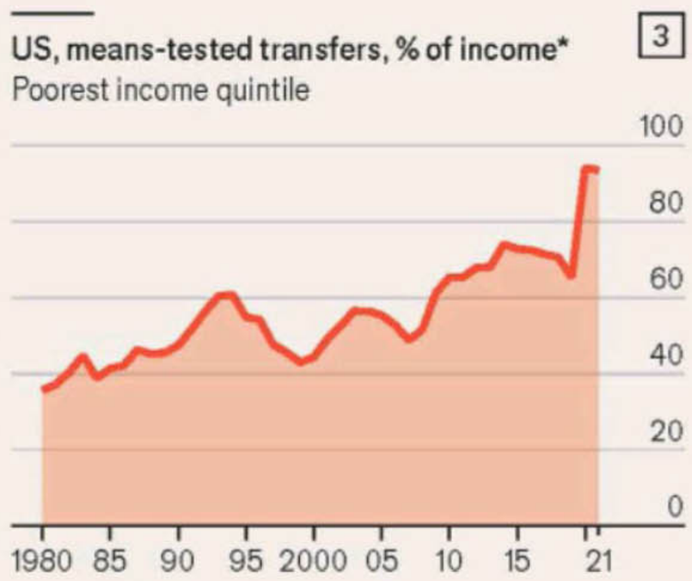
By 2022 some 85% of reforms to rich countries' personal-income-tax bases caused them to narrow, while just 15% broadened them. The biggest reform of the past decade was President Donald Trump's enormous tax cut in 2017. Neither Mr Trump nor Kamala Harris, the Democratic nominee, promise sober fiscal stewardship in the years to come. To the extent that today's governments implement measures to raise revenue, they tend to take the form of crafty workarounds. According to our calculations, in 2022 American federal, state and local governments raised $80bn from fines, fees, penalty taxes and settlements—nearly three times as much, relative to GDP, as in the 1960s and 1970s.

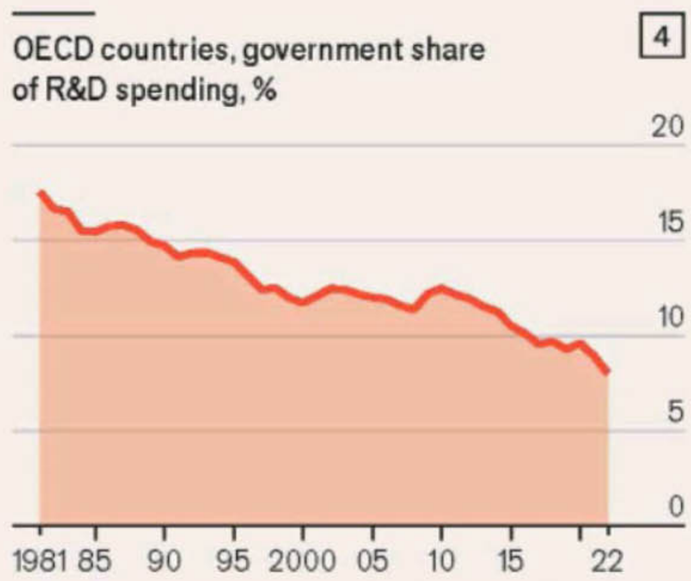
Politicians who fail to raise revenues face two choices. One is to run large fiscal deficits: this year rich-world governments will run an aggregate deficit of 4.4% of GDP, even with the global economy in decent shape. Another is to fund more generous entitlements by making cuts elsewhere. Demand for public services has grown hugely. Yet in 2022 the median rich country spent 24% of GDP on them, the same as in 1992. Public-sector employment, as a share of the total, has drifted down since the late 1990s. Everything from state-provided health care to education and public safety has suffered.

Another historical role of government—now waning—was to provide an efficient bureaucracy. It is tough to measure this quantitatively, but researchers have had a go. Data produced by the Berggruen Institute, a think-tank, and the University of California, Los Angeles, combine objective measures, such as tax revenue, and subjective measures, such as perceptions of corruption, to devise a cross-country measure of "state capacity". In the G7 group of advanced economies this measure is falling. The same is true of the "rigorous and impartial public-administration index", produced by V-Dem, another think-tank, which illustrates the extent to which public officials respect the law.

The effects of declining state capacity show up everywhere. Some are small-bore. In America the time lag between a residential project being granted permission to

Redistribution not research





Sources: CBO; OECD; *The Economist* *Before transfers and taxes

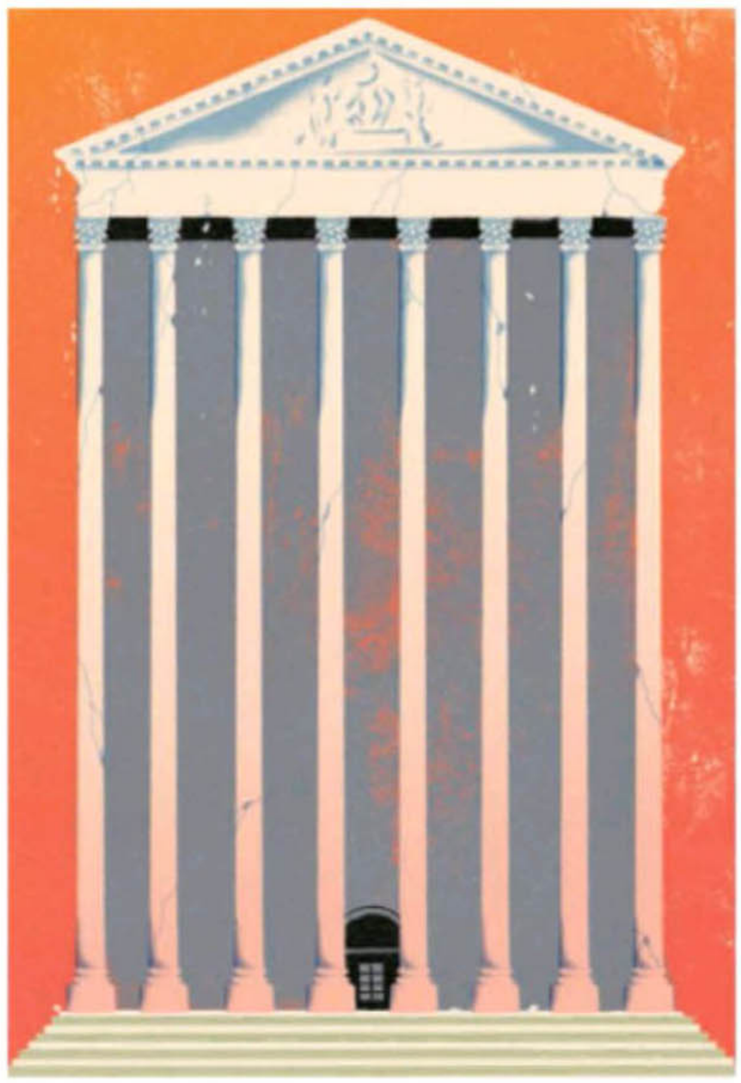
build and construction beginning has doubled since the 1990s. Builders face long waiting times as they form-fill and box-tick. In Britain employment tribunals are facing huge delays owing to a shortage of judges, with hearings on everything from unfair dismissal to racial discrimination now scheduled as far ahead as 2026. Five years ago the website of Australia's passport office said that the processing time for an application was "three weeks"; two years ago it said "up to six weeks"; by last year it said "minimum of six weeks".

Governments also seem less willing and able to pull off big projects. It is just about impossible to imagine that the Empire State Building could be built in a year—and yet, in the 1930s, it was. Moreover, throughout the 20th century governments invested both money and intellect in science and R&D, seeking to shift economic growth into a higher gear. Initiatives like DARPA, undertaken in America to devise and spread groundbreaking technologies, hinted at the scale of governments' ambitions. In the 1950s and 1960s governments, including Germany's and Japan's, built millions of units of public housing and millions of miles of road and rail.

Now politicians just want to get from one day to the next. Spending on short-term fixes takes precedence over difficult, long-term projects. Mr Biden talks up his industrial policy, which is supposed to revive manufacturing jobs and reduce America's dependence on China. In practice, the fiscal outlays associated with the policy are trivial. Elsewhere in the rich world public investment is well down, while governments have slashed R&D departments. Across the OECD the state now accounts for less than 10% of total R&D spending, a sharp change from the post-war norm (see chart 4). Governments are no longer hotbeds of innovation. Almost all of the recent artificial-intelligence developments have emerged from the private sector.

When it comes to growth-boosting reform, such as tweaks to labour laws, governments have almost entirely lost interest. A paper published in 2020 by Alberto Alesina of Harvard University, and colleagues at the IMF and Georgetown University, measured structural reforms, such as changes to regulations, over time. In the 1980s and 1990s politicians in advanced economies implemented lots of reforms. By the 2010s, however, they had ground to a halt. According to our analysis of data from the Manifesto Project, political-party manifestos in the OECD are about half as focused on growth as in the early 1980s.

Leviathans may not remain lumbering for ever. Running large deficits in order to fund transfer payments will, eventually, become too expensive—as countries such as Greece and Italy discovered in the 2010s. At some point populations, fed up with weak economic growth and poor services, may demand that politicians make some difficult choices. Then again, Lumbering Leviathans are formidable. Interest groups are entrenched, familiar incentives apply and it is easier to live for the short term. The system has a life of its own. ■



Tackling deflation

No rush

HONG KONG

China's central bank attempts to save the economy—and the stockmarket

As CHINA'S ECONOMY has descended into deflation, the central bank's lack of urgency has been a source of frustration for many economists. Policymakers at the People's Bank of China (PBoC) initially expressed confidence that deflation was, so to speak, transitory. When it then persisted, they worried less about falling prices than about the side-effects of fighting them. They were reluctant to ease monetary policy decisively as China's currency was too weak, banks' profit margins too slim and bond yields too low.

But at a press conference on September 24th the central bank revealed a change of heart. It announced a set of policies that was unusually bold. Officials said they would cut the PBoC's policy interest rate by 0.2 percentage points, lower banks' reserve requirements by half a percentage point and reduce interest rates on existing mortgages by about half a percentage point. It is unusual for China's central bank to ease on two fronts at once, let alone three. Pan Gongsheng, the PBoC's governor, said it might do more in the near future, perhaps cutting reserve requirements by another quarter- or half-point this year. Such "forward guidance" is unprecedented in China, notes Morgan Stanley, a bank.

The press briefing yielded another surprise. China's central bank already has a variety of "structural" tools to assist industries as diverse as clean coal and care for the elderly. Now it has come up with a similar innovation to enable it to support the stockmarket, Mr Pan announced. The PBoC will help firms buy back their own shares by refinancing bank loans used for that purpose. And it will help securities companies and other institutional investors to raise funds by making their balance-sheets more liquid. They will be able to borrow liquid assets like government bonds and central-bank bills from the PBoC, using their own holdings of blue-chip shares and stock ETFs as collateral.

What accounts for the central bank's newfound boldness? Fear is one motive. Recent economic data have been discouraging. The powerful Politburo of the Chinese Communist Party felt the need to devote its September meeting to the economy, resolving to help "stabilise" the property market. Earlier this month Yi Gang, the central bank's former governor, warned that the country's policymakers "should focus on fighting deflationary pressure". ▸▸

The start of a new cycle?

The central bank has also become less afraid of the side-effects of that fight. When America's Federal Reserve cut interest rates by half a percentage point on September 18th, it gave China's central bank room to move. It is now able to lower its own rates without dangerously weakening its currency. The yuan has risen by 3% against the dollar since the end of July.

Mr Pan also thinks his new package will have a "neutral" effect on bank profits. Monetary easing can have the unfortunate effect of squeezing bank margins, as loan rates tend to fall faster than deposit rates. But Mr Pan hopes that the rates banks pay and charge will fall in tandem, leaving the margin between them largely intact.

Cutting interest rates on existing mortgages could nonetheless hurt the banks. Chinese home loans are hard to refinance. So when interest rates fall, older mortgages tend to have higher rates than newer ones. Reducing that gap will save 50m households about 150bn yuan ($21bn) a year, equal to 2.5% of their disposable income, according to Goldman Sachs, a bank. At the same time, it will deprive banks of an equivalent sum. Their only consolation is that the policy will also discourage early mortgage repayment, another threat to their profits. And Mr Pan accepts that banks will prepare before implementing the new policy. "So don't run to the bank this afternoon," he quipped.

Even if old mortgage rates were reduced in an afternoon, it would not bring immediate relief. Household savings of 150bn yuan might translate into extra consumer spending of only 53bn yuan, according to Raymond Yeung of ANZ, another bank. That is less than 0.05% of China's projected GDP for this year. "More demand-side measures are needed," he says.

The bulk of those measures will have to come not from China's monetary policymakers but from its fiscal authorities. The central government may announce an increase in the country's budget deficit later this year, as it did last year, according to Xing Zhaopeng, also of ANZ. For their part, local governments might also issue more bonds than planned, since they have not used all of the quotas assigned to them by Beijing in recent years. With reduced interest rates and low bond yields, the central bank has "created a good monetary environment for China to implement a proactive fiscal policy", Mr Pan said at the press conference. With luck, China's government will take the hint. ■

Sovereign debt

Africa rising

Poor countries should cheer the Federal Reserve's decision to cut interest rates

EGYPT IS GEARING up to return to international debt markets for the first time in three years. Last week Ahmed Kouchouk, the country's finance minister, is reported to have told investors that his government is hoping to raise around $3bn in external debt over the coming months. Much of this borrowing will take the form of so-called Eurobonds, one of the world's worst-named financial instruments.

A Eurobond, which is typically denominated in dollars, is an international debt instrument priced in a currency that is not native to the country where it is issued. The market for such debt began in Europe in the 1960s—hence the name—mostly as a method of avoiding troublesome American regulations. Dollar-denominated bonds later became an important source of finance for African governments in the 2010s, before the market abruptly ground to a halt in the 2020s. Now, however, Eurobonds are back in fashion.

According to S&P, a rating agency, the African Eurobond market grew fivefold, from around $20bn to just over $100bn in the decade to 2021. Twenty-one African countries issued debt; the Centre for Global Development, a think-tank, judged the market one of the two most important drivers of capital to sub-Saharan Africa, alongside China's Belt and Road initiative. For borrowing countries, the international market helps diversify funding, gives access to money without the strict conditions of the IMF and World Bank, and sets standards for domestic markets. For investors, African debt provides attractive returns. In 2021, at a time when yields on rich-world sovereign debt had fallen to around 1%, some 40% of African-government dollar bonds still yielded over 8%.

But when interest rates rose in rich countries and the world grew stormier, the risk of lending to cash-strapped developing countries increased. Eurobond issuance by emerging economies fell by 70% in 2022-23 compared with the previous two years. Other than Gabon raising a paltry $500m, no African government raised dollar bonds in public markets last year.

As demonstrated by Egypt's planned return to the market, investor appetite is now returning. Issuances by Benin, Ivory Coast and Kenya earlier this year were oversubscribed. The three countries have so far raised nearly $5bn. Alongside Egypt, Angola and Nigeria are also expected to issue dollar debt in short order.

Brokers helping sell the debt talk up Africa's growth story, the continent's demographic dividend and improving fundamentals. In truth, the real driver of issuance lies elsewhere: at the Federal Reserve. As investors priced in falls in American interest rates, in anticipation of the Fed's decision to cut rates on September 18th, the yield on Eurobonds became more attractive. African credit conditions are still mostly set in Washington.

Hardy investors will be pleased by the shift. Profits for buyers of African Eurobonds have, over the long run, been strong. Annualised returns across the past decade sit at 5%. But this average camouflages large swings and periods of losses, reflecting the tumultuous circumstances of many borrowers. S&P calculates that such bonds have an annualised volatility of more than 13%, against 5% for American Treasuries. Lending to sub-Saharan African governments is not for the faint-hearted. ■

Financial warfare

On a knife edge

As conflict with Hizbullah escalates, Israel's economy looks increasingly vulnerable

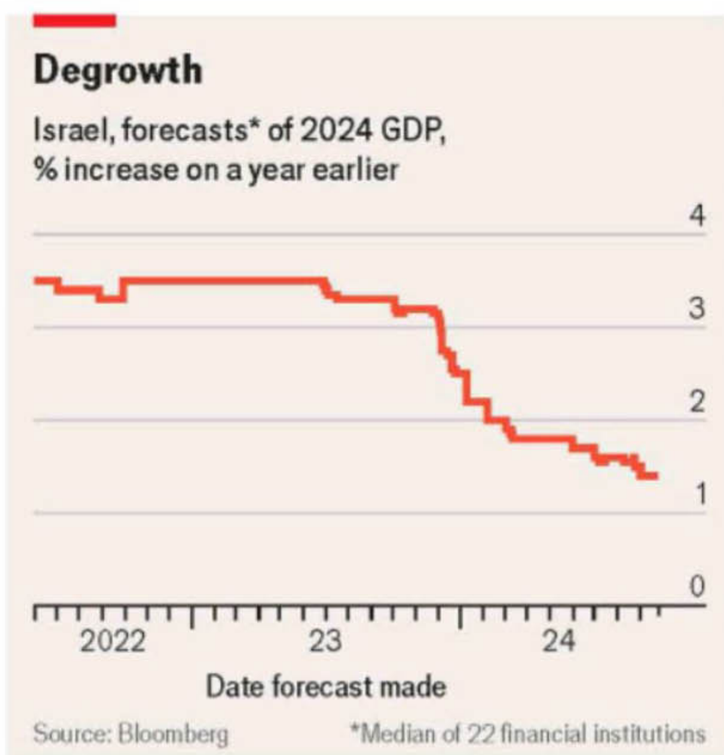
ISRAEL'S ECONOMY should have been trundling towards recovery. After all, many of the 300,000 workers who left their jobs to fight have now returned to offices, factories and farms. Instead, a difficult situation is becoming more difficult still. GDP growth came to just 0.7%, on an annualised basis, between April and June, some 5.2 percentage points below economists' expectations, according to Bloomberg, a news agency. On September 16th Bezalel Smotrich, Israel's finance minister, had to ask legislators to approve an emergency deficit increase. It was the second time he had made such a request this year.

Mr Smotrich's profligacy worries investors. So does the possibility of fiercer fighting. On September 23rd Israel launched airstrikes over the Lebanese border, killing 558 people, according to local officials. This followed incidents where pagers and walkie-talkies used by Hizbullah exploded, killing 39, as well as months of rocket attacks on Israelis by the Lebanese militia group. Money has begun to flee Israel. Between May and July outflows from the country's banks to foreign institutions doubled compared with the same period last year, to $2bn. Israel's economic policymakers are more worried than they have been since the start of the conflict.

Any wartime economy rests on a knife edge: a government must fund its armed forces, often through deficit spending, while ensuring it remains robust enough to clear its debts when peace arrives. The nightmare scenario for Israel is a conflict that spreads into Jerusalem and Tel Aviv, the country's commercial centres. But even a less intense war in which fighting is limited to the country's north may be sufficient to tip its economy over the edge.

Israel's free-spending ministers are not helping. In March, when the armed forces hoped for a ceasefire by July, generals reckoned they would need 60bn shekels ($16bn, or 3% of Israeli GDP) on top of their normal budget, and then a permanent rise of 30bn shekels a year to cope with the new security situation. Since then, as fighting has continued to rage, deficit forecasts have continued to rise. The deficit is now expected to hit 8.1% of GDP this year—almost three times as much as expected before the war. With hostilities set to spread, it will probably grow wider still.

What will this mean for Israel? In January the country's debts came to 62% of GDP, below the average in the OECD club of mostly rich countries. As such, Mr Smotrich has a bit of breathing room. But only a bit. If fighting continues next year, the financial situation will deteriorate. Bondholders want reassurance that there is space left for more war spending, so have a lower ceiling for acceptable debt than in similar countries. Rating agencies are nervous, too. Fitch and Moody's both say that they will probably downgrade Israel again after already doing so once this year.



Mr Smotrich—a West Bank settler whose party is on Israel's far right—makes the problem worse. Nobody believes he will ask the army to keep costs down. He has also declined to take other measures to rein in the deficit, either by cutting spending elsewhere or by raising taxes. Israel's expansive welfare state remains intact. The ultra-Orthodox population and settlers, Mr Smotrich's allies, have benefited from more subsidies and handouts to keep men at home. Mr Smotrich promises $35bn in savings next year, but he has not said where most of that will come from.

They're not heading to the shops

Stronger economic growth would ease the pain. Although reservists have returned to work and consumption has returned to pre-war levels, Israel's economy remains smaller than it was on the eve of war. Mr Smotrich has cushioned the least productive parts of society and starved industry of resources. The labour market remains ultra-tight, with the unemployment rate at just 2.7%. Firms are struggling to fill vacancies and Israel's small high-tech companies are under strain. They are losing out on funding owing to the war, warns Start-up Nation, a local think-tank.

Some 80,000 Palestinian workers were denied permits after October 7th, and have never been replaced. As a consequence, the construction industry is 40% smaller than it was this time last year, greatly impeding housebuilding and repairs. For now, the biggest impact has been on inflation, which hit an annual rate of 3.6% in August, having accelerated over the summer. Should the scale of Hizbullah attacks increase, the lack of construction workers will become an even bigger problem.

Investors are unsure if Israel will bounce back. The shekel is volatile and Israeli banks are experiencing capital flight. The three biggest report a big increase in customers asking to transfer savings to other countries or to index them to the dollar. Although inflation is above target, the central bank left interest rates unchanged at its monetary-policy meeting last month, for fear of derailing the recovery.

Then there is the nightmare scenario. Few investors are preparing for a war that would engulf all of Israel, including Jerusalem or Tel Aviv—even though Hizbullah may be capable of launching such an attack. In these circumstances economic growth would be hit hard, perhaps even harder than after October 7th. Army outgoings would soar. Fleeing investors would probably topple banks and send the shekel plummeting, forcing the Bank of Israel to intervene and spend its reserves.

Whatever happens, Israeli economists are resigned to things getting worse. Even Mr Smotrich, generally a bullish type, now emits an air of exhaustion: "We are in the longest and most expensive war in Israel's history." Previous conflicts have come at a heavy cost to Israel. Do not be surprised if this one does, too. ■

Energy security

Fuel to the fire

Is the world sleepwalking into another gas crisis?

GASTECH, A RECENT gas-industry jamboree in Houston, was full of enthusiasm. Amid a blizzard of deals by energy ministers and fossil-fuel giants, delegates cheered: their product is set for a starring role in the green transition. Yet there was uncertainty, too. Opprobrium was heaped on President Joe Biden, who has paused permits for American export terminals of liquefied natural gas (LNG). Insiders also worry that the global LNG market, which became vital to Europe and Asia after the war in Ukraine began, could soon face its first true test. With demand rising and supply failing to come on stream, a new scramble for gas could be in the offing.

During the worst of the energy crisis, it looked as if 2025 would be the year of salvation. Russia had shut pipelines that supplied more than 40% of European gas; if the continent survived two winters, the thinking went, then it would be out of trouble, as big LNG projects in America and Qatar flooded the market. In fact, Europe did better than survive. It is approaching its third winter since war struck with gas-storage facilities 94% full, ahead of its aim for them to be 90% full by November. Vast purchases of LNG, which last year accounted for 60% of the bloc's gas imports, have helped achieve this.

Instead, however, the market has turned fretful. LNG prices in Asia, the global benchmark, hover above $13 per million British thermal units (mBtu), higher than at almost any time bar the 2022 panic. One concern is a looming drop in temperatures. The northern hemisphere's past two winters have been mild, but the coming one is unlikely to be so clement. "Just a normal winter would feel very cold by recent standards," notes a gas trader. A frigid season would be doubly bad for Europe. It would require more gas not just for heating but also for power: cold weather tends to come with a lacklustre breeze, hampering wind farms. North-east Asia should also be colder than in recent winters. An extreme season like that of 2021—when Beijing endured -20°C temperatures in January, its coldest in 50 years—is always possible.

Sindre Knutsson of Rystad Energy, a consultancy, reckons that a big chill in Europe and Asia would create extra demand for gas of 21 billion cubic metres (bcm) and 15 bcm respectively, or 4-8% of the regions' imports last year. Since Europe is maxing out piped imports—and

Troubled waters

Asia, aside from China, has negligible piped trade—the remaining amount would need to come from seaborne shipments. That could create demand for an additional 26m tonnes of LNG, equivalent to 7% of globally traded volumes last year.

The second worry is that Europe's piped imports could fall further. Under a five-year deal due to expire in December, Russia still sends gas via Ukraine to central Europe. These flows have fallen by more than half since 2021, but still accounted for 15 bcm last year. Ukraine has already said it will not negotiate a new deal.

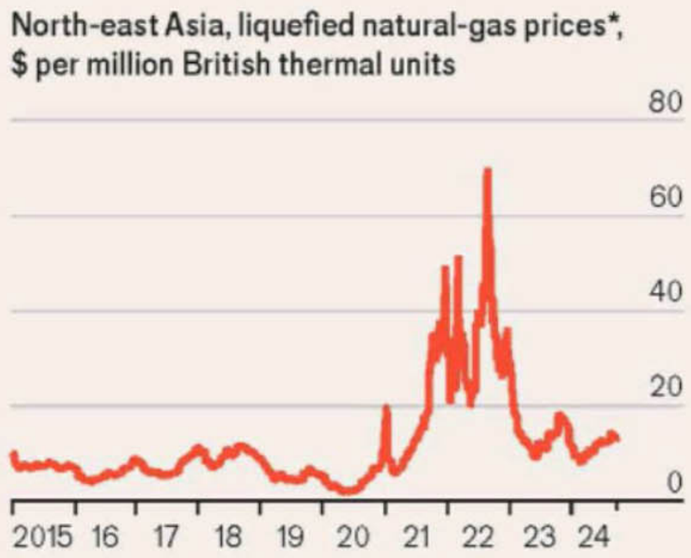
So Europe and Ukraine are discussing workarounds. The most realistic is a "swap" with Azerbaijan, whereby Russian gas coming through Ukraine would be relabelled as Azerbaijani while a portion of Azerbaijani gas would become Russian. Azerbaijan would then be free to buy that gas for itself or to pipe it to Turkey. In this scenario Europe would, however, still be short of gas—it would receive as much via Ukraine as previously, but less from Azerbaijan. Moreover, because energy is cheap in Azerbaijan, Russia would have to agree to sell to it cut-price, or Azerbaijan would have to pay over the odds. And Russia could still decide to stop deliveries of "Azerbaijani" gas to Europe any day. Talks are showing little evidence of progress.

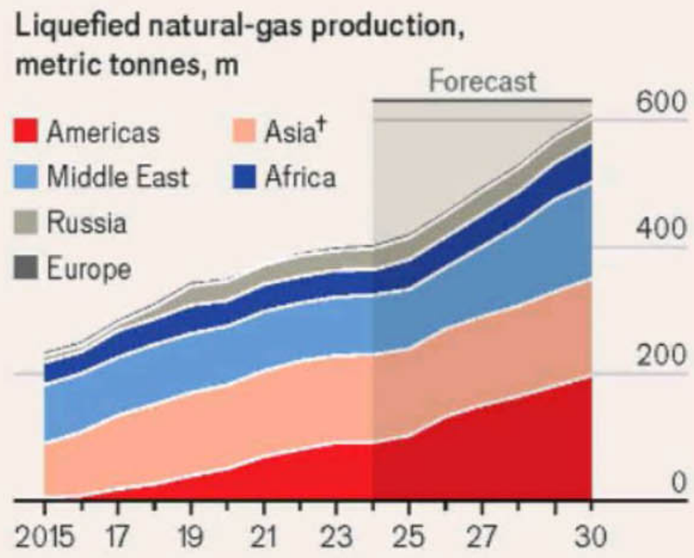
Weather and geopolitics could therefore create demand for a lot of additional LNG cargoes, and do so at a time when the market will not be as flush as had once been anticipated. Russia's flagship Arctic LNG 2 terminal, initially due to export up to 13m tonnes per annum (mtpa) of LNG by next year—equivalent when superchilled to 18 bcm of gas—is delayed and devoid of clients after America slapped sanctions on the project and any vessel that docks there. A plan for Egypt to become a reliable LNG supplier to Europe has crumbled. The country's gas output is tailing off much faster than expected.

Yet America has been the biggest disappointment. Mr Biden's moratorium will be a blow to supply, but only in a few years, since it applies solely to new projects. America's immediate headache is the bankruptcy of the lead contractor on Texas's Golden Pass project, one of two big terminals meant to come online next year, which could cause delays of six months or more. Alongside hiccups at smaller projects, this means that out of the 25-30 mtpa of new capacity expected by 2025, only 15 mtpa may materialise.

What would a perfect storm look like? The worst-case scenario would include sub-zero temperatures in Europe as soon as early December and Russian gas vanishing by January 1st. The continent would not run out of fuel in the short run: in addi- ▸▸

Winter worries





Sources: LSEG Workspace; Rystad Energy

*Future contract for the nearest month †And Oceania

tion to record stocks, it has an abundance of nuclear power (many French reactors, shut in 2022, are back in action) and hydro power (after biblical rains). But it would see its gas reserves drained much faster, leading to the first big restocking exercise since 2022. This time Europe's appetite would be even bigger: having expanded its regasification capacity by one-fifth, it is less constrained in its shopping ambitions.

Europe would have to compete with Asia for LNG cargoes, buoying spot prices. Anne-Sophie Corbeau of Columbia University reckons they could easily reach $16 per mbtu early in the year. Richer Asian countries and China would be largely cushioned, because they buy much of their LNG under long-term contracts that are indexed to the oil price. Yet nearly all Europe's purchases are either made on the spot market or indexed to spot prices, and the continent cannot live without gas, having retired most of its coal-power plants. Governments, utilities or consumers—or a mixture of all three—would have no choice but to bear the higher cost.

Poor, populous emerging economies may not be able to afford it at all. Drawn by lower prices since last year, a few have recently returned to the market, or even imported LNG for the first time. A price spike would surely put an abrupt end to this development. Many would be forced to switch back to coal; some may be forced into rolling blackouts. The wait for fresh supplies could be a long one. ■

BUTTONWOOD

Forget about the tree

How a Wall Street state of mind overtook America

AT WHAT TIME and place should you meet a stranger in New York if you cannot communicate with them beforehand? This hypothetical puzzle was first posed by Thomas Schelling, a game theorist, in 1960, as a method of explaining "focal points"—the solution people default to when co-ordinating if they are unable to converse. The most common answer, according to students he quizzed, was noon at "the information booth in Grand Central Station".

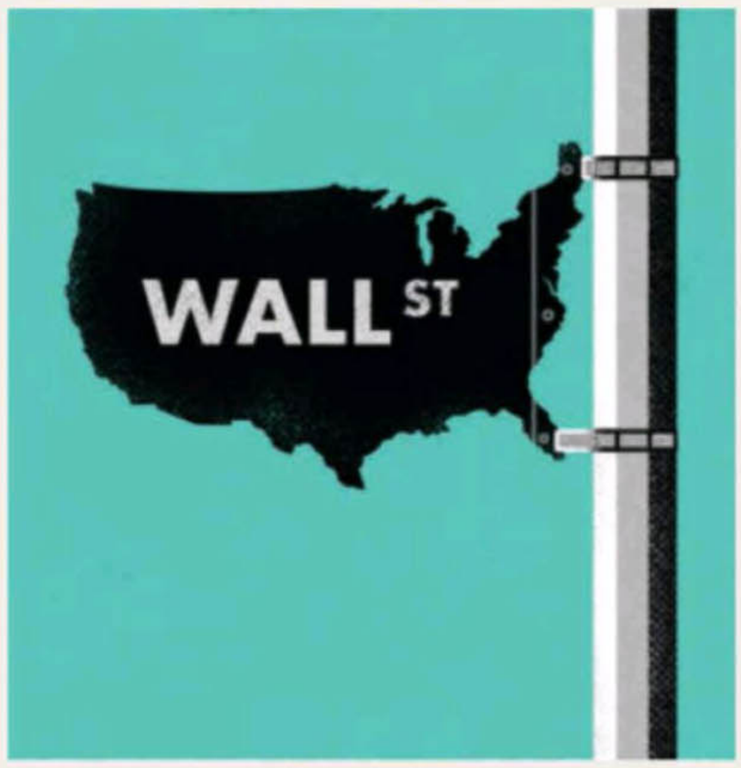
Now imagine an augmented version of Schelling's thought experiment, designed to find the focal point of American capitalism. You have to pick a place, anywhere in America, to meet a stranger to strike a financial deal. Where and when would you choose? It is difficult to think of a more natural location than 11 Wall Street, home of the New York Stock Exchange, at 9.30am, when the opening bell rings. Perhaps even under the Buttonwood tree that adorns its front steps. Outside the stock exchange is where the now iconic "charging bull" statue was placed in 1989, before later being moved round the corner. The nearest park is where "Occupy Wall Street" protesters gathered in the years following the global financial crisis of 2007-09.

When your correspondent arrived in New York in 2019, she felt a thrill upon hearing "the next stop is Wall Street", then another when she first laid eyes on the enormous American flag unfurled over the stock exchange's columned facade. And yet, now she is moving on to a new job, she realises that over the past five years, few of the biggest stories in American finance have required her to venture into downtown Manhattan.

This is not because the action itself has been lacking. From meme stocks to the venture-capital boom and FTX to the rise of private capital, it has been a wild time for capital allocation in America. It is just that traditional Wall Street institutions—the exchanges, the investment banks—have not had a large part to play.

When retail traders, bored at home and flush with covid-19 handouts, seemed to seize control of the stockmarket and pushed the price of shares in GameStop, a video-game retailer, to absurd levels, almost none of the activity took place on an exchange. The traders bought shares on Robinhood, a retail broker in California, which mostly directed their orders to Citadel Securities, a marketmaker then in Chicago, which matches orders "off-exchange". Indeed, almost half of all stock trading is now executed off-exchange.

The boom in venture investing, in the Bay Area, and private-equity funding, in uptown Manhattan, has enabled thousands of firms to remain private. As a consequence, just half as many companies are listed in America as two decades ago. Even tech giants such as Stripe, which is probably worth more than $70bn, have not made their public debut.



Private-equity shops have hoovered up businesses and investors' capital. In 2019 Blackstone, America's largest private-markets firm, was worth just $40bn, and was hardly a household name, except to those who allocated money for endowments or state pension funds. It is now worth $190bn, making it America's fifth-most-valuable financial institution.

Many of those who manage America's biggest hedge funds long ago decamped to Greenwich, Connecticut. Some have migrated even further, often to Miami. The city's pastel-hued Wynwood neighbourhood also played host to important crypto firms. FTX, a now-defunct crypto exchange, was in the midst of building its American headquarters there when it imploded.

Even slower trends, such as the decline of defined-benefit pension funds and the rise of index funds, have led to dispersion from Wall Street. Individuals now stick assets into the likes of Vanguard, which sits in the heaving metropolis of Valley Forge, Pennsylvania.

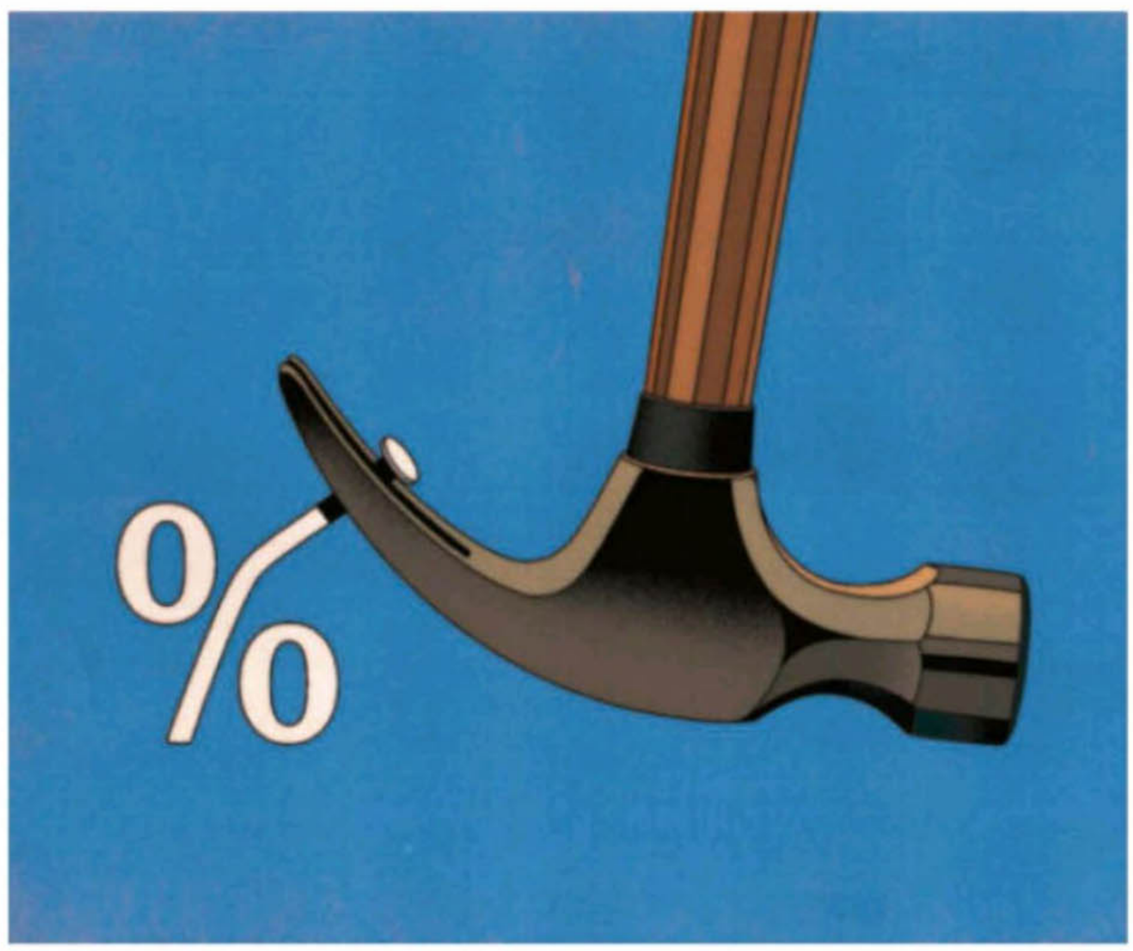
The result is a paradox. Wall Street the place is diminished, Wall Street the state of mind is triumphant. Brokerage apps, downloaded onto phones everywhere, have made traders of millions of Americans. The idea that defines Wall Street—how best to allocate capital—now preoccupies delivery drivers in Los Angeles and farm labourers in Wyoming. The dynamism of American markets is obvious across the world. American publicly traded stocks make up 60% of the total value of such equities worldwide, the highest share in half a century.

It is tempting to think this bodes ill. Surely animal spirits cannot run rampant evermore? Maybe it is all a mistake. If so, that will be a story for this newspaper's next Wall Street correspondent.

FREE EXCHANGE

Hammer and tongs

How low will America's interest rates go? The Federal Reserve is split



A SINGLE DISSENT on the Federal Reserve's interest-rate committee garnered plenty of attention last week. Understandably so. It marked the first time since 2005 that a Fed governor had opposed a rate decision. Michelle Bowman's disagreement highlighted concerns that a half-percentage-point cut might be excessive for an economy yet to vanquish inflation. Nevertheless, her 11 other voting colleagues all supported the cut—an indication of near-total unanimity on where the Fed should set rates today.

Unremarked, and perhaps more remarkable, was an utter lack of consensus on where the Fed's benchmark rate should ultimately land. The central bank's policymakers make projections every quarter. Their latest update, published on September 18th, revealed that their views on long-term interest rates are the most dispersed since the Fed started publishing these "dot plot" projections in 2012. Of the 19 officials who made forecasts (the committee's 12 voters plus seven regional Fed presidents), a maximum of three agreed on any level for long-run rates. In all they made 11 different forecasts, from a low of 2.375% to a high of 3.75%.

Such a wide range obviously reflects a high degree of uncertainty. It also points to a fundamental problem with monetary policy: the extreme fuzziness of the neutral real rate of interest, a supposed guidepost for central bankers. Defined simply, the neutral real rate (or r-star, as it is known for short) is the rate that applies when the economy is growing at its exact potential, with inflation steady and employment at its stable maximum. In this perfect equilibrium—a nirvana for central bankers—interest rates would be neither expansionary nor contractionary.

Although Fed policymakers do not forecast r-star in their quarterly exercise, it is easy enough to glean their implied views by subtracting their inflation projections from their long-term rate projections. Since all committee members believe that inflation is heading to the Fed's 2% target, what remains is their divergence on long-term rates. They believe, therefore, that the neutral real rate lies somewhere between 0.375% and 1.75%. Until recently, most Fed projections were anchored around a neutral real rate of 0.5%. Now more than three-quarters of committee members think it is higher, possibly much higher.

R-star does not exist in observable reality, so there is no way of proving conclusively how high or low it is. Jerome Powell, the Fed's chairman, often harks back to John Henry Williams, an economist who drew on theology in explaining the neutral rate. "Like faith, it is seen by its works," he wrote in 1931. That is a clever quip but also quite damning: the corollary of "knowing neutral by its works" is that economists are really only equipped to see it after the fact. If the economy is too hot, rates are presumably below neutral; if too cold, they must be above neutral. As a practical target for central bankers, post-hoc derivations of r-star are not much use.

But tune into debates about monetary policy, and much of the focus is on what exactly the neutral level might be. In a review published in 2021, Claudio Borio of the Bank for International Settlements, a club for central banks, discovered a dramatic increase in references to the natural rate of interest (often used interchangeably with the neutral rate) in recent years. Until the mid-2010s, the concept popped up in just five or so speeches a year by central bankers. By 2019 it appeared in more than 50 such speeches. Whereas economists once looked at monetary aggregates as a lodestar for central-bank policy, now they are more inclined to think in terms of r-star.

The current debate features two camps. The first believes that neutral rates have risen in the wake of the covid-19 pandemic. Higher productivity growth, perhaps as a result of artificial intelligence, would push up potential growth and, as a result, r-star. More damagingly, higher fiscal deficits may also place upward pressure on the neutral rate. The other camp believes that long-running trends which weighed on rates before the pandemic are reasserting themselves—notably, an ageing population that saves more and innovates less. It is an important debate. Yet it does not yield a solid measure for determining whether r-star has risen.

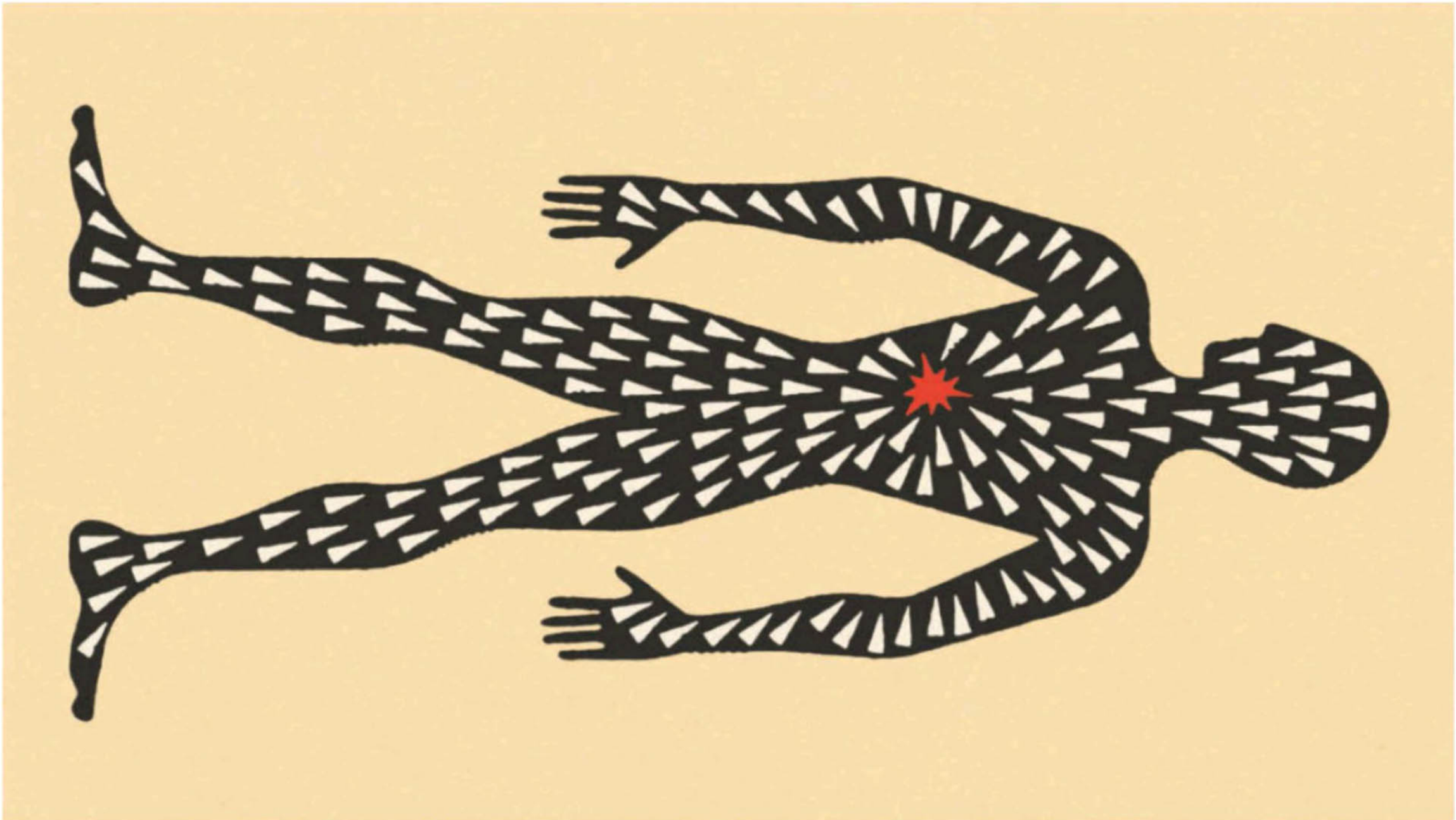
Economists have tried to come up with such measures via sophisticated models, as is their wont. One of the most influential is known as HLW (after the economists who crafted it), with regular updates published by the New York Fed. According to it, the neutral real rate has in fact fallen sharply over the past few years and is now at 0.75%, back to the lows seen after the global financial crisis of 2007-09. This would be inconvenient for the Fed rate-setters who assume that r-star is much higher in the post-covid world.

Merrily did we drop

It would, though, be inadvisable to put this, or any, model on a pedestal. A recent paper by Daniel Buncic of Stockholm University argues that HLW is flawed. One problem is that it incorporates policy rates as a variable, leading to circularity: are central banks adjusting rates to hit r-star, or are estimates of r-star reacting to central-bank decisions? As Mr Borio notes, a standard error band around r-star models more generally would place the neutral rate in a range of roughly 2.5 percentage points—almost useless for central bankers who move in quarter-point increments.

Central banks are not flying blind. They have lots of data and theory that help them decide whether rates are high or low, from measures of output and inflation to estimates of potential growth, full employment and inflation expectations. But the belief that there is a discernible neutral rate, out there somewhere in the monetary ether, is a gross simplification. Aiming for an imaginary and almost certainly false variable is just as likely to hurt as to help. In that sense, the collapse of consensus in the Fed's r-star projections is welcome. It is a form of intellectual honesty. ■

Science & technology



Get this CAR-T started

When T-cells attack

Immune therapies beckon for asthma, heart damage and even the effects of ageing

IN 2010 AN American girl called Emily Whitehead developed a form of leukaemia that is usually terminal. She was five years old. Two years later, she became the first paediatric patient to be offered a form of treatment called CAR-T, in which the body's immune system is reprogrammed to attack cancerous cells. The treatment worked. A documentary film about her journey, released in 2022, was called "Of Medicine and Miracles".

Researchers do not use the second of those m-words lightly. But CAR-T therapy seems to justify the excitement. A decade on from Emily's treatment, its proponents are finding that the cells driving many other diseases, from asthma to heart conditions, share similarities with cancer cells that could allow them to be targeted in the same way. Early results from clinical trials are encouraging.

CAR-T therapy works because many harmful cells have specific protein markers called antigens on their surfaces. T-cells in a patient's immune system are extracted, genetically tweaked to possess "chimeric antigen receptors" (the CAR in CAR-T) that can spot these antigens, and then returned to the patient's body. Several CAR-T cell therapies licensed to treat leukaemia and lymphoma, for example, use T-cells engineered with CARs that can recognise a protein called CD19, which is found on the outside of those cancer cells.

"When you hear CAR-T cell therapy you think cancer," says Scott Lowe, a researcher at the Memorial Sloan Kettering (MSK) Cancer Centre in New York. "But what we're learning is that this approach of engineering immune cells to target disease has much broader possibilities."

Take asthma. Although medicines allow millions of people to control their symptoms, severe asthma attacks still kill three people in Britain every day. That is often down to a misfiring immune system, which triggers what is called a type 2 inflammation response. Intended as a defence against parasites, the body releases aggressive white blood cells called eosinophils which can cause inflammation in the airways, making it hard for people with severe asthma to breathe.

Asthma treatments, including inhaled steroids and injected antibodies, aim to lower the number of circulating eosinophils and so reduce inflammation and symptoms. Researchers in China have now shown that CAR-T cells can be engineered to do a more thorough job, at least in mice. In a study published in May in *Nature Immunology*, they described how a single dose of the cells injected into animals bred to mimic the symptoms of asthma in effect cured them of the condition.

The researchers could do this because they identified a distinctive antigen on the surface of the eosinophils: a receptor for the signalling molecule interleukin-5. To design a therapy that could target eosinophils, the Chinese group, led by Peng Min at Tsinghua University in Beijing, added a CAR protein to the T-cell surface tailored to recognise this specific antigen. When the T-cells find a match, they release toxins that act to destroy the eosinophils, thereby dampening the body's inflammation re- ▸▸

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sponse. Dr Peng's team has already shown that anti-asthma human T-cells can be prepared in the same way.

Some CAR-T cancer treatments have unintended consequences. The treatment that targets CD19 antigens, for example, can also attack the body's B-cells, which produce antibodies and maintain vital memory of immunity against pathogens. But this need not be a disaster. In fact, some researchers now see this as a way to treat medical problems caused by overactive immune systems. A series of small clinical trials have suggested that the licensed technique to produce CD19-directed T-cells can also help treat people with systemic lupus erythematosus (SLE), an autoimmune disease that attacks a person's own organs. Earlier this year, European researchers reported in the *New England Journal of Medicine* that eight patients with severe SLE were symptom-free two years after a single infusion of CAR-T cells.

In principle, pathogenic cells across the body could be attacked with CAR-T cells, provided that scientists can identify a distinct antigen to target. In recent years, researchers have found such an antigen on heart cells weakened by fibrosis, a common and sometimes deadly stiffening of cardiac muscle caused by acute injury, chronic disease or ageing. Labelled (a little unimaginatively) fibroblast activation protein, the antigen has inspired CAR-T cells that reduce fibrosis and improve heart function in mice.

Some even argue that CAR-T cells can take aim at ageing itself, sweeping away cells that have undergone an age-related loss of function. Similar versions of this clearing process, called senolysis, have been shown to help tackle many chronic diseases associated with ageing, including cancer and liver damage. Importantly for CAR-T therapy, scientists have found an antigen: many cells as they age produce more of a protein called urokinase plasminogen activator receptor (uPAR). In a study published in January in *Nature Aging*, researchers in America, again working in mice, showed that CAR-T cells engineered to bind to uPAR could boost senolysis, with various benefits including improved metabolism and exercise capacity.

CAR-T therapies are not cheap: a course of treatment for cancer could cost several hundred thousand dollars. Customisation is partly responsible, explains Ying Huang, CEO of Legend Biotech in New Jersey, which produces an approved CAR-T therapy for myeloma patients. Traditional pharmaceuticals and newer biological therapies are manufactured on assembly lines, "But we have to do one batch production for one patient. So technologically it is actually very difficult," he says.

The company is doing what it can to make the process more efficient—such as investing in larger reaction vessels to engineer and grow the modified cells—but is still looking at a near-month-long process to make a specific therapy for each individual patient. And that same bespoke bottleneck would apply to all CAR-T therapies made from a patient's own T-cells, including those that aim beyond cancer.

Better, faster, cheaper

Other firms are working out ways to trim costs, from cheaper labour and materials to scaling up production. These efforts are paying off, up to a point. In October 2023 the Indian government approved a cut-price domestic CAR-T therapy for B-lymphomas and B-acute lymphoblastic leukaemia, where one or more lines of treatment have failed. Produced by a company called ImmunoACT in Mumbai, the therapy costs about $40,000, a tenth of the price of the American version but still beyond the reach of most Indians.

At the moment the treatments can't be made any other way: only T-cells taken from a patient can be safely returned to them, given the risk of immune rejection. But researchers are busy experimenting with other techniques. Other immune components could be used, for example, as could so-called allogeneic CAR-T cell therapies, in which the natural rejection processes are overcome. And, inspired by the protection that mRNA vaccines offer against covid-19, some researchers are seeking to encourage T-cells to generate the antigen-spotting mechanism while they are still inside the patient's body. In a field looking for its Henry Ford moment to streamline production, such an advance could see a new generation of CAR-T miracles roll off the assembly line. ■

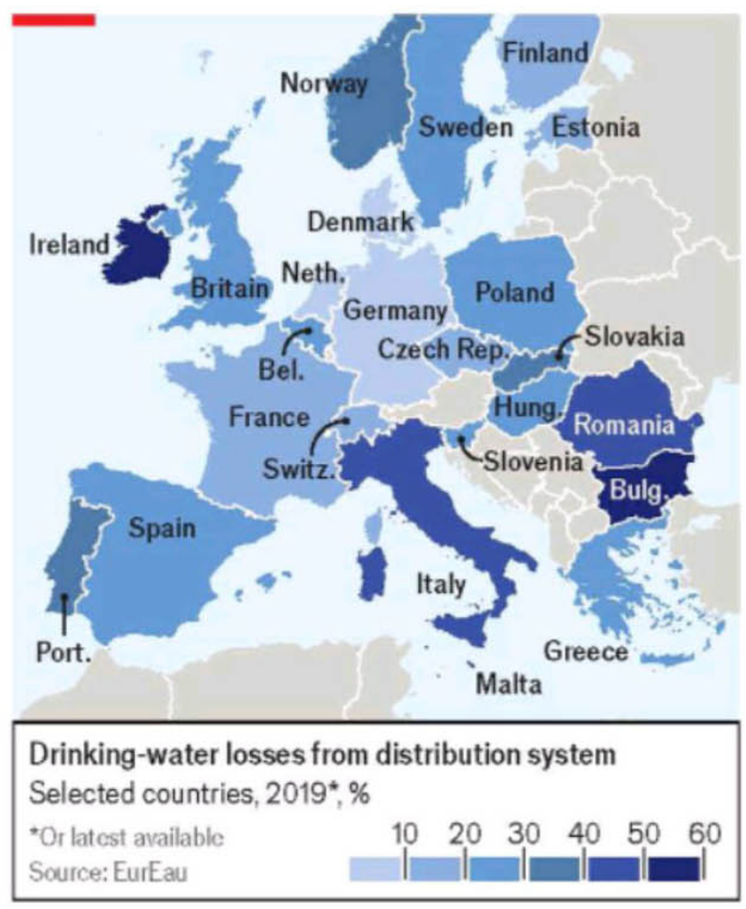
Infrastructure

Wasted water

New technologies can spot leaks in the world's pipelines

IN JUNE, BLISTERINGLY hot temperatures and a prolonged dry spell plunged much of southern Italy into its worst drought in decades. Water shortages on glitzy Capri became so dire that local authorities temporarily banned ferries from offloading tourists on to the island. A lack of rainfall tells only half the story. Decrepit infrastructure is as much to blame, with over 40% of Capri's drinking water seeping out through leaks in its pipe network before it reaches customers.

On Capri's neighbouring islands of Ischia and Procida, however, new monitoring technology designed to spot water leaks kept the leakage rate closer to 20%. Xylem, an American firm, first began monitoring the pipes that connect the islands with the mainland in 2019 using its "SmartBall" and "Sahara" systems. The SmartBall is a tennis-ball size tool that travels through water pipes freely, whereas Sahara is tethered. Both come with acoustic sensors to identify the distinctive hissing sound of a leak, and GPS connectivity to pinpoint exactly where they are. Subsequent repairs to cracks identified by Xylem saved Ischia 50 litres of water per second, equivalent to a third of the island's consumption. Such methods could have similarly dramatic consequences elsewhere.



Leaky water pipes are a global problem. EurEau, an umbrella group of water suppliers, reckons that the rate of lost water in Europe (nearly all due to pipe leaks) stands at 25%. Some countries, such as the Netherlands and Germany, have kept losses to single figures through spending on maintenance, but in places like Bulgaria the rate is thought to be near 60%. Leakage figures in America are comparable to those in Europe. Although good data are hard to come by in poor countries, experts believe the issue is even more pressing there.

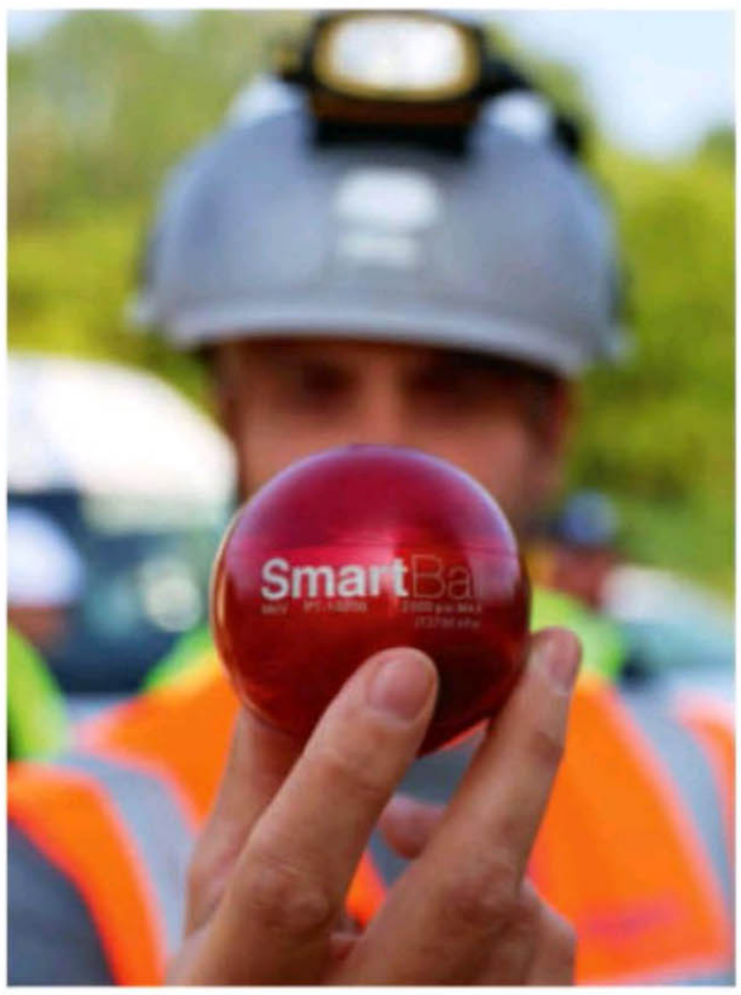
Tackling the problem will not be easy. For one thing, the global network of water pipes is enormously long: over 4m kilometres of drinking-water pipes criss-cross Europe, enough to wrap around the Equa- ▸▸

tor a hundred times. The pipes are also underground, which makes it harder to spot problems (though large bursts result in telltale pools of water at the surface, most water is lost through smaller cracks that are rarely discovered). Even the growing number of pipes made from corrosion-resistant materials are not immune to problems: urbanisation, with more traffic thundering overhead, can accelerate the rate at which cracks form.

The good news is that water utilities are increasingly turning to new technology to monitor water consumption, identify leaks and carry out repair work. The tools Xylem used on Ischia rely on in-pipe leak detection, but this is not the only game in town. There has also been a huge increase in demand for acoustic tools that operate from outside pipes, says Uri Gutermann, the CEO of Gutermann, a major provider of this kind of equipment.

Gutermann manufactures products known as correlating leak-noise loggers, which position sensors on top of metallic water-pipe fittings at intervals of 200-300 metres. These record sounds from the pipes each night, when ambient noise is at its lowest, and transmit the results to the cloud, where artificial-intelligence (AI) algorithms can pinpoint the location of any leaks. The use of AI has made them more sensitive to sounds in the lower frequency ranges characteristic of plastic pipes, which dampen the sound of leaks much more than metal ones. After the initial installation costs, the system is fully automated. And although sensors are battery-powered, their brief operating intervals mean their lifetimes can exceed five years.

Satellite imagery offers another way to spot leaks. Companies such as Asterra, an Israeli firm, offer a service called Recover which uses satellite-based radar to monitor moisture levels both above and below ground. An AI model then flags anomalies, including sodden areas that might be evidence of a leak. Asterra says Recover is now saving the world over 368bn gallons of drinkable water every year.



Stick that in your pipe

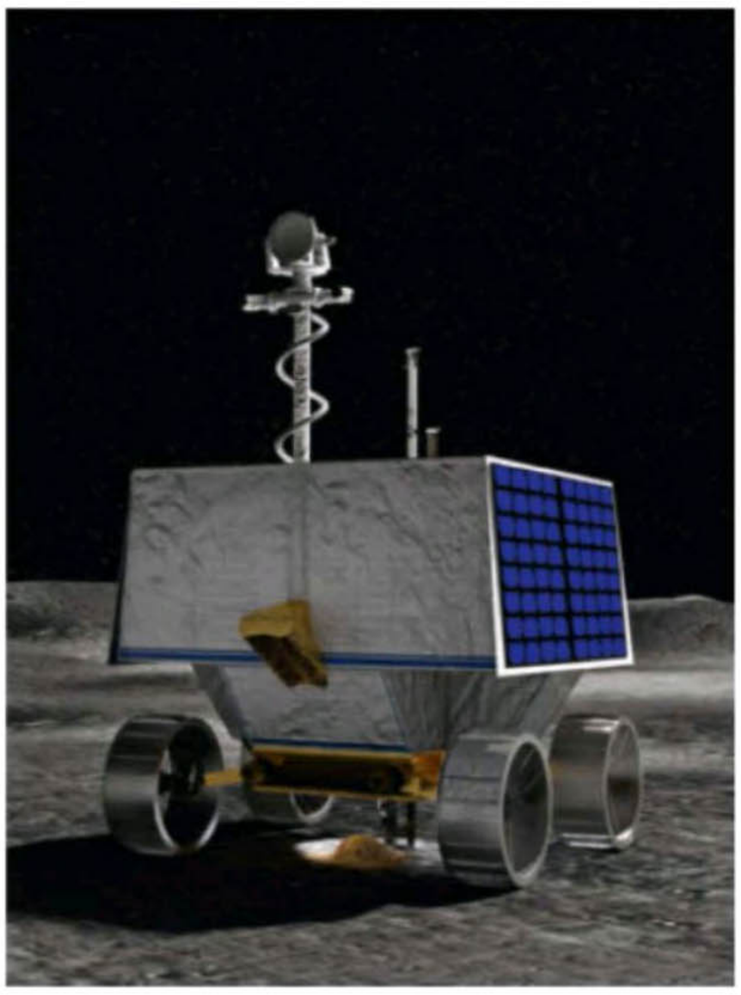
Other innovative ideas look set to hit the market soon. Robots, for example, are already being used in some wastewater pipes, which also suffer from corrosion-induced cracks. The roll-out to drinking-water pipes has been slower, however, as national water directives usually include stringent safety regulations about what goes inside them. But some firms hope to clear these hurdles. A French startup, Acwa Robotics, is one of them. Its Clean Water Pathfinder robot, which is roughly the size of a human arm, resembles a metallic caterpillar and moves autonomously through water pipes, using high-definition cameras and ultrasound sensors to measure pipe thickness, flag corrosion and cracks, as well as to identify leaks.

Pipebots, an academic-led collaboration based in Britain, is doing similar work. Some of its robots are matchbox-size, meaning that they can fit inside the narrowest of pipes. The idea is that "inspection bots" enter the pipes first, equipped with high-resolution acoustic sensors that are very sensitive to cracks and can identify thinning areas on pipe walls. These will be followed by "worker bots" with the ability to carry out spot repairs. Crucially, this technology will be able to identify areas of pipe that look likely to crack soon, allowing preventive repairs to strengthen them before they start leaking. Kirill Horoshenkov at the University of Sheffield, the programme's leader, hopes they will receive the go-ahead for deployment in drinking-water pipes soon.

How much such tools will cost remains unclear. Gutermann and others claim that they pay for themselves very quickly, as utility companies gain the ability to charge customers for water that would otherwise be lost. That is undoubtedly true over the longer term, but cash is still needed upfront to finance the investment.

Governments' efforts to ring-fence funding for water infrastructure will help. The EU has made €12.6bn ($14bn) available to member states to this end under several schemes, including the Recovery and Resilience Facility, a post-covid programme that runs until the end of 2026. Similar funds exist in America and Britain.

For now, no single technology offers a perfect solution: SmartBalls can get lost; satellite imagery can be fuzzy; and robots still require human operators, which increases costs. But these are minor quibbles. More accurate information about how pipe networks actually function will be vital to making the most of the world's supplies of drinking water. ■



Space exploration

Moon rover for sale

Never used, one previous owner

NASA HAS big plans for the Moon. By the end of the decade, it wants to send humans back to the lunar surface. Before then, though, it intends to send probes to look for ice at its south pole. This ice carries enormous scientific value. It could shed light on how Earth acquired its liquid water; it is also ripe for conversion into rocket propellant.

Scientists were, therefore, left somewhat confused in July when the agency abruptly cancelled its almost-complete Volatiles Investigating Polar Exploration Rover (VIPER), a craft designed to look for this ice, and offered it to commercial companies instead. "It's all a bit weird," says Benjamin Fernando, a planetary scientist at Johns Hopkins University.

The rover, roughly the size of a Fiat 500, has already been built. It is undergoing final testing at NASA's Johnson Space Centre in Houston ahead of a planned launch next year on a SpaceX Falcon Heavy rocket, carried by a lander built by Astrobotic, a Pennsylvania-based firm, that NASA has already paid for. In recent years, such outsourcing has been characteristic of NASA's new approach to lunar exploration, in which it buys landers and launchers off private companies rather than building its own. Never before, though, has the agency given an almost-complete mission to a private company.

One of VIPER's main instruments is a drill, built to dig for ice up to a metre be- ▸▸

neath the lunar surface. VIPER was designed to deploy this drill in some of the craters at the Moon's south pole, which, because of the configuration of the lunar orbit, never see direct sunlight. Temperatures at the floor of these craters do not rise above -160°C, and it is here that previous spacecraft have seen hints of ice. If a rover delivers hard proof, however, upcoming human lunar missions could then extract the ice, possibly splitting off its hydrogen atoms to make rocket fuel. Eventually, says NASA, the Moon could become a refuelling stop for human missions farther into the Solar System.

Lofty goals. Also, unsurprisingly, not cheap. According to NASA, the VIPER project has cost $433m so far, well above its initial budget of $250m, which is more than the agency—with many other missions to fund—says it can afford.

What NASA proposes, instead, is that a commercial company takes command of VIPER. In exchange, it would have to pay for the rover's final tests; find a way to land it on the Moon (possibly with a different lander); and then perform its original scientific mission. Any new owner would still be expected to reveal any findings made with the rover, but they could also use the opportunity to further their own lunar ambitions. Eleven companies have thus far submitted proposals. "There's growing interest in commercial companies doing their own scientific missions," says Laura Forczyk, founder of the Georgia-based space consulting firm Astralytical.

One of the companies known to have expressed interest is Houston-based Intuitive Machines, which is already under contract with NASA to develop a lunar communications network, among other projects. It was also the first private company to achieve a partially successful lunar landing (its craft tipped over), in February 2024. Another interested party, ORBITBeyond, based in New Jersey, has also been selected by NASA as a contractor for potential future Moon missions. The companies' exact plans for VIPER remain unclear.

Given the sunk costs, NASA is expected to save only $84m from VIPER's cancellation. Congress must approve NASA's request to cancel the rover before it does so, with a decision expected in the coming months. "We want a more detailed assessment," says a spokesperson for the House Science, Space, and Technology Committee. "One of our biggest concerns is how cancelling VIPER will impact our competitiveness with China," they add, given China's own ambitions to prospect for ice at the Moon's south pole.

Other missions might experience a similar fate as NASA, and other government agencies, face increasingly tight budgets. For those with deep enough pockets, though, there are bargains to be had. ■

Archaeology

Extra extra mature

DNA analysis of the world's oldest surviving cheese sheds light on ancient China

FOR MORE than 3,500 years the mummified remains of the Xiaohe people lay undisturbed in a desert cemetery in Xinjiang in western China. Then, in 1979, a team of archaeologists got their hands on them. Among the treasures they dug up were mysterious white lumps strewn across the mummies' necks: chunks of the oldest preserved cheese in the world.

Writing in the journal *Cell* on September 25th, a team of researchers led by Fu Qiaomei from the Chinese Academy of Sciences now reports the first genetic analysis of this most rancid of rinds. Their results paint a picture of a rich Bronze Age culture that exchanged animals with other, neighbouring, peoples and may have helped spread cheese around East Asia. Just why they were buried with the stuff, though, remains imperfectly understood.

During their analysis, Dr Fu's team identified mitochondrial DNA (which is often easier to retrieve than regular nuclear DNA) from a goat whose milk went into the cheeses, before comparing it with 185 previously sequenced goat mitochondrial genomes. The genetic profile of the Xiaohe goat was similar to that of goats belonging to ancient Eurasian steppe people, meaning the Xiaohe may have learned animal husbandry and cheese-making from them.

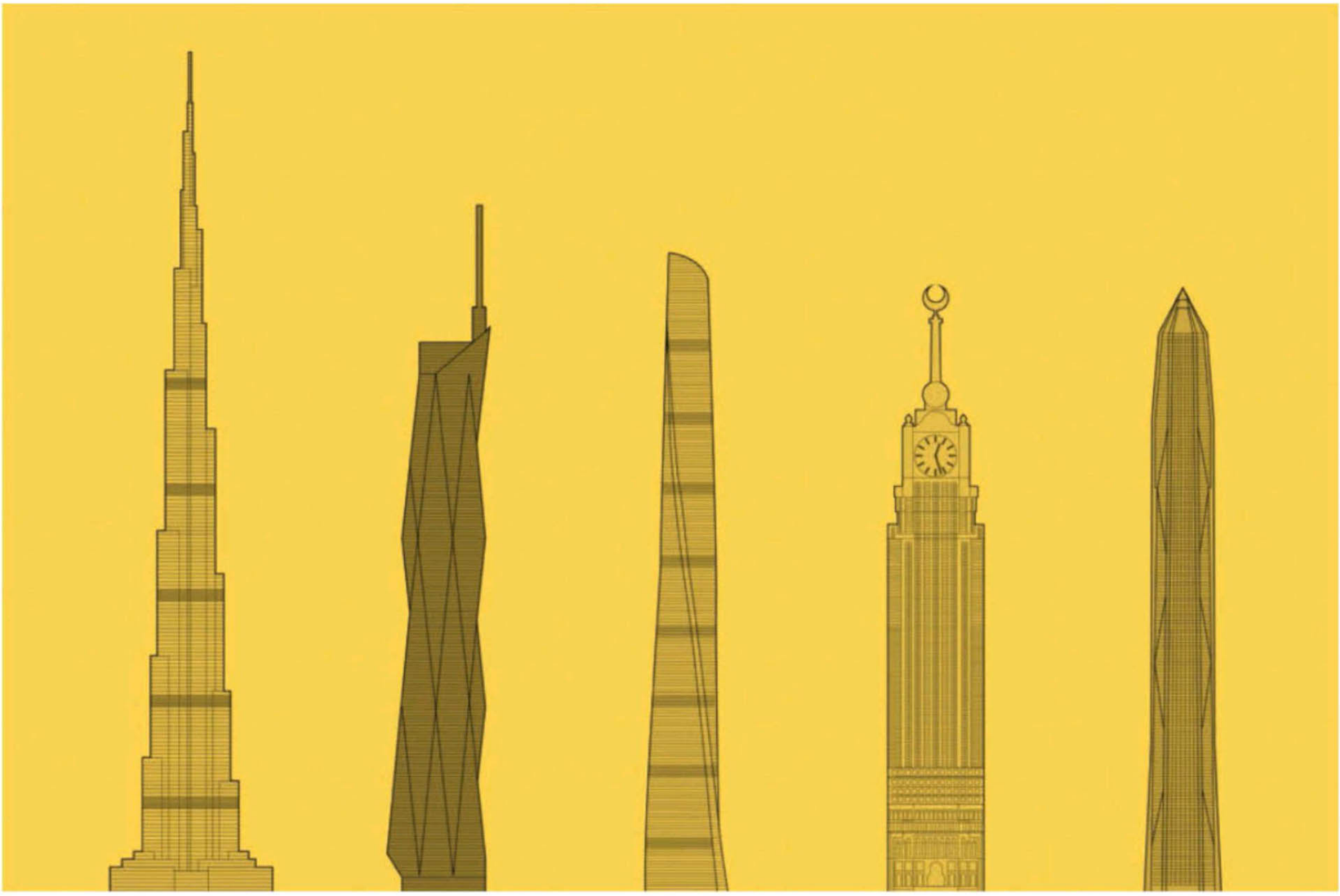
All the Xiaohe cheeses would have been produced by draining kefir, a milk-based drink fermented with yeast and bacteria such as *Lactobacillus kefiranofaciens*. The team, therefore, sequenced the DNA of that one bacterium and compared it with 15 modern strains in order to identify its place within that species' family tree. Their analysis showed that it belonged to a subspecies that could have spread with kefir-making customs from Xinjiang to regions including Tibet.

The authors speculate that the cheese was an attractive alternative to raw milk, which is richer in lactose to which many modern-day Asian people are intolerant. But it is possible that it was the kefir drink, rather than the cheese, that was the main attraction, says Paul Kindstedt, a cheese chemist and historian from the University of Vermont. It is slightly boozy, holding about 1% alcohol by volume. People in Mongolia today distil kefir to make milk liquor; the Xiaohe may have done so too.

Dr Kindstedt thinks ancient-cheese DNA analysis—of which this may be the first example—could reveal secrets about numerous other cultures. There are dairy residues on 7,000-year-old European pottery, for example, and cheese may also have been used in ancient Egyptian burial rites. Archaeology has never been funkier.

Land of milk and Lactobacillus

Culture



Architecture

The edifice complex

NEW YORK

What "supertall" skyscrapers reveal about the countries that build them

A SKYSCRAPER IS a statement of ambition. No surprise, then, that Saudi Arabia wants to build the world's tallest. Construction on the Jeddah Tower stopped in 2018 but will restart soon; when completed, it will be the first building ever to rise to a dizzying 1,000 metres. The Jeddah Tower's nearly 170 storeys will house the usual combination of luxury flats, hotel rooms and offices. On one side visitors will be able to gaze on a new financial district; on another, across the Red Sea.

The building may cost around $1.2bn, but that is a trifling sum given the more than $1trn that Saudi Arabia is spending on developing infrastructure, luring tourists and repositioning itself on the global stage. Leaders see the tower, which resembles a jagged splinter of glass, as a symbol of the kingdom's power. It "sends a financial and economic message that should not be ignored", Prince Alwaleed bin Talal, who is overseeing the project, has said.

If that is the case, other places are sending out similar steely messages. There are 236 "supertall" buildings across the world—a label given to anything higher than 300 metres—and 160 of them have been erected since 2014, according to the Council on Tall Buildings and Urban Habitat (CTBUH), a research group. Another 96 are under way. These hulking piles reshape skylines and cities. And, as well as reaching skyward, they point towards geopolitical and cultural trends. Which countries are building supertalls, and why?

The Middle East is home to 20% of all supertalls. The United Arab Emirates, like Saudi Arabia, is showing off its oil wealth and status as one of the region's fastest-growing economies. It has 35 supertalls; Dubai alone boasts 31, more than any other city. Its behemoth is the Burj Khalifa, which, at 828 metres, has been the world's tallest tower since opening in 2010. (Reportedly only 71% of the Burj Khalifa is usable space; the rest is "vanity height".)

Asia has a great love of heights, too, having built more than two-thirds of all supertalls in the past decade. A recent addition is Merdeka 118 in Kuala Lumpur, which was completed last year. At 679 metres tall, it pushed its way into second place. China, which had barely any skyscrapers before 1980, now has five of the ten tallest. The country is home to more skyscrapers per person than America. Some 70% of the supertalls under construction are going up in China. Twenty-five of them, if completed, will rank among the world's top 100 tallest buildings. ▸▸

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China's upward trajectory has practical causes. Until recently, the country's population was surging, rising from 980m in 1980 to 1.4bn today. And those seeking work are still moving from the countryside to the cities, where 66% of people live. Height also helps with urban density, making commuting distances shorter.

But politics provides additional motivation for city planners to think big. "Officials in small cities are particularly prone to build tall," says Jason Barr, an economist and the author of the book "Cities in the Sky: The Quest to Build the World's Tallest Skyscrapers". Strivers in the Communist Party see supertalls as a way to put their lower-tier cities on the map—and perhaps gain attention from central-government bigwigs.

Only 10% of supertalls built in the past decade have sprung up in America, the ancestral home of the skyscraper. (The first were built in New York and Chicago in the late 1880s.) New York, a city known for its gigantic buildings, has gained a few, including super-thin towers south of Central Park in a cluster nicknamed "Billionaires' Row". There are still many economic incentives to go high, particularly in New York: land is expensive, and its population is among the most concentrated of any American city. But gaining approval for new buildings is a complex process, thanks to 3,300 pages of zoning regulations.

The number of storeys may be soaring, but some countries nevertheless prefer to stay closer to the ground. In the European Union only Poland has a supertall building (Britain, an ex-member, has one too: the Shard). Skyscrapers are often regarded as "gauche" on the continent, says Daniel Safarik of CTBUH. In London and Rome new edifices are not allowed to block views of certain landmarks, making it hard to build upwards. Paris has banned construction of new tall buildings in response to "ugly" skyscrapers. On X one French person called the Montparnasse Tower, a Brutalist building from 1973, the greatest affront to Paris since the Nazi occupation.

When designing a supertall, architects must not have their heads in the clouds. The first serious order of business is to make sure the building does not get buffeted or blown over. "Wind is the governing factor" of supertall design, says Gordon Gill, who co-designed the Jeddah Tower. As buildings go up and up, so do wind forces. Engineers calculated that the Burj Khalifa, for instance, needed to be able to stand tall amid winds of 150mph (240kph), equivalent to a strong tornado.

To avoid a statement of grandeur becoming a parable of ineptitude, architects have to "confuse" the wind using different shapes. Thinness, tapering, twisting, round edges and cut-outs at the top of the building all help, and there are interior as well as exterior solutions. At 432 Park Avenue in New York, five double-floors are left empty to let the wind pass through. Taipei 101 in Taiwan features a steel pendulum, weighing 728 tonnes, that swings to counteract wind-induced movement.

Given the role of skyscrapers as symbols, architects must also pay close attention to what they look like. Note that the Woolworth Building in New York, the tallest in the world from 1913-30, has a copper roof and gargoyles to reflect its status as a "cathedral of commerce". Today those commissioning supertalls, particularly in Asia and the Middle East, want the building to stand for cultural confidence as well as a specific sense of place.

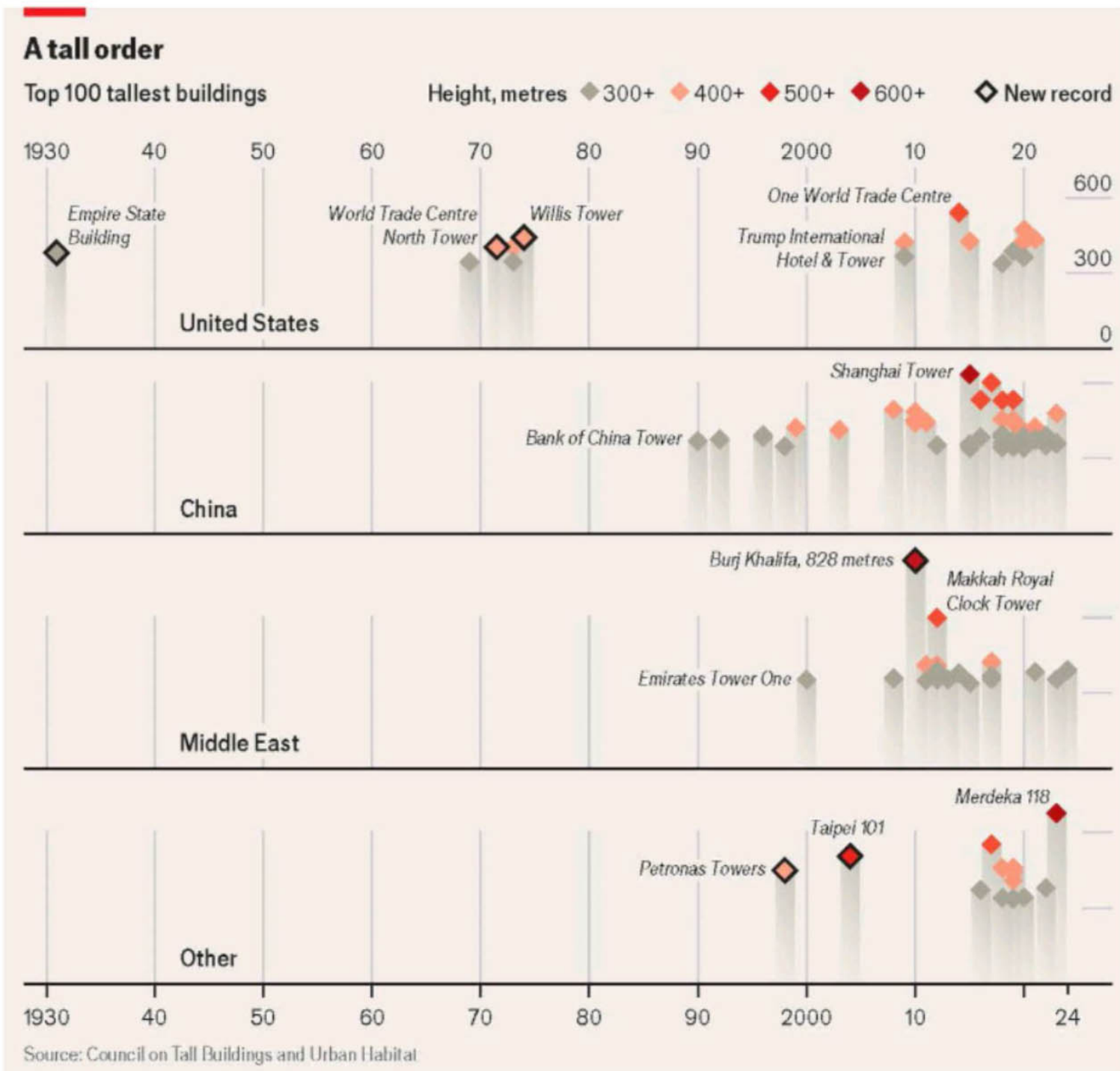
Mr Gill says he consults historians to learn about relevant symbolism: for the façade of the proposed Greenland Tower in Xi'an, he evoked the armour of the terracotta soldiers of the ancient Qin dynasty. The spiral shape of Israel's first supertall, currently under construction in Tel Aviv, recalls a biblical scroll. Merdeka 118 looks rather like a syringe, but its design was supposedly inspired by the shape of Tunku Abdul Rahman's hand, evoking the statesman who proclaimed Malaysian independence in 1957.

The sky is not the only limit for supertalls. Enterprising countries all want spectacular buildings, at least until they decide they have had enough. China's officials are clamping down on "weird" buildings. Edifices that look like "giant trousers"—the nickname given to a building in Beijing designed by Rem Koolhaas—are now verboten. In 2021 the government imposed a height cap of 500 metres and banned cities with fewer than 3m residents from building above 250 metres. (It is thought that safety problems, an oversupply of commercial offices and lots of vacant residential buildings motivated this policy.)

Getting into the mile-high club

More engineering breakthroughs are needed, too, if buildings are to go higher. It was elevator innovations that helped set off skyscrapers in the late 1800s. But Adrian Smith, one of the architects on the Burj Khalifa, says that lift technology has long been a limiting factor. Existing steel cables have a travel distance of around 500 metres, meaning that it is not possible to get a single lift to the top of many supertalls. (Wind also puts extra strain on the cables.) Yet multiple banks of lifts are difficult to fit into tall, thin buildings. The Jeddah Tower will instead use carbon-fibre, a lighter material that can take lifts higher.

If and when it is possible for buildings to rise higher, no doubt some tycoon or tyrant will want to start a mile-high club. Supertall buildings are monuments to human ingenuity and modernity. But most of all, as Mason Cooley, an American humorist, put it, "A skyscraper is a boast in glass and steel." ■



SpaceX's success

Rocket management

Reentry. By Eric Berger. *BenBella Books; 400 pages; $31.95 and £26.99*

THE DEGREE to which the Falcon 9, a rocket developed by SpaceX, dominates its competitors is not just unprecedented in space travel. It is unprecedented in more or less every field of human endeavour. In 2023 Falcon 9s launched over a thousand tonnes of payload into orbit, some 80% of the worldwide total. Whereas previous launchers rarely managed much more than ten blast-offs a year, Falcon 9s now leave their launchpads in California and Florida roughly ten times a month. The first stages of Falcon 9s have been successfully reused after returning from space and landing themselves more than 300 times. No other orbital launcher has managed such a thing even once.

"Reentry" by Eric Berger, the senior space editor at *Ars Technica*, a news website, describes how this was achieved. The ingredients which produced the Falcon 9 were excellent engineers, a new form of government support for spaceflight, a hard-driving culture and an extraordinarily demanding boss (some of whose consistent demands were crucial).

The story starts in 2008. SpaceX's first rocket, the Falcon 1, was small, troublesome and uncommercial. By the time it finally reached orbit—on the fourth attempt—SpaceX had burned through almost all the money which Elon Musk, the company's founder, had available. For the company to have a future it needed some big government contracts, and that required a much larger launcher: the Falcon 9, which required nine of the Merlin engines which powered the Falcon 1 to be yoked together.

That challenge fell to Tom Mueller, SpaceX's first employee, who had developed the Merlin engine in the first place. His team's efforts led to the arguably company-saving first test firing of the Falcon 9's first stage in November 2008. "We were out there beating history, but Elon was still pissed at us," Mr Mueller said. "Like everything else we've ever done, it was way slower than Elon wanted, and way faster than anyone had ever done it before."

Mr Berger's book is full of stories of impressive achievements being met in such ways. It also shows clearly why people put up with such things. Mr Musk's employees knew that he really cared about making better rockets, that he was taking big financial risks, that he was fully engaged. They knew that he would always ask them to do things for less money and in less time. But they came to value his immutable insistence on the overall goal of making a rocket that was largely reusable and flew every few days, even though it meant demanding things which seemed impossible.

Mr Musk and SpaceX's engineers were aligned in their desire to make spacecraft that would change the course of history. Without that alignment, it is hard to imagine his impulsive, hectoring management yielding such results. Mr Musk's desires for X, the social-media firm he bought in 2022, are apparently that it should provide a powerful platform from which to spew his own rubbish and facilitate the spread of disinformation in the service of a disturbing political agenda. This is not a vision to inspire employees capable of greatness.

SpaceX has doubled in value, to $210bn, since early 2022 (in the same period the value of X seems to have fallen by more than half). Part of the price of greatness for its employees was knowing that it was fleeting. The most successful senior managers, Mr Berger reports, adopted a curiously empowering fatalism in the face of Mr Musk's demands: however much you delivered, however well you managed expectations and your team, at some point you would find yourself unable to go on.

In a recent biography of Mr Musk, Walter Isaacson stated that Mr "Musk had redesigned the Falcon 9" over a few months in 2015. Anyone who raised a sceptical eyebrow will enjoy the way Mr Berger's book unpacks and redistributes the agency which that sentence locates so narrowly. Anyone who accepted Mr Isaacson at face value should read this book to disabuse themselves. They will get a riveting tale of how remarkable engineering actually gets done. ■

Indian television

Bad boys

A surprise hit on Netflix about a hijacking ditches the usual tropes

HEROES ARE very, very good, and villains are horrid. This is a basic rule of television and film, especially in India. Typecasting has narrowed and hardened there in recent years. Under Narendra Modi, India's prime minister since 2014 and a promoter of Hindutva (an ideology that equates Indianness with Hinduism), Bollywood's bad guys tend to be Muslim or, better yet, Pakistani. The good guys? They probably work for the Indian government, preferably in uniform.

So it comes as a surprise that one of India's most popular shows across streaming services in September, Netflix's "IC 814: The Kandahar Hijack", defies the norm. Odder still is that the subject of the slick, six-part mini-series would seem to lend itself to stereotyped Pakistani villainy and Indian derring-do.

In December 1999 five Pakistani men hijacked Indian Airlines flight 814, en route from Kathmandu, Nepal to Delhi. For eight days they held more than 160 people hostage as the aircraft first hopped from one airport to another and then sat, day after miserable, smelly day, on the tarmac of a Taliban-controlled airport in Kandahar, Afghanistan. In the end, by patiently and quietly negotiating a deal with their captors, Indian officials won the lives of all but one passenger. The price? The release of three terrorists with links to Pakistan who were being held in Indian prisons.

The easy narrative route, adopted in earlier filmed versions of the hijack drama, would be to paint the foreign perpetrators as monsters and the national authorities as heroes. But the series opts instead for more nuance. The hijackers are nasty and fanatical enough, but they end up offering a cigarette to the pilot, playing time-killing parlour games with hostages and coming to respect the infidel cabin crew. The role of Pakistan is left unresolved; the show implies that the hijackers owed more allegiance to Osama bin Laden and al-Qaeda than to Pakistan's spy agency, the Inter-Services Intelligence.

The Indian officials who grapple with the crisis and haggle for their citizens' lives prove far from heroic. Indian intelligence services fail to communicate with each other and, to cover up their incompetence, leak stories to the press that blame the Indian Airlines captain for the ordeal. Top ministers—all the way up to the prime minister of the time, Atal Bihari Vajpay- ▸▸

BACK STORY

How do you avoid the trap of success?

In her new novel, Sally Rooney has found a way

COMPLEX AMATORY geometry and self-sabotaging lovers: check. I need you, they say, in prose that eschews speech marks, eliding talk with thought: check. Frank yet reverent sex scenes; limpid images of windows, streetlights, rain and roads: double check. Brainy chat that flatters your intelligence, student debating, chess: checkmate.

Welcome back to Rooney-world. Lots of the interests and motifs in Sally Rooney's new novel, "Intermezzo" (out on September 24th), will be familiar to her many fans. As in "Conversations with Friends" and "Normal People", she chronicles the friendships and romances of well-educated, broad-minded millennials with grave moral seriousness. Call her style Jane Austen in modern Ireland with a lashing of S&M. In this book, her fourth, she breaks free of the creative trap that literary success can set.

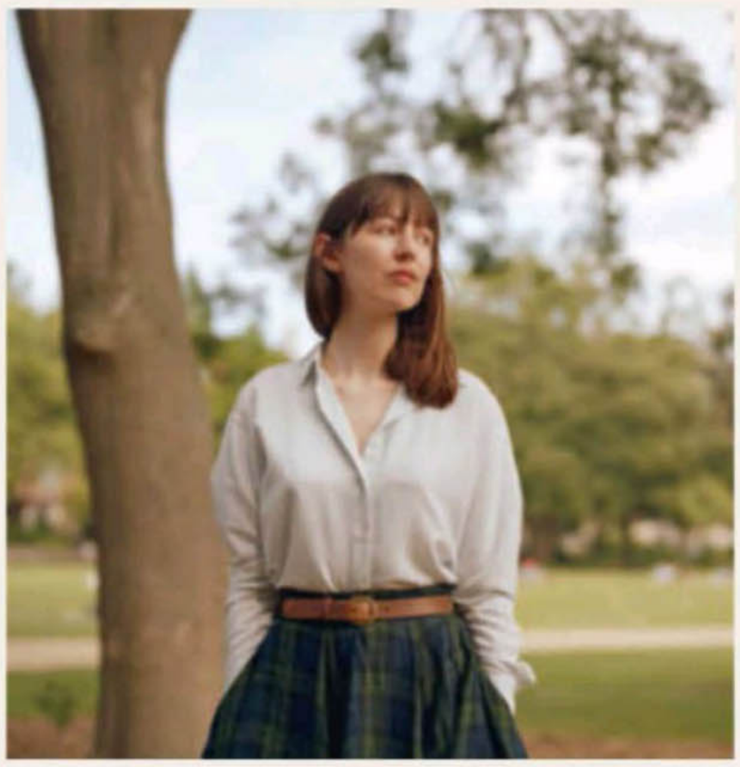
Starry authors often find themselves torn between conflicting demands. Readers generally want them to write books similar to those they adored. Publishers are inclined to agree. But novelists as talented as Ms Rooney aspire to do something new. They must negotiate the twin dangers of staleness and self-indulgent experiment.

"Intermezzo" is the story of Ivan and Peter Koubek. A socially awkward chess whizz, 22-year-old Ivan falls in love with Margaret—who, at 36, has escaped her alcoholic husband but not the judgments of her small town. A decade older than Ivan, Peter is a barrister with the swagger and success his brother lacks, or so it seems. Still devoted to Sylvia, his ex, he is also embroiled in an age-gap affair with Naomi, a student and graduate of the school of hard knocks. Their bantering fling grows serious, "like a stage fight where it turns out the knives are real".

As with the author's earlier creations—Bobbi and Frances, Connell and Marianne—these intellectuals struggle to articulate their own feelings, causing pain when they mean to be kind. "People aren't always very nice to the people they love," says Margaret, a line that could be the motto of Ms Rooney's oeuvre. Once again she captures the swirl of power in relationships and dialogue. Money gets in the way again; again her characters yearn both to be normal and to defy convention.

For all these echoes, this is her richest book. Two traumas reverberate through it. Sylvia, an academic—"Intermezzo" is Ms Rooney's only novel without a fiction-writer—has been injured in a car crash. The time before that is "visible behind a thin veil, through which even a hand could pass, touching, but not". And the brothers have recently buried their father. Grief is a bridge and a chasm; it ambushes and intoxicates them. The loss is hard for Ivan because he was close to his dad, hard on Peter because he wasn't. They can't go home, and yet all roads lead there.

The main difference in "Intermezzo" is that its central bond and tension is fraternal. Peter can't see that Ivan has grown up. Ivan resents Peter's condescension but won't face his vulnerability. "I've hated you my entire life," he hisses at their nadir. "I know," Peter replies. Still, like all siblings, they share childhood experiences no one else can grasp, even if some are comprehensible only much later. You sympathise with both and hope they can forgive each other.



Another departure will not please every reader. Sections recounted from Peter's perspective are written in a staccato stream of consciousness, as if grammar were breaking down under the weight of his depression: "And why. Not wanting. Not wanting not." In bursts, this technique—pioneered by James Joyce, an obvious lodestar—bracingly mimics a fractured mind. Over long passages? Palls, maybe. A risk.

Nevertheless, by expanding her emotional range, Ms Rooney has found a better way out of the success trap than in her third book, "Beautiful World, Where Are You". That amplified the lefty politics that rumble through her work, not least the politics of fiction. Characters worried that the sort of bourgeois novel of sentiment in which they were appearing was worthless. (It isn't.) The author's art and principles seemed to wrestle on the page. This was a literary cul-de-sac.

"Intermezzo", by contrast, is a wonderful book. Ms Rooney's characters are maturing as she does (she is just 33), and by combining her prodigious gifts with this natural process she has charted her path forward. Every few pages she pulls off one of fiction's oldest, simplest and most magical tricks: reading her piercing descriptions of passion, heartache, drunkenness or rage, you stop and wonder, how did she know that?

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ee—are slow and muddled. As a result, India misses chances to send in commandos and storm the plane.

As for the brokered deal, which was harshly criticised in India as a cave-in to terrorist demands, Anubhav Sinha, the show's director, reserves judgment. He notes that the sprung terrorists went on to murderous careers. One was implicated in the kidnapping and murder of Daniel Pearl, an American journalist, in 2002. Another hijacker formed a group behind dozens of attacks, including a suicide-bombing that killed at least 40 Indian policemen and pushed India and Pakistan to the brink of nuclear war in 2019. Yet as the series makes clear, India had few options in the circumstances. Negotiators did whittle the terrorists' demands down to just three prisoners, and in the process may have saved the lives of 189 people on board.

Netflix, which like other producers has faced flak from Hindu nationalists for series it has streamed, faced a milder storm this time. A social-media campaign accusing the series of humanising terrorists, stirred up by Mr Modi's party, quickly fizzled. Some see this as a sign of caution after the party lost its absolute majority in India's parliament in recent elections. It could also be that few Indians can afford subscription viewing, so the volume of complaints stayed low. Regardless, some are hopeful that the show's success may signal more appetite for nuance—if not in politics, at least on screen. ■

ADVERTISEMENT

The benefits of lifetime income

Lifetime income can ease anxieties over retirement—and give employers an edge

Retirement plans have long been a way for Americans to save for a secure future. But as life expectancy grows, so does uncertainty about how to afford life well into retirement. By 2060, life expectancy in the United States is expected to reach an all-time high of 85.6 years, according to 2020 US Census Bureau data.

Coupled with the loss of traditional pension plans, increased longevity means that many Americans are at risk of not being able to meet their essential needs in retirement. The shift away from pension plans has been especially strongly felt by the manufacturing sector in the United States.

"This is a sector with historically high levels of defined benefit plans," says Brendan McCarthy, head of retirement investing at Nuveen.

Many manufacturing workers want those pension benefits back, as seen in the case of the automotive industry during the United Auto Workers (UAW) union strike last year. UAW reached a deal with the Big Three automakers, but failed to bring back pensions for younger workers.

To ease this burden, employers need to rethink their retirement plan offerings. They need solutions that offer long-term security for their workers. This is where "lifetime income," a solution that offers a pension-like guarantee in retirement*, can help. There is a wide spectrum of retirement income strategies. But many employees are unaware of how lifetime income works and how simple it can be to set up in a defined contribution plan, McCarthy says.

"I think the biggest challenges are really a general lack of awareness and some historic confusion around these products," he says. "The solutions that are coming to market today are much different than some of the annuity solutions that tried to enter the market 20 years ago."

Lifetime income can be embedded into existing 401(k)s, combining the flexibility of such plans with the guaranteed income of a pension.

"In a 401(k) plan with lifetime income options built in, employees continue to save the same way," Mr McCarthy points out. "But at retirement, they'll have that option of converting a portion of those savings into something that provides income for life."

As competition across industries intensifies, companies are emphasising workplace benefits such as flexible or hybrid schedules, enhanced parental/caregiver leave, and advanced diversity, equity and inclusion (DEI) programmes. Retirement benefits are also key to attracting and retaining talent. Lifetime income can provide confidence for workers worried about retirement, while offering a benefit to employers, who do not have to worry about pension liabilities.

Lifetime income plans could also help reduce inequities. While 401(k) plans can be beneficial, they are unevenly distributed. AARP data from 2022 and 2023 finds that nearly half of private-sector workers (rising to 53% of African-Americans and 64% of Hispanics) lack retirement plans and women retire with 30% less income than men. Lifetime income can be one tool among many others to level the playing field in an organisation.

During a time of great change in the workplace and longer life expectancy, lifetime income offers a path to protecting both employees and employers, and addressing inequities at work and beyond.

> "In a 401(k) plan with lifetime income options built in, employees continue to save the same way.
>
> **Brendan McCarthy**
> Head of retirement investing at Nuveen

Learn more about the potential of lifetime income:
Nuveen.com/Benefits

*Pension-like refers to the income received from a guaranteed-interest annuity contract, not income provided by a defined benefit pension plan. Any lifetime income guarantees are backed by the claims-paying ability of the issuing company.

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American politics

The centre did not hold

Two new books trace the Republican Party's rightward march

Nelson Rockefeller's Dilemma. By Marsha Barrett. *Three Hills; 400 pages; $36.95 and £28.99*
Reagan. By Max Boot. *Liveright; 880 pages; $45 and £35*

WHEN GERALD FORD accepted the Republican Party's nomination for president at the convention in 1976, he stood, literally, between the party's past and future. He shook hands with the future, standing on his right: Ronald Reagan, the challenger he narrowly defeated. To his left, the past—Nelson Rockefeller, the vice-president whom Ford dropped from the ticket—dutifully cheered. Ford would go on to lose to Jimmy Carter that autumn; four years later, Reagan would win the nomination and the first of his two landslide general-election victories. Rockefeller, meanwhile, would leave public life and die in 1979.

Two new books assess the legacies of the men flanking Ford. In "Nelson Rockefeller's Dilemma", Marsha Barrett, a historian at the University of Illinois, analyses the decline of the strain of liberal Republicanism that the former New York governor represented. In "Reagan", Max Boot, a historian who advised John McCain, Mitt Romney and Marco Rubio before breaking with his party over Donald Trump, delves into the life of the screen star-turned-president, and asks, "Did Reaganism contain the seeds of Trumpism?" Both books grapple with the party's rightward shift and, read together, offer a clever way of considering the most important figure in recent Republican history: Mr Trump.

Rockefeller was the grandson of John D. Rockefeller, one of the world's richest men. When he first ran for president in 1960 as a civil-rights advocate, America's two parties and its electorate were not as ideologically polarised as they are today. Democrats included pro-union urban northerners and southern segregationists in their ranks. (Because Abraham Lincoln was a Republican and won America's civil war, white southerners were almost uniformly Democrats.) Republicans included New England moderates, agrarian pragmatists and fervent anti-communists.

Both parties had supporters and opponents of federal civil-rights legislation. Just one year before Rockefeller became New York's governor, Dwight Eisenhower, a Republican president, enacted the first major civil-rights legislation in over 80 years. His Democratic successor, John F. Kennedy, pushed for more ambitious measures, and Rockefeller was one of a number of liberal north-eastern Republicans who Ms Barrett suggests "gained outsized national prominence" as likely presidential candidates "for a defensive Republican Party".

Liberal Republicans had made peace with a more powerful federal government and sought to bring the rest of their party along. But another wing of the party offered an alternative. Barry Goldwater, a senator from Arizona, opposed civil-rights legislation at least as strongly as Rockefeller championed it, and was initially seen as too far to the right to win the nomination in 1964. He proved doubters wrong. Though Lyndon Johnson soundly beat him in the general election, his position attracted disaffected Southern Democrats; that same year Republicans gained House seats across the South for the first time in almost a century.

Rockefeller, having lost the nomination to Goldwater, turned sharply rightward, championing harsh criminal-justice laws in New York. Ms Barrett portrays this shift as an effort to adapt to a changing party. If it was a gambit, it failed: Richard Nixon won the nomination in 1968, and though Rockefeller was elected to one last term as governor in 1970, his patricianism poorly suited an increasingly populist party.

A star and stripes

Goldwater's rightward turn inspired Reagan as surely as it buried Rockefeller. But Reagan had an advantage the snarling Goldwater lacked: people liked him. He was a peerless communicator with a perpetually sunny disposition, which served him well against Mr Carter and Walter Mondale, the excessively earnest Democrats he trounced in 1980 and 1984.

Democrats considered him an "amiable dunce", mistaking his aversion to nuance—America was a "shining city on a hill", while the Soviet Union was "an evil empire"—for simple-mindedness. In fact he was a voracious reader with a photographic memory, quick wit and shrewd political instincts. He inspired devotion from staffers and trust from voters, even though he had "no close friends aside from his wife" Nancy and was "emotionally distant even from his own children", Mr Boot notes.

This remoteness has frustrated previous biographers. But Mr Boot responds with doggedness, evoking Reagan's early life in small-town Illinois, college years and early forays into politics. Mr Boot is a gifted enough writer to prevent this accretion of detail from becoming a slog, and Reagan's apparent lack of an inner life becomes a benefit: it keeps the focus on his actions, which matter far more than a politician's thoughts or feelings.

The red line

Though his rhetoric may have been uncompromising, his actions, Mr Boot convincingly argues, were deeply pragmatic. That is what made him so effective when his party never fully controlled Congress. But he also courted segregationists and homophobes for political benefit, even though he professed to hold no prejudice.

On the question of whether Reaganism led inexorably to Trumpism, Mr Boot is equivocal. Both men prided themselves on their dealmaking, promised to "make America great again", mishandled pandemics (AIDS and covid-19) and gave false statements—hardly a rarity for politicians. He ends up concluding that "Both Reagan and Trump were a product of the hard-right turn the GOP had taken in 1964 by nominating Barry Goldwater," the same figure who pushed Rockefeller offstage.

He is not wrong, but the book could have used a bolder conclusion, just as Ms Barrett's book could have acknowledged that Rockefeller was neither the first nor the last politician to pander in an effort to gain power. (Recall how Kamala Harris flailed leftward in her presidential campaign in 2019.) These two books document Republicans' rightward shift more than they seek to explain it, but perhaps that is because the explanation is simple: the party moved right because that is where the votes were. ■

Economic & financial indicators

	Gross domestic product, % change on year ago, latest		quarter*	2024†	Consumer prices, % change on year ago, latest		2024†	Unemployment rate, %		Current-account balance, % of GDP, 2024†	Budget balance, % of GDP, 2024†	Interest rates, 10-yr gov't bonds, latest, %		change on year ago, bp	Currency units, per $, Sep 25th	% change on year ago
United States	3.1	Q2	2.9	2.4	2.5	Aug	3.0	4.2	Aug	-3.3	-6.9	3.8		-76.0	-	
China	4.7	Q2	2.8	4.7	0.6	Aug	0.4	5.3	Aug†§	1.2	-4.4	1.7	§§	-80.0	7.02	4.1
Japan	-1.0	Q2	2.9	0.5	3.0	Aug	2.5	2.7	Jul	3.8	-4.7	0.8		11.0	144	3.1
Britain	0.9	Q2	2.3	1.1	2.2	Aug	2.9	4.1	Jun††	-3.0	-4.1	3.9		-35.0	0.75	9.3
Canada	0.9	Q2	2.1	1.3	2.0	Aug	2.4	6.6	Aug	-1.2	-1.3	3.0		-102	1.35	nil
Euro area	0.6	Q2	0.8	1.0	2.2	Aug	2.5	6.4	Jul	3.1	-3.1	2.2		-63.0	0.90	5.6
Austria	-0.6	Q2	-1.7‡	-0.3	2.4	Aug	2.9	5.0	Jul	2.4	-2.4	2.7		-70.0	0.90	5.6
Belgium	1.1	Q2	0.8	1.2	4.3	Aug	3.8	5.4	Jul	-0.6	-4.6	2.8		-67.0	0.90	5.6
France	1.0	Q2	0.7	1.2	2.2	Aug	2.6	7.5	Jul	-0.4	-5.2	3.3		45.0	0.90	5.6
Germany	nil	Q2	-0.3	0.2	2.0	Aug	2.6	3.4	Jul	6.2	-1.6	2.2		-63.0	0.90	5.6
Greece	2.7	Q2	4.4	2.4	3.2	Aug	2.8	9.9	Jul	-5.8	-1.3	3.2		-116	0.90	5.6
Italy	0.9	Q2	0.6	0.9	1.2	Aug	1.2	6.5	Jul	1.5	-5.2	3.5		-117	0.90	5.6
Netherlands	0.8	Q2	4.1	0.6	3.3	Aug	3.5	3.7	Aug	8.7	-1.4	2.5		-66.0	0.90	5.6
Spain	2.9	Q2	3.3	2.7	2.4	Aug	3.0	11.5	Jul	2.5	-3.2	3.0		-78.0	0.90	5.6
Czech Republic	0.9	Q2	1.3	1.1	2.2	Aug	2.0	2.7	Jul†	0.2	-2.4	3.7		-91.0	22.5	2.4
Denmark	3.5	Q2	2.6	1.6	1.4	Aug	1.6	2.9	Jul	10.5	1.8	2.1		-97.0	6.68	5.5
Norway	4.2	Q2	5.7	1.0	2.6	Aug	3.3	4.0	Jun‡‡	15.9	12.0	3.5		-45.0	10.5	2.9
Poland	3.2	Q2	6.1	3.2	4.3	Aug	3.8	5.0	Aug§	1.0	-5.7	5.4		-45.0	3.82	14.1
Russia	4.1	Q2	na	3.6	9.0	Aug	7.5	2.4	Jul§	2.9	-1.2	15.7		392	92.5	4.1
Sweden	0.6	Q2	-1.0	0.6	1.9	Aug	2.0	7.9	Aug§	6.0	-0.9	1.9		-103	10.1	9.1
Switzerland	1.8	Q2	2.8	1.1	1.1	Aug	1.2	2.5	Aug	6.7	0.6	0.5		-63.0	0.85	7.1
Turkey	2.5	Q2	0.3	3.1	52.0	Aug	57.7	9.3	Jul§	-2.7	-5.2	26.6		190	34.1	-20.2
Australia	1.0	Q2	0.9	1.3	3.8	Q2	3.5	4.2	Aug	-0.6	-1.5	3.9		-34.0	1.46	6.8
Hong Kong	3.3	Q2	1.4	3.0	2.5	Aug	1.5	3.0	Aug‡‡	11.9	-2.9	2.8		-149	7.78	0.5
India	6.7	Q2	4.5	6.9	3.7	Aug	4.7	8.5	Aug	-0.5	-4.9	6.7		-41.0	83.6	-0.6
Indonesia	5.0	Q2	na	5.1	2.1	Aug	2.6	4.8	Q1§	-0.1	-2.4	6.4		-31.0	15,100	2.0
Malaysia	5.9	Q2	na	5.1	1.9	Aug	2.0	3.3	Jul§	2.7	-4.5	3.8		-25.0	4.13	13.6
Pakistan	2.8	2024**	na	2.8	9.6	Aug	15.5	6.3	2021	-1.7	-7.4	12.7	†††	-349	278	4.7
Philippines	6.3	Q2	2.0	5.4	3.3	Aug	3.3	4.7	Q3§	-2.8	-5.9	5.8		-70.0	55.9	1.6
Singapore	2.9	Q2	1.6	2.7	2.2	Aug	2.6	2.0	Q2	19.8	0.1	2.6		-86.0	1.29	6.2
South Korea	2.3	Q2	-0.9	2.5	2.0	Aug	2.5	1.9	Aug§	3.4	-1.8	3.0		-101	1,331	0.4
Taiwan	5.1	Q2	1.2	4.2	2.4	Aug	2.1	3.4	Aug	13.9	0.5	1.5		22.0	31.9	0.9
Thailand	2.3	Q2	3.1	2.5	0.4	Aug	0.9	1.1	Jul§	2.7	-3.7	2.5		-78.0	32.7	10.5
Argentina	-1.7	Q2	-6.8	-3.1	237	Aug	221.0	7.6	Q2§	0.3	-0.5	na		na	966	-63.8
Brazil	3.3	Q2	5.9	3.0	4.2	Aug	4.2	6.8	Jul§‡‡	-1.6	-7.5	12.3		67.0	5.49	-9.7
Chile	1.6	Q2	-2.5	2.3	4.6	Aug	3.9	8.7	Jul§‡‡	-2.8	-2.4	5.3		-66.0	911	-1.1
Colombia	1.8	Q2	0.4	1.4	6.1	Aug	6.7	9.9	Jul§	-2.6	-5.7	9.7		-182	4,197	-3.3
Mexico	2.1	Q2	0.6	1.6	5.0	Aug	4.9	2.7	Jul	-0.3	-5.0	9.3		-60.0	19.5	-10.7
Peru	3.6	Q2	9.8	2.8	2.0	Aug	2.5	6.5	Aug§	-0.3	-4.1	6.2		-69.0	3.77	-0.5
Egypt	2.2	Q1	na	2.4	26.2	Aug	28.4	6.5	Q2§	-4.7	-5.2	na		na	48.5	-36.3
Israel	-2.1	Q2	0.7	0.3	3.6	Aug	3.3	2.6	Aug	5.3	-7.3	5.0		92.0	3.74	1.9
Saudi Arabia	-0.8	2023	na	1.5	1.6	Aug	1.8	3.5	Q1	-0.5	-2.2	na		na	3.75	nil
South Africa	0.3	Q2	1.8	1.1	4.4	Aug	4.8	33.5	Q2§	-2.0	-5.3	8.8		-181	17.2	9.5

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 Sep 25th	% change on: one week	Dec 29th 2023
United States S&P 500	5,722.3	1.9	20.0
United States NAS Comp	18,082.2	2.9	20.5
China Shanghai Comp	2,896.3	6.6	-2.6
China Shenzhen Comp	1,575.3	6.9	-14.3
Japan Nikkei 225	37,870.3	4.1	13.2
Japan Topix	2,650.5	3.3	12.0
Britain FTSE 100	8,268.7	0.2	6.9
Canada S&P TSX	23,905.9	1.3	14.1
Euro area EURO STOXX 50	4,916.9	1.7	8.7
France CAC 40	7,565.6	1.6	0.3
Germany DAX*	18,918.5	1.1	12.9
Italy FTSE/MIB	33,840.5	0.5	11.5
Netherlands AEX	906.0	1.5	15.2
Spain IBEX 35	11,792.6	0.9	16.7
Poland WIG	83,780.6	1.3	6.8
Russia RTS, $ terms	1,137.5	nil	5.0
Switzerland SMI	12,148.4	1.4	9.1
Turkey BIST	9,891.0	1.2	32.4
Australia All Ord.	8,372.8	0.1	6.9
Hong Kong Hang Seng	19,129.1	8.3	12.2
India BSE	85,169.9	2.7	17.9
Indonesia IDX	7,740.9	-1.1	6.4
Malaysia KLSE	1,673.4	0.8	15.0

	Index Sep 25th	% change on: one week	Dec 29th 2023
Pakistan KSE	82,247.9	2.2	31.7
Singapore STI	3,583.3	-0.3	10.6
South Korea KOSPI	2,596.3	0.8	-2.2
Taiwan TWI	22,761.6	5.0	26.9
Thailand SET	1,461.6	1.8	3.2
Argentina MERV	1,744,131.0	-3.9	87.6
Brazil BVSP*	131,586.4	-1.6	-1.9
Mexico IPC	53,190.9	1.2	-7.3
Egypt EGX 30	31,250.6	3.0	25.5
Israel TA-125	2,060.3	3.2	9.2
Saudi Arabia Tadawul	12,343.7	3.5	3.1
South Africa JSE AS	85,960.3	3.9	11.8
World, dev'd MSCI	3,695.9	1.8	16.6
Emerging markets MSCI	1,136.8	4.5	11.0

US corporate bonds, spread over Treasuries

Basis points	latest	Dec 29th 2023
Investment grade	107	154
High-yield	361	502

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

Commodities

The Economist commodity-price index, 2020=100	Sep 17th	Sep 24th*	% change on month	year
Dollar Index				
All Items	127.2	128.9	1.5	4.1
Food	138.7	140.5	4.5	7.0
Industrials				
All	117.7	119.3	-1.3	1.5
Non-food agriculturals	129.9	133.5	3.0	13.5
Metals	114.6	115.7	-2.5	-1.6
Sterling Index				
All items	124.0	123.7	0.4	-5.4
Euro Index				
All items	130.7	132.1	1.7	-1.2
Gold				
$ per oz	2,575.3	2,645.5	5.2	38.9
Brent				
$ per barrel	73.5	75.0	-6.5	-20.3

Sources: Bloomberg; CME Group; FT; LSEG Workspace; NZ Wool Services; S&P Global Commodity Insights; Thompson Lloyd & Ewart; USDA; WSJ. *Provisional.

For historical indicators data, visit economist.com/economic-and-financial-indicators

OBITUARY
Elias Khoury

The Lebanese novelist and activist for the Palestinian cause died on September 15th, aged 76

WHEN SHE reached her old house, the only one undemolished in the village, Umm Hassan had to sit on the ground for a while. She dared not press the buzzer. When her brother did, a dark-complexioned woman opened it and welcomed them in. She spoke Arabic, but quickly said that she was not an Arab. She was Jewish, an Israeli, and since 1948—the year of the Nakba, the catastrophe, when most Palestinians fled and Jewish migrants moved to the new state of Israel—the house was hers. While she made coffee for them, Umm Hassan noticed that everything was in its old place, even the earthenware water jug. The Jewish woman said she could take it if she wanted to; but Umm Hassan, after picking up the jug, instead handed it back to her. Both women said, "Thank you."

Elias Khoury had not witnessed that scene. In the year of the Nakba he was a baby. He gathered such stories later from the refugee camps at Sabra and Shatila, outside Beirut. People were reluctant to talk, but in the end the stories came: of Umm Hassan's strange encounter, of a boy whose hair had turned white when he witnessed a massacre, or of Umm Issa, who died still fretting that she had left a pan of zucchini cooking on the stove in her abandoned house. He was unsure what to do with these accounts until he wove them, in 1998, into a novel called "Gate of the Sun".

It became a bestseller, and he a world-famous novelist. That was a surprise. Previously he had seen himself as a journalist, an intellectual and a literary critic for highbrow magazines in Beirut. Besides, there was no tradition of novel-writing in Lebanon; its literary culture was mostly romantic poetry, and poets were exalted as prophets. He rejected that. A writer had to be part of his society. He loved classical Arabic as much as anyone, but his characters spoke the Arabic of the streets.

Writers also had to reveal the truth. His university dissertation was on the Lebanese civil war of 1860, which left 25,000 dead. To his astonishment, no Lebanese historian had studied this war. His father had told stories of it as though he had been there, but those were his grandfather's memories, not his. That was how a nation's obstinate prejudices grew, out of endless retelling and distortion of the memories of other people. The winners wrote history, in their view; the defeated talked of heroes and martyrs. Far too many damaging myths haunted the Middle East.

Identity was another problem. The narrator of his "Children of the Ghetto" was a Palestinian pretending to be an Israeli, mainly to impress women. It was a common thing. Palestinians were called "Arabs" in Israel, and were mere shades in most Israeli writing. Yet he also viewed Jews and Palestinians as cousins, both persecuted, their languages close as twins. His characters were often glimpsed in glass, as if their reflection was the Other they could not recognise. He withheld their names, instant identifiers. In "As Though She Were Sleeping" the heroine, Milya, lived permanently in dreams, unable to tell whether she was inside her hotel or outside in the snow, asleep or awake.

Dichotomies also marked his own life. His parents were Oriental Orthodox Christian, so he went to church. But his culture was Arab-Islamic: he read the Koran, learned classical Arabic from his grandmother, and devoured with his mother the "Thousand and One Nights". Christians lived mostly in East Beirut, Muslims in West, but in 1975 that balance was upset by disputes over support for Lebanon's Palestinian refugees. The result was a savage civil war that lasted 15 years. He had already joined Fatah, a militant wing of the Palestine Liberation Organisation, so he went to fight. But he was wounded almost at once, in the right eye, as if to remind him he should stick to his duty of truth-telling. The truth (simple, this time) was that this war was an absurdity.

The "Thousand and One Nights" had made a deep impression on him. His modus operandi in his 15 novels was to present a narrative compiled from different tales, much as Sheherazade had beguiled the sultan with stories every night to delay her death. Around a central incident—a murder, an accusation of rape, the Nakba itself—he would arrange the stories of witnesses, all claiming to know vital details. In "Yalo", the accused rapist himself wrote and rewrote his confession with each police interrogation. In "White Faces", the civil war was revisited in a patchwork of incoherent testimonies.

Apart from teaching Arab literature at various American universities, he stayed in Beirut, writing and speaking out for the Palestinian cause. His take was particular. It was not the land of Palestine, but Palestinians, that were sacred to him. The Nakba, he insisted, was still being lived every day. With the poet Mahmoud Darwish he edited *Palestinian Affairs*, which had PLO links, but he attacked the PLO to the point where Yasser Arafat, its leader, wanted him jailed. Some Palestinians questioned whether he had any right, as a Lebanese, to write about Palestine at all. "Children of the Ghetto" was set in Lydda (now Lod), a Palestinian city-turned-displacement camp-turned-Israeli city, where he had never been. But instead he had traced every road and building in the Palestine Research Centre in Beirut, and heard the stories. With reality as his background—the barbed wire, the stench of death, the bloated flies—he could create the imaginary.

He had no haven, though, from horror. To live in Beirut was to teeter on the brink of a volcano that might become active at any moment. As a pessimist, he felt the strife in the Middle East could only go on. He had loved Beirut for its cafés, its elegance, its peerless falafel and, on its outskirts, the old yellow houses set among olive groves. After the civil war, the Israeli bombing of 1982 and the port explosion of 2020, it had become a shadow. It was still his home. But as early as 1993, in "City Gates", he had imagined a stranger arriving there to find that it had vanished away. ■