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How to shore up America's banks

Can Turkey sack a strongman?

Battling superbugs with viruses

Coronation nation

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When will politicians wake up?







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DELIVERING
FOR AMERICA



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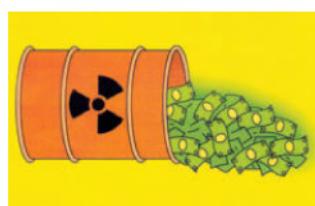
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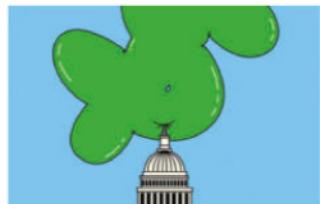
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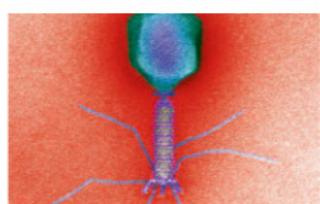
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 and an unworthy, timid ignorance
 obstructing our progress."

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The UN warned that 800,000 people could flee fighting in **Sudan** between the national army and a rival paramilitary force. More than 500 civilians have died in the conflict, which has seen heavy combat in the capital, Khartoum. The UN also sought assurances from the warring factions that humanitarian aid would be delivered unhindered, after six lorries carrying supplies to Darfur, a region in the west of Sudan, were looted.

A jihadist attack on an army post in **Burkina Faso** killed 33 soldiers amid deteriorating security in the Sahelian country. By some estimates government forces control only about 40% of its territory.

A popular opposition MP in **Zimbabwe**, Job Sikhala, was jailed for obstructing justice, which prevents him from running in an election that is due to take place in July or August. Activists and lawyers accuse the government of using the justice system to suppress the opposition and rig the elections.

Palestinian militants in Gaza fired over 100 rockets and mortars into **Israel** after the death of a hunger-striking Palestinian prisoner detained on terrorism charges in Israel. In response Israeli forces struck sites said to be linked to Hamas, the Palestinian militant group that runs Gaza. Local officials say one Palestinian was killed. The two sides agreed to a ceasefire.

Recep Tayyip Erdogan, the president of Turkey, announced that Turkish forces had "neutralised" Abu Hussein al-Qurayshi, the leader of

Islamic State, a jihadist terror group, in a raid in Syria. Al-Qurayshi took over in last November after his predecessor was killed by forces opposed to Bashar al-Assad, Syria's president.

Ebrahim Raisi, the president of **Iran**, visited Damascus. Iran has been a close ally of **Syria** throughout the country's civil war but it was the first such visit since 2010.

Joe Biden summoned the leaders of Congress to the White House for a meeting on May 9th to discuss raising the limit on the **federal debt**. The Treasury is now warning that it may be unable to pay the government's bills by as early as June 1st unless the debt ceiling is raised.

A court in New Jersey held that insurers must cover the losses from a **cyber-attack** that hit Merck, a drugs company, in 2017. America blamed the cyber-attack on Russia. The insurers argued that this made it an act of war, and thus excluded it from recompenses for damages. Not so, said the court: to count as war the incident would have to involve military action. Insurance firms have seen their costs soar in recent years from having to fork out for such attacks.

Putin's bloody war

The Biden administration estimated that **Russia's** armed forces have suffered 100,000 casualties in **Ukraine** over the past five months, including 20,000 deaths. Around half were mercenaries fighting with the Wagner Group, many of whom were convicts who had been released from prison and sent to the front. Russia had made some small gains in Bakhmut, it said, but overall the winter offensive had failed.

Russia launched its first big wave of **missile attacks** in Ukraine in two months. At least 23 people were killed when a residential building was hit in the central town of Uman. Explosions were re-

ported in Kyiv and other cities. Meanwhile, Russia accused Ukraine of trying to **assassinate Vladimir Putin** when two small drones hit the Kremlin. Volodymyr Zelensky denied the claim. On a visit to Finland, the Ukrainian president said "we fight on our territory", not Russia's.

At talks brokered by the EU **Serbia** and **Kosovo** failed to find a way to reduce tensions in majority-Serb areas of north Kosovo. Local Serbs want more autonomy and are boycotting institutions. In March both countries agreed in principle to normalise ties, 24 years after the end of the Kosovo war. In one bright spot they will co-operate to find out what happened to the 1,600 people still missing after the conflict.

A 13-year-old boy shot dead eight pupils and a security guard at a school in **Belgrade**, the capital of Serbia. The boy used guns owned by his father.

ChatGPT is no longer banned in **Italy**. The country's data-privacy regulator imposed a ban in March, but the makers of the chatbot have since addressed some of the concerns that had been raised.



Police raided the home of Jair Bolsonaro, **Brazil's** former right-wing populist president. Mr Bolsonaro, a covid-19 vaccine sceptic, is being investigated for allegedly falsifying documents which say that he was vaccinated. He denies the allegations, and says that he never had the jab.

A package of controversial laws was passed in **Mexico**. A mining law requires that at least 5% of company profits are

paid to local communities. Another law increased the penalties for those who make fentanyl, a synthetic opioid. The package was passed by the governing party and its allies in a separate chamber from the Senate, and with little debate.

The president of the **Philippines**, Ferdinand Marcos junior, visited the White House, where Joe Biden reiterated America's commitment to defend its ally against Chinese aggression in the South China Sea. The talks were portrayed as a reset in ties between the Philippines and America after a cooling of relations during the presidency of Rodrigo Duterte, who had sought closer bonds with Beijing.

The **Australian** government decided to ban recreational vaping and crack down on other e-cigarettes. As in other countries, vaping products are marketed at teenagers and "sold alongside lollies and chocolate bars", said the health minister.

The staff council that oversees relations between employers and workers in **Britain's** health service accepted a 5% pay increase from the government. A months-long wave of industrial action is far from over, however. The main nursing union rejected the offer and junior doctors have yet to reach a settlement. And other public-sector workers are still taking action. Teachers and railway workers are among those walking off the job in May and June.

Sharp exit

Opposition parties in Britain called for the next chairman of the **BBC** to be chosen independently, after Richard Sharp was forced to quit for his part in securing a loan for Boris Johnson when he was prime minister. A report found that although Mr Sharp had not arranged the financing there was a "potential perceived conflict of interest".



In an attempt to stave off more banking turmoil, regulators in California took control of **First Republic Bank**, a regional lender based in San Francisco, and placed it into federal receivership. Much of the bank was then sold to JPMorgan Chase following a bidding auction. It is America's second-biggest banking failure ever. The rescue didn't do much to placate fears about the health of other midsized regional banks. The share price of Pacific Western Bank slumped after the lender was reported to be exploring its strategic options.

The Federal Reserve issued a stinging report into the collapse of **Silicon Valley Bank** in March. It blamed SVB's management as well as itself for not appreciating "the seriousness of critical deficiencies" at the bank, and said that legislation passed in Congress in 2018 had lowered supervisory standards. It called for stronger regulations. The report also noted that social media is a factor that "may have fundamentally changed the speed of bank runs".

The Fed lifted its benchmark **interest rate** by another quarter of a percentage point, to a range of between 5% and 5.25%. It was the tenth consecutive increase, though markets interpreted a slight change in the central bank's guidance to think it may be the last in this particular cycle.

The **Reserve Bank of Australia** surprised markets when it raised its rate by a quarter of a point, to 3.85%. The bank had left the rate on hold in April, suggesting that a rapid run of increases was over.

The disruptive potential of **generative artificial intelligence** came into sharp focus when Chegg, a provider of online study aids, said that the use of ChatGPT by students was starting to affect revenues. Although the chief executive tried to assure investors that this "is not a sky-is-falling thing" and the effects are "just on the margin", Chegg's share price swooned, dragging down the stock of other online education companies.

The big picture

The Writers Guild of America called its first strike for 15 years, in a dispute over pay with studios such as Apple, Disney and Netflix. The **television and film writers** say the studios are creating "a gig economy" in the industry, for example by moving to "day rates" in comedy variety. It also wants to restrict the use of AI in creating scripts. The last stoppage by Hollywood's script writers lasted 100 days.

Geoffrey Hinton, one of the pioneers of AI, resigned from Google in order to speak his mind about the technology. Mr Hinton, 75, said AI was developing too rapidly and the idea that it would outsmart people was no longer "30 to 50 years"

away. Humans are "biological systems and these are digital systems", he warned, as he called for more safety protocols for AI.

Big oil companies made record profits last year on the back of soaring oil prices. With oil now much less dear, profits are expected to decline, though there wasn't much evidence of that in the first quarter. BP reported an underlying profit of \$5bn, higher than expected but below the \$6.2bn it made in the same quarter last year. Shell's adjusted profit of \$9.6bn was an improvement on its performance a year ago, as was Chevron's net profit of \$6.6bn. ExxonMobil's net income doubled, to \$11.4bn.

Arm, a British chip designer that is being spun off by SoftBank, filed papers for an IPO later this year. It is expected to list its shares on the Nasdaq stock exchange and could raise up to \$10bn, which would make it one of the largest IPOs in America in the past decade.

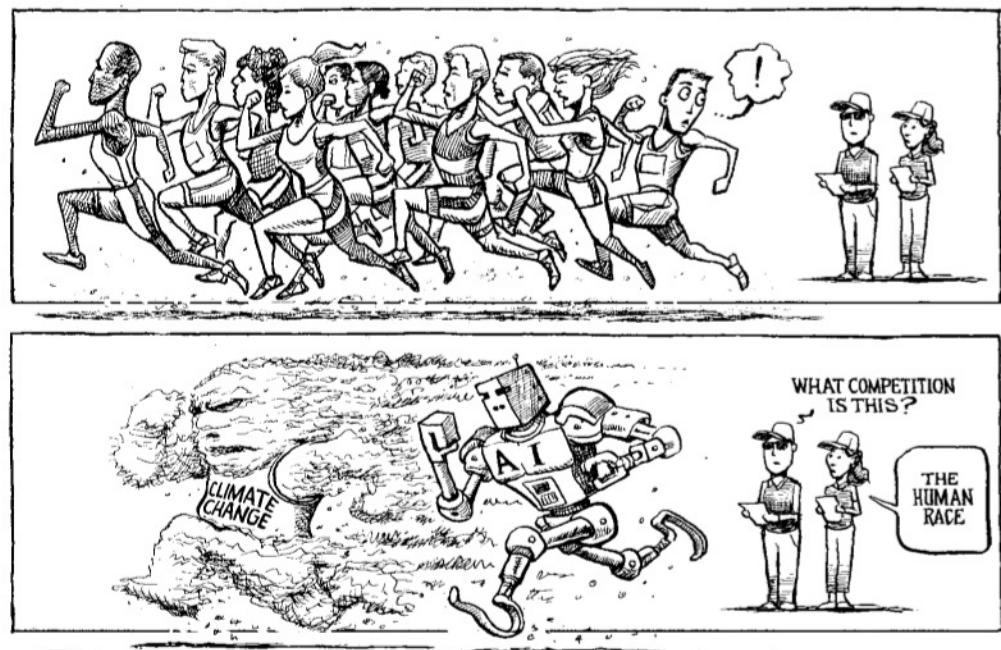
Go First, a discount airline in India, entered bankruptcy protection, blaming the grounding of half its fleet on problems with Pratt & Whitney engines, an issue that is affecting other Indian airlines. This

came soon after news that domestic air travel in India had hit a record high as 456,000 passengers flew in a single day. More than 37.5m people travelled by domestic airlines in the first quarter, up by half compared with a year earlier.

At the departure gate

Alan Joyce, one of the more combative figures in the airline industry, is retiring as chief executive of **Qantas**. His replacement will be Vanessa Hudson, the chief financial officer. Last year the term "Joyced" was coined to reflect passengers' frustration with "the flying kangaroo" over an increase in cancelled flights and lost luggage.

A group of investors filed a lawsuit against **Adidas**, alleging that it knew about Kanye West's "extreme behaviour" for years before severing ties with the singer. Adidas stopped selling Kanye West branded sportswear in 2022 because of his anti-Semitic remarks and will take a hit from lost sales. The complaint claims staff knew about his anti-Semitism; he allegedly said he wanted to name an album after Hitler. Adidas responded by promising to defend itself against the "unfounded claims".



Stuck in fiscal fantasyland

Around the world budgets are in a bigger mess than politicians are prepared to admit

WRANGLING OVER budgets is always part of politics, but today's fiscal brinkmanship is truly frightening. In America Democrats and Republicans are playing a game of chicken over raising the government's debt ceiling. As the drama intensifies, the stakes are getting dangerously high. Janet Yellen, the treasury secretary, says her department could run out of cash to pay the government's bills on June 1st if no deal is struck. Investors are beginning to price in the risk of what would be America's first-ever sovereign default.

The political point-scoring also misses a bigger and more enduring problem. America's budget deficit is set to balloon as its population ages, the cost of handouts swells and the government's interest bill rises. We estimate that deficits could reach around 7% of GDP a year by the end of this decade—shortfalls America has not seen outside of wars and economic slumps. Worryingly, no one has a sensible plan to shrink them.

Governments elsewhere face similar pressures—and appear just as oblivious. Those in Europe are locked in a silly debate about how to tweak debt rules, at a time when the European Central Bank is indirectly propping up the finances of its weakest members. China's official debt figures purport to be healthy even as the central government prepares to bail out a province. Governments are stuck in a fiscal fantasyland, and they must find a way out before disaster strikes.

For the decade after the global financial crisis of 2007-09 falling interest rates allowed governments to sustain vast debt piles. Although Europe and, to a degree, America took an axe to public spending after the crisis, by the late 2010s it looked as if they needn't have bothered. Long-term interest rates kept falling even as debt rose. Japan's net debt passed 150% of GDP without consequence. When covid-19 struck, rich-world governments spent another 10% of GDP; Europe's energy crisis led to yet more handouts. Hardly anyone worried about more debt.

Those days of forgivingly low interest rates have now passed. This week the Federal Reserve raised rates again, to 5.25%. America will spend more on debt interest this year, as a share of GDP, than at any time so far this century; by 2030 the bill will be at an all-time high, even if rates fall as markets expect. Japan no longer looks so safe. Even though rates there are super-low the government spends 8% of its budget on interest, a figure that will shoot up should the central bank begin tightening monetary policy (see Free exchange).

Rising rates are squeezing budgets just as pressures to spend are mounting. Ageing populations mean that by the end of the decade the annual health-care and pension bill in the rich world will have risen by 3% of GDP. The figure is 2% even in emerging markets, including China, where by 2035 there will be 420m over-65s. In the West policymakers have yet to deliver on promises to spend more on defence in light of Russia's invasion of Ukraine and tensions between America and China over Taiwan. And the whole world needs more green public spending if it is to decarbonise rapidly.

All told, the picture is forbidding. Take America's Inflation

Reduction Act, which was supposed to reduce deficits. Its green tax credits were forecast to cost \$391bn over a decade, but are now expected by Goldman Sachs to cost an eye-watering \$1.2trn. Add that and the likely extension of temporary tax cuts enacted during Donald Trump's presidency to official projections, and America is on a path to budget deficits of 7% of GDP, even as the economy grows (see Finance & economics section).

Such looming pressures make politicians' proposals look wildly unrealistic. The bill to raise America's debt ceiling passed by Republicans in the House of Representatives on April 27th caps spending in 2024 at its level in 2022, and then raises budgets by 1% a year. That may sound reasonable but it excludes mandatory spending on pensions and health care and ignores inflation. Exclude defence spending as well and it implies a real-terms budget cut of 27% compared with current plans.

Germany's government seems to think that a target of 60% for debt-to-GDP ratios can credibly apply to places like Italy, which has net debts of more than twice that amount (see Europe section). In Britain the government makes a mockery of its rules, for example by promising tax rises that are perennially postponed. A few months of better-than-expected receipts are enough to set off a clamour for tax cuts among the ruling Conservatives, only months after Britain faced a bond-market crisis.

China's increasing indebtedness is kept off the books in opaque "financing vehicles" used by local governments. Include everything and China's total public debts are over 120% of GDP, and will rise to nearly 150% by 2027, on IMF forecasts. Such levels of debt are affordable only because China has an ocean of domestic savings, kept captive by its restrictions on capital flows. Public indebtedness means that the government cannot achieve its plan to rebalance its economy towards consumption and internationalise the yuan.

Politicians need to get real, fast. Public debts are in danger of becoming unmanageable, especially if interest rates stay high. Every step up in borrowing hampers governments' ability to respond to the next crisis. And there are limits to how far spending can be controlled. Politicians could dial down their promises to pensioners or ensure that their role in the green transition is not larger than it needs to be. But there is little public appetite for austerity, and spending is bound to rise as populations age. More defence spending and green investment are essential.

All this makes tax rises inevitable. And more taxation makes it crucial to raise money in ways that are friendly to economic growth. Britain's under-taxation of posh houses is scandalous; America lacks a value-added tax and China sorely needs its long-promised property tax. Carbon emissions should be taxed sufficiently everywhere, which would also encourage the private sector to invest more in decarbonisation and thereby reduce the need for public spending to that end.

Leaving fiscal fantasyland will be painful, and there will undoubtedly be calls to put off consolidation for another day. But it is far better to make a careful exit now than to wait for the illusion to come crashing down. ■



Turkey

The most important election this year

If Turkish voters can sack a strongman, democrats everywhere should take heart

BELOW THE Topkapi Palace in Istanbul, home to the Ottoman sultans, a monument to another imperious leader has been on display. The *Anadolu*, Turkey's first domestically built aircraft-carrier, was ordered into the Bosphorus last month, as the country prepared to vote in an election on May 14th that is the most important anywhere in the world this year. By showing off the warship, which is making a campaign tour of the coast, President Recep Tayyip Erdogan hopes to fire up patriotic voters. But his charisma, grand gestures and giveaways may not be enough. The man who has ruled Turkey since 2003, in an increasingly autocratic style, could face defeat.

As we report, the election is on a knife-edge. Most polls show Mr Erdogan trailing by a small margin. Were he to lose, it would be a stunning political reversal with global consequences (see Briefing). The Turkish people would be more free, less fearful and—in time—more prosperous. A new government would repair battered relations with the West. (Turkey is a member of NATO, but under Mr Erdogan has been a disruptive actor in the Middle East and pursued closer ties with Russia.) Most important, in an era when strongman rule is on the rise, from Hungary to India, the peaceful ejection of Mr Erdogan would show democrats everywhere that strongmen can be beaten.

Start with Turkey itself, a middle-income country of 85m people at the crossroads between Asia, Europe and the Middle East. Like autocrats the world over, Mr Erdogan has cemented himself in power by systematically weakening the institutions which limit and correct bad policy—and which his opponents, a six-party alliance with a detailed plan for government, promise to restore.

Of the many bad consequences of barely constrained power, Mr Erdogan's economic policies hurt ordinary Turks most. He sacked three governors of the notionally independent central bank in two years, made his incompetent son-in-law finance minister, and has since obliged the bank to run an absurdly loose sugar-rush monetary policy. This has kept growth fairly solid, but led to inflation that peaked at 86% last year and is still well over 40% (according to official figures, which may not be reliable). Voters grumble that the price of onions has risen ten-fold in two years.

If the opposition's candidate, Kemal Kilicdaroglu, wins the presidency, he has pledged to restore the bank's independence and bring inflation down to single figures; that, with luck, would also reverse the collapse in foreign investment. But it is not just the economy that will need fixing.

Democracy has been on life support, too. Like so many other strongmen, Mr Erdogan has neutered the judiciary, via a tame legal-appointments board. He has muzzled the media, partly through intimidation, and partly through the orchestrated sale of outlets to cronies, another common ploy. He has sidelined parliament, via constitutional changes in 2017 that gave him discretion to rule by decree; Mr Kilicdaroglu promises to reverse this. Mr Erdogan's prosecutors have intimidated activists and politicians with trumped-up "terrorism" charges. Turkey's political prisoners include the leader of the main Kurdish party—

the country's third-largest, which is threatened with a ban. The (opposition) mayor of Istanbul faces prison and a prohibition from politics. Former government heavyweights are scared to criticise the president, demanding anonymity before discussing him in whispers. All this will get worse if Mr Erdogan is re-elected, but rapidly improve if he loses.

An opposition victory would also be good for Turkey's neighbours, and of huge geopolitical value to the West. Turkey these days is almost completely estranged from the rest of Europe, though it is still, nominally, a candidate to join the EU. That may never happen—but a President Kilicdaroglu pledges to honour the judgments of the European Court of Human Rights, and to start to release Mr Erdogan's political detainees. Europe should respond by reviving a long-stalled visa programme for Turks, improving Turkey's access to the EU's single market, and co-operating more closely on foreign policy.

With the strongman gone, Turkey's rift with NATO should start to mend. Its block on Sweden's accession to the alliance would be lifted. Relations with America, poisoned by Mr Erdogan's cosying up to Vladimir Putin and attacks on Kurdish forces in Syria, would improve. However, a new Turkey would maintain Mr Erdogan's policy of walking a tightrope over Ukraine. It would keep supplying Ukraine with drones, but not join sanctions against Russia; it relies too much on it for tourists and gas.

More important than any of this is the signal an opposition victory would send to democrats everywhere. Globally, more and more would-be autocrats are subverting democracy without quite abolishing it, by chipping away at rules and institutions that curb their power. Fifty-six countries now qualify as "electoral autocracies", reckons *v-Dem*, a research outfit, up from 40 near the end of the cold war. The list could grow: Mexico's president, Andrés Manuel López Obrador, has been trying to undermine the country's judiciary and electoral authority.

A beacon to the oppressed

If Mr Erdogan loses, it will show that the erosion of democracy can be reversed—and suggest how. Democratic opposition parties need to recognise the danger and unite before it is too late. In India a fragmented opposition has allowed Narendra Modi, a strongman prime minister, to become dominant with 37% of the vote. Now the main opposition leader faces jail. The situation in Poland is less grim, but its opposition, too, has thrown away election after election against the populist ruling party.

The Turkish opposition Nation Alliance has already done much better than this. Mr Kilicdaroglu may be a little dull, but he is a dogged creator of consensus and charmingly humble; the opposite of his adversary. If he were to win, it would be a huge moment for Turkey, Europe and the global struggle for genuine democracy. Mr Erdogan did some good things in his early years in office, but the steady accumulation of excessive power clouded his judgment and his moral sense, as it tends to. We warmly endorse Kemal Kilicdaroglu as the next president of Turkey. ■



A new Afghanistan policy

Engage (very carefully) with the Taliban

Isolating the mullahs is not working. The West needs a more constructive approach

FOR TWO decades, America and its NATO allies squandered vast amounts of blood and treasure on a wildly optimistic state-building project in Afghanistan. It ended 20 months ago, when the Taliban's black-turbaned fighters swept back into Kabul, while American diplomats frantically burned their files and NATO troops held back a tide of terrified Afghans at the airport.

America's chaotic pull-out damaged its credibility as a super-power that sticks by its allies. Some of that credibility has been won back in Ukraine. But Western policy towards Afghanistan remains incoherent and ineffectual, as we report in a detailed look at life under Taliban rule (see Asia section).

America and its allies have isolated the country. They have largely shut off the aid that once provided 75% of Afghanistan's budget, and withheld \$9.5bn of its sovereign reserves. And yet the persistence of jihadist terrorism and humanitarian crises in Afghanistan makes the country hard to ignore. It harbours remnants of al-Qaeda and a local chapter of Islamic State that is setting off blasts in Kabul and is eager to do so abroad. Its loss of Western support has triggered an economic crunch that threatens millions with starvation.

The West is grappling with these twin crises from a distance. America is doing counter-terrorism by drone—including a strike in Kabul last year that killed al-Qaeda's leader. Outsiders are dispensing aid through UN agencies and NGOs.

The Taliban deserve their pariah status. Their supreme leader, Hibatullah Akhundzada, has banned girls from school and women from most workplaces. Yet isolating the Taliban will not help Afghan women. It will not topple or even destabilise the regime, which is in firm control. It will only boost its hardliners.

Confirmed in their hatred of the West, the hardliners are succouring some of the terrorists on their turf. America's ability to



zap these jihadists from afar will atrophy as its local knowledge fades. Afghanistan's threat to the world is thus increasing. Meanwhile, disengagement makes it harder to alleviate mass suffering. This year, the UN has raised only 9% of the \$4.6bn in emergency aid it says hungry Afghans need.

The Taliban's assault on women's freedom and dignity makes close engagement with them impossible. Yet it is worth trying some more modest and selective steps. America should press banks to end the informal ban on dealing with Afghanistan that is throttling its economy. It should release an experimental portion of the sovereign reserves (some suggest \$100m a month) to the technocrats running the country's central bank. Western do-

nors should explore funding, through the UN, some of the abandoned infrastructure projects that could make the country less aid-dependent. In time, they could upgrade the diplomatic outreach that America and others are already quietly pursuing.

No one is optimistic that the Taliban can be incentivised to behave better. But modest measures of this kind would explore the possibility.

Notwithstanding Mr Akhundzada, the mullahs are more mixed than in the past. Most Taliban ministers oppose the female education ban. In some ways, their performance in governing Afghanistan is better than that of the corrupt Western-backed governments they replaced (partly because those governments were besieged by the Taliban). It is not clear engagement would bolster the pragmatists among them, but in theory it might.

Engaging with the Taliban in any way seems unconscionable to many. That is understandable, but wrong. There is no good option in Afghan policymaking. But with realism and a strong diplomatic stomach, the country could be made slightly less awful for its people and less of a headache for the world. ■

America's banks

Rebuilding the buffers

How to shore up the banks after First Republic's demise

WHEN A DEEPLY insolvent bank fails and its depositors are made whole somebody has to bear the losses. In the case of First Republic Bank, the bulk of which was taken over by JPMorgan Chase on May 1st, the Federal Deposit Insurance Corporation (FDIC) carried the can. It expects to lose about \$13bn as a result of what is the second-biggest retail-bank failure in America's history. Yet customers with bank balances above the national deposit-insurance limit of \$250,000 have escaped unharmed, just as they did after the failure of Silicon Valley Bank (SVB) kicked off America's banking crisis in March.

A full depositor bail-out was inevitable given that policymakers had promised, after SVB's failure, that all America's deposits were safe. But it is striking that neither their reassurances

nor \$93bn of unusually generous emergency loans from the Fed could keep First Republic alive. Even on charitable terms emergency loans were a more expensive source of financing than the deposits the bank had lost, while rising interest rates had reduced the value of its fixed-rate loans and bonds. Having lost \$107bn or 90% of its uninsured deposits, excluding a last-minute infusion from other banks, California's regulators reckoned it had become "structurally unprofitable".

Many banks would be in the same dire predicament if they faced a similar run. By one estimate 1,040 banks with over \$3.5trn of assets would be insolvent if they lost 90% of their uninsured deposits. Other researchers reckon that if banks were forced to account for the effect of higher interest rates on the val-

► ue of their assets, about half would fall beneath the minimum levels of capital set by regulators. The demise of First Republic, despite frantic attempts to save it, explains why on May 2nd regional bank shares fell by 5.5%.

Some say the solution is for the Fed to slash the interest rate on its emergency loans to less than its policy rate of interest. Yet the Fed has already broken every part of the old rule (first outlined by Walter Bagehot) that in a crisis it should lend only to solvent firms, against good collateral, and at a penalty rate of interest (ie, at a reasonable premium to the policy rate). The more generous the lending schemes become, the bigger the implicit subsidy to banks' existing shareholders. Instead of receiving handouts, they should be first in line to bear losses.

Others want more deposits to be explicitly insured—something that the FDIC itself floated on May 1st. That might stop runs but it would encourage damaged banks to gamble for resurrection by taking bigger risks with depositors' money. Their customers, protected by the full force of the law, would not object.

What banks really need is thicker capital buffers. Regulators in America must urgently fix the rules that allow small banks to

operate with thin safety cushions, and should determine the size of the capital shortfall by stress-testing the whole system for risks from rising interest rates, as is already the norm in Europe. Then they must draw up a plan to plug the hole.

One route to a safer system is consolidation. The takeover of failing banks does not always require taxpayer support, because suitors can view their customer relationships and branch networks as valuable. America's biggest-ever retail-bank failure, that of Washington Mutual in 2008, was resolved via takeover with neither the FDIC nor uninsured depositors suffering losses. The buyer—once again, the mighty JPMorgan—subsequently raised capital in the markets (see Buttonwood).

Plumping up the cushion

But there are likely to be more failures that require a hole to be plugged. The government should craft deals from which taxpayers might benefit as the sector recovers, for example by taking equity stakes in joint ventures with acquiring banks. Far better to wipe out today's shareholders and provide fresh capital than to prop up insolvent institutions with backdoor subsidies. ■

Bacteriophages

When viruses are good for you

Bacteria-killing viruses could help avert an antibiotics crisis

ANTIBIOTICS ARE vital to modern medicine. Their ability to kill bacteria without harming the patient has saved billions of lives directly and made everything from caesarean sections to chemotherapy much safer. Life expectancy would drop by a third if they did not exist. But after decades of overuse their powers are fading. Some bacteria have evolved resistance, creating a growing army of "superbugs" against which there is no effective treatment. Antimicrobial resistance is expected to kill 10m people a year by 2050, up from around 1m in 2019.

It would be unwise to rely on new antibiotics to solve the problem. The rate at which resistance emerges is accelerating. Some new drugs last only two years before bacteria devise counter-measures. When new antibiotics do arrive, doctors often hoard them, prescribing them only grudgingly and for short periods when faced with the most intransigent infections. That helps limit the spread of resistance to new drugs. But it also limits sales, making new antibiotics an unattractive proposition for most pharmaceutical firms.

Governments have been trying to fix the problem by funnelling cash into research and taking stakes in drug firms. That has produced only limited improvements. But there is a promising, if obscure, alternative that is also worth a look. Microbiologists have known for decades that disease-causing bacteria can suffer from illnesses of their own. They are susceptible to attack by bacteriophages ("phages" for short): specialised viruses that infect bacteria, and often kill them.

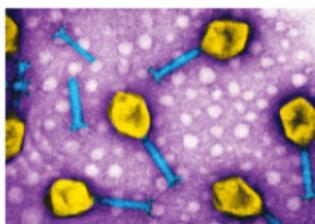
Using one disease-causing organism to fight another has several advantages. Like antibiotics, phages are picky in their choice of target, leaving human cells alone even as they infect and destroy bacterial ones. Unlike antibiotics, phages can evolve just as readily as bacteria can, meaning that even if bacteria do devel-

op resistance, the phages may be able to evolve around it in turn.

That, at least, is the theory. The trouble with phages is that comparatively little is known about them. After the discovery of penicillin, the first antibiotic, in 1928, they were largely ignored in the West. Only the Soviet Union, powered by research and production facilities in Georgia, continued to use them. Given the gravity of the antibiotic-resistance problem, it would be a good idea to find out more.

The first step is to run more clinical trials. Interest from Western firms is growing (see Science & technology section). But it is being held back by the fact that phages are an even less appealing investment than antibiotics. Since they are natural organisms there may be trouble patenting them, making it hard to recoup any investment.

Governments can help. They could fund basic research into phage therapy, and clarify the law around exactly what is and is not patentable. In time they could set up phage banks and manufacturing processes, so as to make production cheaper. And they could spread awareness of the risks of overusing antibiotics, and the potential benefits of phages. If you are put off by the thought of ingesting a virus, consider that penicillin was a mould.



Going viral

The history of antibiotics themselves shows that governments can help nudge the private sector into action. Penicillin was largely ignored at first by doctors, who regarded it as too difficult to produce. It took the tragedy of the second world war, and the intervention of the American and British governments, to kick-start the modern antibiotics industry. Compared with a war, antibiotic resistance is a slow-burning problem. Nonetheless, the time to act is now. ■



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Powering green energy

I enjoyed your Technology Quarterly on the challenge of greening power grids (April 8th). I would stress the merits of direct-drive wind-turbine technology. The advantage of direct-drive or full-power conversion is that its output can be artificially shaped to whatever is needed by the grid. Providing ancillary services is easy, cheap and mostly software generated, meaning it can be customised. In fact, wind turbines have been offering reactive power injection (for voltage control), inertia emulation (for frequency stability) and several other ancillary services for 20 years.

Unfortunately, most grid operators, a rather conservative bunch, do not use wind turbines to their full potential, and have no market mechanisms to remunerate ancillary services. ERCOT in Texas is one of a few exceptions. The toolbox exists but will remain underused until this is tackled.

NICOLAS BOURBONNIERE
Montreal

The optimism surrounding the potential for "power-to-gas" ignores the significant energy-efficient losses from the chemical and thermodynamic process involved. The round-trip efficiency of going from electricity to hydrogen and back again is anywhere between 18-46%. We may yet decide that this is the path we want to take to tackle renewable-power intermittency, but these fundamental inefficiencies will seriously challenge the business cases of renewable-asset developers and hydrogen producers.

The conviction that it is best to produce hydrogen strictly on the grid doesn't reconcile with the current regulatory landscape, or the assumptions necessary to rely on expanded grid infrastructure. The EU and Britain have proposed regulation that prohibits or severely restricts the use of grid electricity to make hydrogen. Instead, a new layer of hydrogen infrastructure is foreseen, comple-

mentary to but not embedded within, the current electricity grid. Pipelines will transport hydrogen from where it is cheapest to produce (near renewable sources) to where it is needed (industrial centres).

LILY BAILEY
London

We should spread the love and hug both trees and pylons. I know *The Economist* wants to hug both. I read between the lines of your report, from the celebrated Amazonian trees that exhale life-giving moisture, right down to the biomass which caused your correspondent and Drax's turbine hall to hum and throb with such obvious pleasure. However, the 50 shades of grey and 12.1m tonnes of carbon dioxide puffed out through Drax's smokestacks in 2022 came from pellets that were derived from 12.9m tonnes of freshly cut, water-puffing, carbon capturing, wildlife-sheltering trees. That is almost equal to more than Britain's entire annual wood production. By repurposing old coal-power plants to burn forests we are screwing our future.

LUCIE WUETHRICH
Biofuelwatch
Bern, Switzerland

English exceptionalism

Bagehot's column on a lack of English national identity (April 22nd) used surveys where people identify whether they are English or British. The feeling of "Englishness" runs deeper than such labelling. Bagehot pointed to George Orwell's "England your England" to support his thesis.

Written in 1941 during the Blitz the essay argues that England could never be a fascist state. It also paints a picture, still valid today, of an English exceptionalism that is an inverted version of American exceptionalism. This is a proudly, quirkily self-deprecating, collective view of being English that has built into it, among other things, the idea that "foreign" begins on the other side of the English Channel. It may help explain why being in the EU

was like an organ transplant that couldn't quite take.

So English nationalism, although maybe not quite the right term, is alive and well and exists deep in the English psyche without the need to be overly concerned with labels or to celebrate St George's Day or any of the other official markers of Englishness.

ALAN PHILLIPS
Mosman, Australia

Narrow banking

Regulators and central banks, as you correctly noted, have attempted to stop the banking system from taking steps towards narrow banking, where "deposits are fully backed by only the safest assets" (*Free exchange*, April 15th). However, today's brokerages offer a backdoor to narrow banking. Savvy depositors can buy short-dated US Treasury money-market mutual funds which carry no credit risk. These funds offer higher interest rates and tax advantages relative to a typical bank deposit. Brokerages offer banking-like conveniences through their mobile apps and no-load, no-fee access to such funds. Making depositors aware of these services would mark a significant step towards narrow banking.

DINKAR JAIN
Faculty
Anderson School
of Management
University of California
Los Angeles
GEORGE PENNACCHI
Professor of finance
University of Illinois
Urbana-Champaign

Banana drama

I'm bananas for your banana index (*Graphic detail*, April 15th). We can see that, even with its nutritional value, beef is still climate unfriendly compared with a banana. Chicken is less polluting than bananas on a protein basis, and so on. Humans hate complexity: the index makes it simpler for us to shop wisely.

JACOB TROYER
Billings, Montana

Your new banana index is nuts. Almonds are rated as good for the climate, but in truth it takes three gallons of water to grow one nut.

PERCY GRAINGER
Theberton, Suffolk

From Wisconsin, where there's plenty of fresh water, I enjoy calling my sister in southern California, which is often subject to water rationing, with the following message: stock-up on deodorant because you can't shower for a week; I'm having 25 California almonds with my granola.

KYLE MCCOY
Middleton, Wisconsin

The jerk hierarchy

There is a practical problem with implementing a no-jerks policy at work (*Bartleby*, April 1st). Jerkery is mostly invisible to the jerks' bosses, the very people who have the power to weed them out. Jerks typically will not behave like jerks around management, quite the opposite. Jerks make the lives of those below them in the corporate hierarchy miserable, rather than those above.

FERGUS MCKAY
New York

It will put hairs on your chest

I came of age in the west country of England drinking strong scrumpy cider ("Two-fisted taste", April 1st). When it's made at home it's fermented bone dry, with all the sugar turning to alcohol, resulting in a bitter but beautiful drink. It has a high alcohol content. I remember making it once with an old chap from Gloucestershire. On taking a big slug he said, wincing: "Hell's bells, that's two-man cider. You'd need one on each arm holding me down to get a pint in me."

MATT FORD
Bath



Crossroads at a crossroads

ANKARA

Recep Tayyip Erdogan, Turkey's strongman of 20 years, could be on his way out

HE WAS JAILED and barred from public office, yet managed to overturn the ban and came to dominate Turkish politics. He has won five parliamentary elections, two presidential polls and three referendums. He has even faced down a military coup. But on May 14th Recep Tayyip Erdogan's grip on Europe's second most populous country may slip. The polls suggest that the united opposition could wrest control of parliament from Mr Erdogan's Justice and Development (AK) party and its allies. What is more, Mr Erdogan himself appears to be trailing in the presidential election to be held on the same day.

A loss for Mr Erdogan would not just be the end of an era. It would initiate enormous upheaval in Turkey, with loud reverberations in the region and around the world. Turkey is, after all, the world's ninth-biggest economy, after adjusting for the cost of living, ahead of Canada, Italy and South Korea. It is a pivotal and awkward member of NATO, both close to the front lines of the war in Ukraine and yet, under

Mr Erdogan, disconcertingly chummy with the regime of Vladimir Putin, Russia's president. It stands between Europe and the chaos of the Middle East, and plays a crucial role in moderating the flow of refugees to the EU. It is also one of the few genuine democracies in the Muslim world, although Mr Erdogan has been undermining Turkish institutions for a decade or so.

The high stakes are matched by the Shakespearean drama of Mr Erdogan's rule. He started in politics as a dissident underdog, persecuted by Turkey's secular establishment for campaigning to lift restrictions on expressions of piety in public life. Now he has become the persecutor, locking up opponents on flimsy charges, cowing the media and deposing elected officials. Turkey barely deserves the label democracy, in the eyes of many observers (see chart 1 on next page).

Mr Erdogan's economic management, too, has come full circle. The first decade of his rule saw inflation banished and incomes soar. In the second, inflation has re-

turned and GDP per person has fallen by 15% in dollar terms (see chart 2).

Mr Erdogan has performed a similar volte face with regards to Turkey's big Kurdish minority, which he courted in his early years in power but whose political leaders he now dismisses as terrorist stooges. And he has fallen out with America and the EU, which at first feted him for helping to strengthen Turkey's democracy, but now castigate him for weakening it. In all of these realms—upholding democracy, righting the economy, managing social cleavages and conducting foreign policy—the election offers a stark choice between a reforming opposition and the ever more entrenched and intransigent Mr Erdogan.

Sorrows and lamentations

On the face of things, it is odd that Mr Erdogan and the AK party are even in contention, given the state of the economy. The lira has lost 60% of its value against the dollar over the past two years. Money is flooding out of the country: foreign investors owned 64% of Turkish equities and 25% of Turkish government bonds only five years ago, but only 29% and 1% now. The current-account deficit hit a record \$10bn in January. Runaway inflation—it reached 86% year-on-year in the autumn, and remains over 40%—has impoverished millions of Turks. Moreover, the drop in inflation in recent months is thanks in part to the central bank's unsustainable bolstering of the ►

► exchange rate. It is selling perhaps \$1bn a day, much of it borrowed, to slow the lira's slide. Taking into account the dollars it owes other central banks and domestic commercial banks, it is thought to have negative foreign reserves, of almost -\$70bn. Further devaluation of the lira, and therefore higher inflation, seem inevitable when it runs out of dollars to sell.

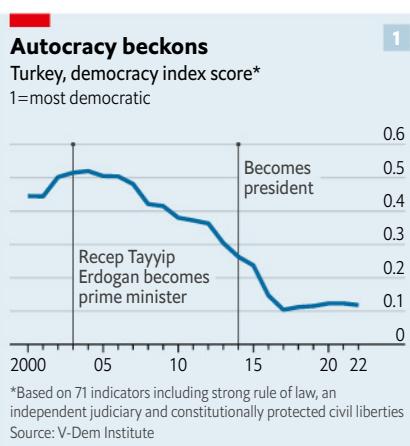
Mr Erdogan is trying to distract attention from all this by pointing to the many advances Turkey has made on his watch. Over the past month alone, he has inaugurated the country's first nuclear plant, celebrated the tapping of a big gasfield in the Black Sea, jumped behind the wheel of Turkey's first electric car and unveiled its first aircraft-carrier. The message such projects are meant to convey is that Mr Erdogan has defied the West to transform Turkey into a world power, and that the best is still to come. "If you're wondering why he still hovers at more than 40% [in the polls]," says Galip Dalay, an analyst, "one reason is this idea and this language of grandeur."

It is not all hollow rhetoric. Mr Erdogan took power in 2003, on the heels of an inflationary spiral and a banking crisis that had trampled the economy. He initially presided over steady growth, in the economy as a whole and in the middle class. Many Turks benefited enormously and remain loyal to Mr Erdogan as a result.

Spinning like a Topkapi

Mr Erdogan has used his influence over the media to persuade supporters that the economy's troubles have more to do with foreign conspiracies to keep Turkey down than with his government's mismanagement. He is also adept at exploiting divisions within Turkish society. Many of those who benefited from his early economic policies were conservative, middle-class, provincial types who had long felt ignored or sneered at by the secular, metropolitan elite. For years he has been telling them that the freedoms they have won on his watch, including the right to wear the Islamic headscarf in universities and state institutions, depend on his remaining in power. He characterises the election as a contest between proudly pious and nationalist Turks and a rabble of whisky-sipping, godless elitists, Kurdish separatists and sexual deviants, all slavishly seeking to embrace imported Western values.

But none of this can hide the fundamental problem: Mr Erdogan is sabotaging the economy. He believes, perversely, that high interest rates fuel inflation, and that lowering borrowing costs will help stabilise prices. By packing the central bank with yes-men, he has imposed this view on the country, leading to feverish inflation. And because low interest rates make credit ludicrously cheap (the central bank's main lending rate is more than 35 percentage



points below the rate of inflation), it has to be rationed through government regulations. Critics see this as a recipe for cronyism. "The central bank decides who gets to buy dollars, the banking authority decides who is eligible for loans, and the government decides whose debts are forgiven or postponed," complains Kerim Rota, a former banker and a deputy chair of Future, a small opposition party.

Mr Erdogan's only remedies are sticking-plasters. The recent discovery of a big gasfield in the Black Sea, says Numan Kurtulmus, AK's deputy chair, will cut Turkey's bill for imports, easing pressure on the lira. Meanwhile, since the end of 2021, the government has increased the basic monthly state pension fivefold to 7,500 lira (\$385) and tripled the minimum wage to 8,500 lira, bringing it close to median earnings. It promises to raise the minimum wage again in July, after the election.

The opposition, in contrast, promises a return to economic orthodoxy. It is led by Kemal Kilicdaroglu, a former official in the finance ministry and head of a state-pension agency, whose understated personality offers a striking foil to Mr Erdogan's grandstanding. (While Mr Erdogan cuts the ribbon on one megaproject after another, Mr Kilicdaroglu records videos in his mod-

est kitchen, with tea towels draped over the oven handle and a lone onion as a prop to discuss inflation.)

Mr Kilicdaroglu says he will restore the independence of the central bank, which will inevitably lead to sharp increases in interest rates. That, in turn, is likely to slow the economy down, if not prompt a recession. Meanwhile, inflation will take some time to quell. Under Mr Erdogan it has become so sticky that the opposition has had to revise its timeframe for bringing it down to single digits from one year to two.

Opposition politicians say that social spending will mitigate some of the pain, as will foreign capital, which they expect to flood into Turkish equity and bond markets as soon as a new economic team takes charge and rates start rising. Direct investments in firms and factories will take longer, but will return too, the opposition argues. Turkey's is the largest economy between India and Germany, after all, and benefits from a customs union with the EU, making it an excellent base from which to export to Europe. Conversations with fund managers flocking to Istanbul ahead of the elections suggest such hopes are not unfounded. "I know what needs to be done," says Bilge Yilmaz, a possible economy minister if the opposition prevails, "and delaying it is only going to increase the pain in the long term."

In terms of institutional reforms, too, the government and opposition offer starkly different programmes. Mr Erdogan has strongly centralised power in the presidency, which used to be a largely ceremonial office, while abolishing the job of prime minister and diminishing the role of parliament. He has also used the state's power in extremely partial and punitive ways. He has stiffened and abused a law against insulting the president, which is now punishable by up to four years in prison. There have been some 200,000 investigations of this crime during his time in office. In a haunting echo of the banning of Islamic parties and politicians before he



came to power, his prosecutors are pushing for the dissolution of the Peoples' Democratic Party (HDP), the main Kurdish party. In the meantime, he has summarily evicted many elected Kurdish mayors from office. Tens of thousands of followers of Fethullah Gulen, a cleric with whom Mr Erdogan was once allied politically, have been dismissed from government jobs or jailed on paper-thin charges backed by risible evidence, after Mr Gulen was accused of instigating an attempted coup in 2016.

Mr Kilicdaroglu promises to reverse much of that. He says he will restore the independence of the courts, hand power back to parliament and repeal the law on insulting the president. The opposition also pledges to end Mr Erdogan's policy of sacking elected mayors and to compensate those wrongfully dismissed after the coup. It says it will pursue crooked officials, too, including those suspected of massaging the inflation numbers and awarding lucrative contracts to government cronies.

Sublime support

One of the likely beneficiaries of such a policy would be Selahattin Demirtas, the imprisoned former leader of the HDP. Since the breakdown of talks with the Kurdistan Workers' Party (PKK), a Kurdish insurgent group, in 2015, AK has become increasingly hostile to Turkey's Kurdish minority, who make up around 15-20% of the population. Since 2018 it has governed with the support of the National Movement Party (MHP), which fiercely opposes any concessions to Kurds.

The opposition alliance also contains a nationalist outfit, the Good Party, which formed after a split in the MHP. Its manifesto therefore features few clear concessions to Kurdish sentiment. But whereas Mr Erdogan dismisses Kurdish political parties as fronts for the PKK in his speeches, Mr Kilicdaroglu condemns Mr Erdogan for caricaturing all Kurds as extremists. Simply by restoring the rule of law, the opposition would make life much easier for Kurdish activists. The HDP has formally endorsed Mr Kilicdaroglu. Although his election would not resolve all its grievances, it would markedly lower tensions.

On foreign policy, too, the government and the opposition differ dramatically in tone, at least. Mr Erdogan's disregard for civil liberties and his stridently nationalist tone make relations with the West awkward, despite a recent effort at rapprochement on both sides. Mr Erdogan has blocked Sweden's bid to join NATO, arguing that it harbours Kurdish terrorists. And his government depends on Mr Putin for all manner of economic help, from cheap imports of gas to loans and expertise to build the nuclear-power plant that Mr Erdogan recently inaugurated.

An aide to Mr Kilicdaroglu says Sweden

could join NATO within a month if his boss wins the election. The opposition has promised to improve relations with the EU, too—although this depends as much on Europe getting over its fears about migration from Turkey as it does on Turkey improving its record on human rights. And the opposition is almost as sceptical as Mr Erdogan about unqualified support for Ukraine, arguing that the war can end only through negotiation. Turkey, in short, will still see itself as a regional power deserving a degree of deference if Mr Kilicdaroglu becomes president, but it should become less reflexively prickly and pugnacious.

All these changes, however, will only be possible if the opposition prevails. It is a mixed bunch. Mr Kilicdaroglu's Republican People's Party (CHP) had for decades clung to the statist and secular legacy of Turkey's modern founder, Kemal Ataturk, and opposed any outward expression of Islamic faith. The Good Party's leader, Meral Aksener, served briefly as interior minister in the 1990s, when human-rights abuses in the Kurdish south-east were at their worst. Other prominent opposition leaders include Mr Erdogan's former prime minister, his erstwhile economy tsar and an avowed Islamist who only years ago argued that Turkey should ditch ties with Europe in favour of an Islamic union.

This motley assembly have gradually set aside their differences and moderated their views. Mrs Aksener has rebranded the Good Party as centre-right. Mr Kilicdaroglu has begun transforming the CHP from a Kemalist fossil into a modern social-democratic party (which has helped make him more palatable to Kurdish voters). At Mr Kilicdaroglu's insistence, the opposition alliance has drawn up a 200-page manifesto after months of negotiations. It also agreed on Mr Kilicdaroglu as a joint presidential candidate, despite misgivings

about his lack of charisma.

The opposition is certainly capable of winning elections. Four years ago, thanks in part to the Kurdish vote, its mayoral candidates handed Mr Erdogan a stinging defeat, beating AK in four of Turkey's five biggest cities. The latest polling suggests close races in both the parliamentary and presidential elections.

To win the presidential election in the first round of voting, a candidate must secure more than 50% of the vote. With two other candidates running in addition to Messrs Erdogan and Kilicdaroglu, that is unlikely. So the race is likely to go to a runoff on May 28th.

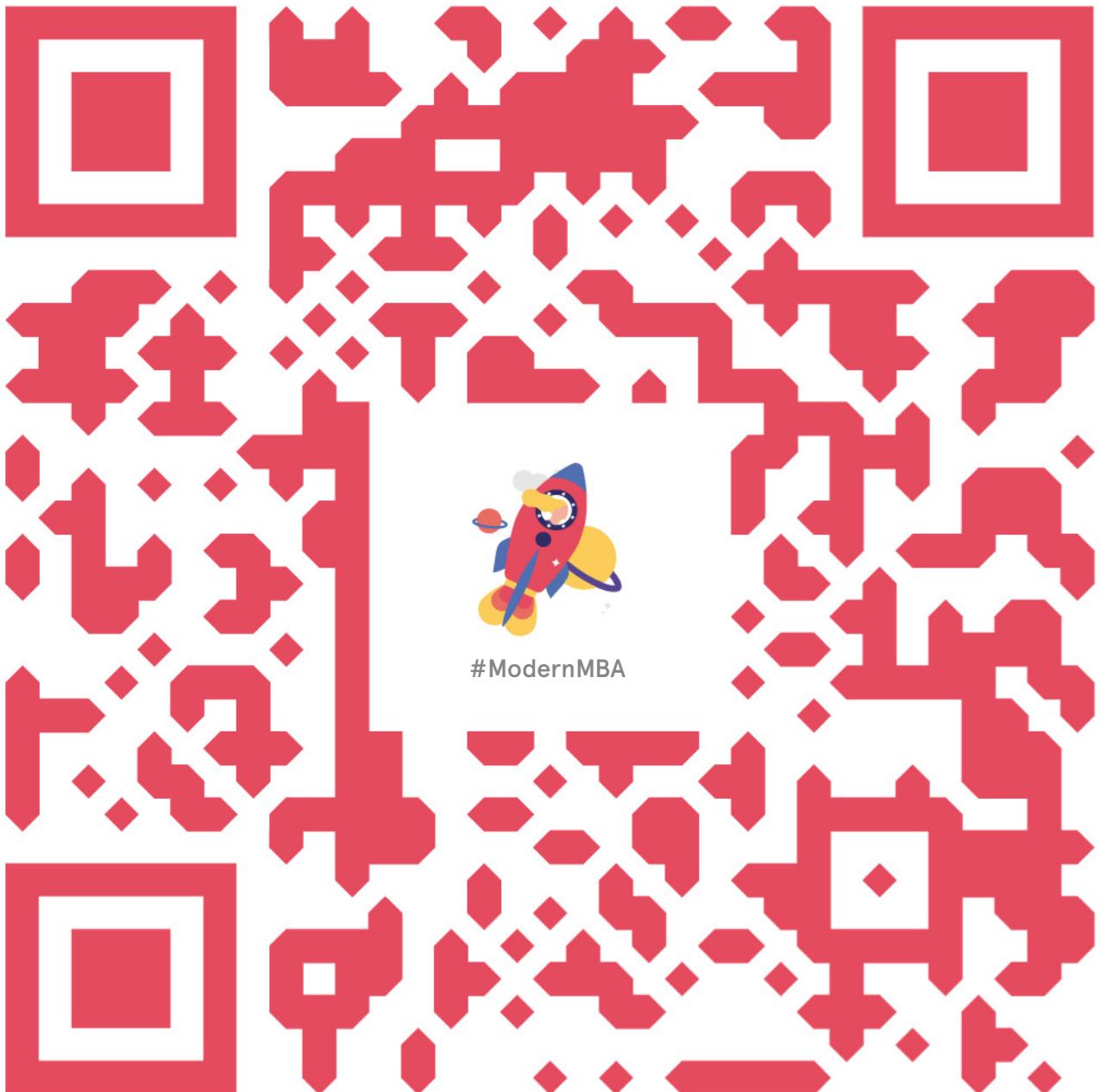
Some opposition supporters fear that Mr Erdogan will refuse to hand over power if he loses. "My people will not hand over this country to a president supported by [the PKK]," he thundered on May 1st. A few days before, the interior minister warned of "a political coup attempt backed by the West" on election day.

Such rhetoric is stoking concerns that Mr Erdogan, perhaps at the behest of members of his inner circle, may subvert the election or challenge the results, especially in case of a narrow loss. The AK party tried this, after all, in the most recent mayoral election in Istanbul, persuading the courts to order a re-run. AK lost again, by a bigger margin. Three years later the victorious candidate was convicted of insulting government officials.

Opposition politicians, however, wave aside such concerns, saying they are confident in the integrity of the vote, and that Mr Erdogan would not dare challenge the people's will, on which his legitimacy depends. "He can try anything," says Mr Kilicdaroglu. "But no matter what he does, this nation has made its decision." If Mr Kilicdaroglu is right, the election will mark a watershed, for Turkey and the world. ■



On a Kilicdaroglu



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Florida's red tide

DeSantis and his dissenters

TALLAHASSEE

An abrupt shift to the right was meant to showcase Ron DeSantis's conservative credentials. Instead it has provoked concern

TALLAHASSEE WAS not always Florida's capital. Two centuries ago lawmakers from Pensacola on the territory's western coast and St Augustine on the eastern one grew tired of traversing 400 miles to meet. In 1824 Tallahassee was named the capital as a compromise, because it was in the middle. Today middle ground and compromise have vanished in Tallahassee, where the governor's office and both chambers of the legislature are controlled by Republicans. On May 5th Florida's lawmakers will conclude their annual session, which will be remembered as a conservative tide washing over the state.

"Four sessions' worth of legislation" was done in one session, boasts Paul Renner, the Republican speaker of the Florida House: "In scope, it is unlike any other." Ideas that for decades were politically unfeasible have been signed into law. These include a ban on abortions after six weeks of gestation, the "permitless carry" of guns (requiring no training or background

check) and a "universal" school-voucher scheme. (Parents can use public-school funds to send their children to private schools or teach them at home, regardless of income.)

This might sound surprising for what used to be a swing state in presidential elections—remember the "hanging chads" of 2000. The Sunshine State still has a large share of independent voters: 28% are registered as having no party affiliation. Two forces are at work. One is the rise of Ron DeSantis, the governor, as a likely presi-

dential contender. After his re-election last November, when he won by more than 19 points, some national donors viewed him as the Republicans' best chance of defeating Donald Trump. Although he has not yet announced his run, he is using his state as a stage to project his "Florida blueprint" for the rest of the country. In this session, his strategy has been to push to the right of Mr Trump to appeal to primary voters.

Second, though the legislature has been under their control since 1997, the election in November handed Republicans new super-majorities (of at least two-thirds) in both chambers. This is only the second time Republicans have held such majorities, and it is the largest margin they have ever held, says Aubrey Jewett, at the University of Central Florida. Bills have passed without much need for compromise.

The two chambers have fallen into lock-step under Mr DeSantis's command. Ambition surely plays a part in this, with lawmakers hoping to see their loyalty repaid with plum jobs if Mr DeSantis ends up in the White House. But Jeff Brandes, a former Republican state senator, thinks it is "mostly fear". Mr DeSantis has shown a willingness to strike back against legislators who cross him.

Nearly every one of Mr DeSantis's legislative priorities has passed, as have a few bills pandering to him. One of those reverses the "resign to run" law in Florida, no ➤

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longer requiring a person to step down from current office if they seek the presidency or vice-presidency. Another shields Mr DeSantis from public-record requests involving his travel with government funds, ostensibly for security reasons.

Around 25-30% of the legislature's time this session has been taken up with "culture-war issues", reckons Randy Fine, a Republican House member. As well as guns and abortion, Mr DeSantis's "anti-woke" crusades have included ratcheting up his long-running conflict with Disney and attempts to restrict "diversity, equity and inclusion" initiatives. Even some of his biggest backers have grown confounded by how far he has pushed things—including a proposal to expand last year's ban on classroom discussions of gender identity and sexuality, known by critics as the "Don't Say Gay" bill, from the third grade (ages 7-8) to the 12th (17-18).

Social issues may stir the Republican base, but none ranks as the main concern for the average Florida voter. (Affordable housing comes top, followed by the economy, according to a poll in March by the University of North Florida.) The legislature has set aside funds and changed height and zoning rules to boost the supply of affordable housing, and passed a tort-reform law to cut lawsuits, including those for property insurance, which in Florida costs nearly triple the national average. Still, many Florida-watchers are unimpressed. "I wonder what this legislative session would have looked like if Governor DeSantis had decided to stay governor," says Mr Brandes, who thinks "he would have been much more willing to deal with the pressing problems in Florida".

Questions of character

The session has also given a somewhat unflattering outline of what Mr DeSantis might be like in higher office. "I think he is telling voters who he is, and we should believe him," says Fentrice Driskell, the Democratic leader of the state House. He has shown a reactive streak. After a jury last year could not reach a unanimous decision about whether to sentence the perpetrator who killed 17 people at Marjory Stoneman Douglas High School in Parkland, Florida, to the death penalty, Mr DeSantis pushed to change the law. Now someone can be sentenced to death with four of 12 jurors dissenting, making Florida one of only two states (together with Alabama) not to require unanimity for the death penalty.

His fight with Disney has shown a tendency for retaliation and willingness to push to extremes. Last spring, after the then-boss of Disney spoke out against the "Don't Say Gay" law, Mr DeSantis and the legislature stripped Disney of its special taxation and governance privileges. At

first, dressing down a "woke" corporation looked an easy win, but it has turned into a distraction. Mr DeSantis has suggested that the state could build a prison near Disney World. Disney recently filed a lawsuit arguing that the state's bullying behaviour is unconstitutional, and a board appointed by Mr DeSantis has responded with its own countersuit. Even some of Mr DeSantis's allies are privately critical, saying a pro-business state should not target a company for speaking out.

More people are questioning his political shrewdness. Some worried about his criticism of American support for Ukraine, which he belittled as a "territorial dispute". He had already sated the Republican base last year when he signed a 15-week abortion ban; the six-week ban passed in this session pushed away donors. "I can think of a huge number of people down here who don't want any part of him, because of the last 60 days," says a Republican businessman and former DeSantis donor in Florida, who calls his behaviour with Disney "vindictive, autocratic and absurd".

Although Mr DeSantis has a war chest that Politico, a political-news website, estimates at \$10m (including political-action-committee funds), his popularity has flagged compared with Mr Trump's. A recent poll carried out by YouGov for *The Economist* shows that 53% of Republicans would prefer to see Mr Trump as the Republican nominee in 2024, compared with 31% for Mr DeSantis. That is a striking reversal from last November, when 46% favoured the governor and 39% the former president. Mr Trump has experience of seeing off a Floridian governor. Jeb Bush, widely thought to be a front-runner for the Republican nomination in 2016, quickly withered in the face of Mr Trump's attacks.

Recently members of Congress from Florida have come out to endorse Mr Trump, with only one publicly backing Mr DeSantis. "DeSantis lives in a very insular world, where he doesn't reach out to members," says Mr Brandes. "I don't know who in the legislature he's actually close to, after five years of watching."

But whatever befalls Mr DeSantis's presidential run, he will continue to make a mark on the country. Some of his policies, such as the "Don't Say Gay" law, are already spreading to other states. One of Florida's new laws raises criminal penalties for transporting illegal immigrants and requires hospitals to record people's immigration status. It is "one of the most sweeping and targeted immigration bills in the country" and will be used as a model by other states, predicts Maggie Mick of Multistate, a government-relations firm. Even if the "Florida blueprint" does not prove to be a road map to the White House, it will still inspire other Republican-controlled states to copy Florida's plans. ■

Hollywood

Lights, camera, industrial action

LOS ANGELES

Making movies and television is not all it's cracked up to be

ONE HUNDRED years ago, the hills above Los Angeles got a facelift. A giant sign was erected to advertise a new property development. Its 13 letters, each 43 feet tall, spelled "HOLLYWOODLAND" ("land" was later dropped). The modern movie business was forming at around the same time, as Warner Brothers consolidated power and Walt Disney left Kansas City for Los Angeles. Yet instead of celebrating its centenary, Hollywood faces upheaval: screenwriters are striking for the first time in 15 years.

Every three years the Alliance of Motion Picture and Television Producers, the trade group for the studios, negotiates a new contract with the Writers Guild of America (wga), the writers' union. This year talks soured as studios and writers grappled with how streaming has upended their business models and working conditions. The wga voted to strike if negotiations failed. On May 2nd, hours after their contract expired, they downed pens. Writers wearing matching blue t-shirts and carrying signs with snarky messages ("My pronouns are pay/me") picketed in front of studios across LA and in New York City.

Writers' complaints boil down to two issues. First is the amount of work on offer. There were nearly 600 original scripted television shows in 2022, more than ever before. But in the age of streaming, more content does not necessarily mean more work. Many writers' rooms—where scribes try to wrangle ideas into scripts—last for



Writers block

► fewer weeks and employ fewer writers than in the past. Inspiring particular ire are “mini rooms”, where a few writers map out several episodes before a show even gets the green light. “I do think it’s a cost-cutting measure,” says Sean Collins-Smith, a writer on NBC’s cop drama “Chicago PD”.

The second problem lies with “residuals”—what a writer gets paid each time an episode or film they worked on is rebroadcast. In the Netflix era, films and TV shows can be rebroadcast on demand. Writers argue that the industry has not yet found a way to equitably adjust their payment system to account for this huge change.

A writers’ strike is felt across Hollywood. When shows stop production, camera people, costume designers and others are also out of work. Late-night talk shows are the first to go dark. The Milken Institute, a think-tank in Santa Monica, reckons the previous strike in 2007 and 2008 cost California’s economy \$2.bn.

Striking screenwriters may inspire less sympathy than factory workers who down tools, or even the cash-strapped graduate students who went on strike across California last year. “There’s a notion out there of the spoiled, entitled, glitz-and-glam lifestyle of Hollywood writers,” admits Mr Collins-Smith. But “I know people who, when they got out of their last room, immediately started driving for Uber.”

Los Angeles is the fourth-most-expensive city in the world, according to an annual cost-of-living survey from EIU, *The Economist*’s sister company. “You come to LA for the land of opportunity,” says Jake Lawler, a 24-year-old writer who moonlights as a stuntman to make ends meet. “But the peace-of-mind tax is way higher than anywhere else in the country.”

For studios, the question is whether the film industry can make money. Before covid-19 shuttered cinemas, theatrical releases accounted for about 45% of a studio’s revenues for a big-budget film, according to FTI Consulting. Americans are again going to the movies, but not in pre-pandemic numbers. The streamers are also hunting for profits. Netflix laid off hundreds of workers in 2022 after it lost subscribers for the first time since 2011, and the firm recently said it would restructure its film department to focus on fewer, better flicks. “There’s going to be a precipitous drop in investments in movies in general, because it’s just hard to make a profit,” warns Howard Suber, who taught film at the University of California, Los Angeles for 45 years.

In some ways, the writers’ strike and the business-model woes are what Hollywood is accustomed to. “Every five to ten years there’s some kind of crisis, going back to the introduction of sound,” says Mr Suber with a chuckle. Hollywood is celebrating its century the only way it knows how: chaotically. ■



End of the pandemic emergency

Bye-bye covid

WASHINGTON, DC

Many services Americans have come to rely on are about to wind down

After years of turmoil, America’s covid-19 emergency is formally coming to a close. More than 1.1m Americans died from covid-related causes during the pandemic (in January 2021 weekly deaths were close to 24,000). Now reported deaths are down by over 95% from their peak. And so on May 11th the Biden administration will end the public-health emergency declaration, first issued under President Donald Trump. It enabled the federal government to cut red tape for government programmes and provide urgently needed funds. A programme that allowed FEMA, the Federal Emergency Management Agency, to pay for extraordinary expenses will also end that day. It is a symbolic moment, but also one with real consequences.

Covid-related protections for public health insurance have already been removed, after a change on March 31st. Before the pandemic, many Americans on Medicaid—public health insurance for the poor and those with disabilities—had inconsistent coverage. Some would become ineligible after a rise in income, only to become eligible again once their pay dipped. Others would fail to complete the paperwork properly. The emergency declaration required states to keep patients on the books. In all, up to 24m people could now lose their health insurance.

Covid testing and treatment will be more costly for patients. Under the emergency, Medicare—public insurance for the elderly—and private insurance firms had

to cover clients for covid laboratory tests and up to eight at-home tests a month. No longer. Patients may need to pay for tests ordered by a medical professional. Americans with public insurance were treated free; that may end in September.

One thing will remain the same for a while: covid vaccines will be free to all until the federal supply has been depleted, which some estimate could be as early as this summer. Most insurance companies are required to provide vaccines recommended by the Centres for Disease Control and Prevention without cost, so the vaccine will remain free for the fully insured. But the uninsured may be out of luck.

Telehealth services will become more restrictive. For example, providers were allowed to write prescriptions for certain controlled substances, such as drugs used to treat opioid addiction, through virtual appointments. This will end next week, though the Drug Enforcement Administration has proposed a permanent extension.

FEMA, meanwhile, will end special provisions allowing the federal government to reimburse states for disaster-related services. It provided \$104bn. “It’s the first time we’ve ever done a simultaneous major disaster declaration in all 50 states and our territories,” says Deanne Criswell, FEMA’s administrator. The agency supported measures such as medical treatment in temporary facilities. This will stop on May 11th. FEMA also gave families up to \$9,000 in funeral expenses for covid-related deaths. This will end in September.

“The health system is going to have to absorb a lot of changes at once,” says Jennifer Kates of KFF, a charity focused on health. “We won’t know how smooth or bumpy it will be until it happens.”

And the impact will be felt beyond the medical system. Supplemental Nutrition Assistance Programme (SNAP) benefits, commonly known as food stamps, were more generous and given to more people under the emergency. These benefits will be pared back. Next week additional food stamps for children under six, as well as for children and adults in shelters, will end. A provision covering poor college students will expire in June, and another for schoolchildren finishes in September.

These cuts will hurt the poorest Americans. Some pandemic-related SNAP benefits ended in March, and the affected families lost \$90 per person per month on average. New York Common Pantry, a charity that provides food for the needy, says that as a result it saw 35% more clients after the rollback than at the same time last year. “The lines are longer than ever before,” says Judy Secon, its deputy executive director. She expects demand to rise further as those other food benefits come to an end: “The pandemic went away, but food insecurity did not.” ■

American soft power

The effort to transform the aid business

USAID is changing the way it tries to do good in the world

RAJIV SHAH, a former head of the United States Agency for International Development (USAID), took his team out for drinks to celebrate their hard work in the immediate aftermath of the Haiti earthquake in 2010. Mr Shah footed the bill himself. Funding at USAID didn't stretch that far. But in a cordoned-off area of the bar he spotted a USAID contractor hosting a similar celebration. They were enjoying food and drinks—on the government's dime.

It is tales like this that convince American taxpayers that aid funding is squandered. America is relatively stingy, given the size of its economy. Total official development assistance in 2022 was just over 0.2% of gross national income. But that is enough to make the country the world's largest donor, ahead of Germany and Japan. USAID, the arm of the government that is responsible for dishing out much of that funding, committed \$32.5bn last year, a figure that has climbed markedly over time (see chart). As Joseph Nye at Harvard University puts it, investing in poor countries is a way to both win over foreign governments and "engender a sense of gratitude" towards America. "One shouldn't neglect the fact that aid has a hard-power dimension as well as a soft-power dimension," says Mr Nye.

But USAID's work doesn't always make America look good. The agency is derided for putting bureaucratic process before real progress. Only a handful of big organisations can handle vast USAID awards and the onerous reporting requirements they come with. A study of three years of the agency's spending published in 2019 found that over 40% of awards achieved, on average, just half the results intended. Its work in Haiti has become a symbol for waste in the aid industry. A \$124m programme to build an industrial park created a tiny portion of the expected 65,000 jobs and booted hundreds of farmers off their land. Plans to expand a nearby port failed, though USAID shelled out \$72m on it.

Thanks to the war in Ukraine and the covid-19 pandemic, which have spurred aid spending (see map), the agency is in the spotlight. Lawmakers from both sides of the aisle are pushing it to be more efficient and innovative. And the current USAID chief, Samantha Power, a Pulitzer prize-winning historian of genocide and former ambassador to the UN, is hanging her reputation on plans to overhaul the agency. "I don't want



to exaggerate the degree to which we can snap our fingers and shift the way we do business or the shift in mindset that this entails," she says. Still, two years into her term, efforts to cut red tape, hire more staff and open the door to new partners suggest a shift is, indeed, under way.

Aid and a bet

To understand USAID, start from its beginning. The agency was set up by President John F. Kennedy in 1961 to bring America's foreign assistance under one umbrella. There was never any pretence of altruism. USAID is obliged to use American suppliers even when they are vastly more expensive. The goal, as Maura O'Neill, a former innovation chief at the agency, puts it, was to

"catalyse more South Koreas and less North Koreas". In the 1990s talk of waste mounted and calls to abolish the agency, led by Senator Jesse Helms, grew louder. The workforce was slashed by 30% between 1995 and 2000. The agency still sees itself as rebuilding from that nadir.

At that Washington bar Mr Shah put his finger on the root of USAID's inefficiency: its stratified way of operating. As at most aid agencies, its staff design projects but don't run them themselves. Its funds generally go to big international organisations, including UN agencies, international non-profit groups and private-sector contractors. A handful of firms in the Washington area, like ABT Associates, Chemonics International and Palladium, have been nicknamed the "Beltway Bandits" for their ability to grab government funds. These intermediaries then identify organisations doing good work on the ground, and hand out money via layers of subcontracts, grants and other awards. USAID staff get involved in monitoring that work.

For an agency that has Congress breathing down its neck, using middlemen is a way to reduce risk. USAID partners have to fill in environment evaluations, gender assessments and myriad other bits of paperwork in return for taxpayers' money. Its partners have legions of lawyers and bookkeepers to meet the rules. These intermediaries take the blame if projects go wrong. What they offer is "compliance as a service", says Prashant Yadav at the Centre for Global Development, a think-tank.

But this is an expensive way to do good in the world. Data from the Share Trust, a non-profit group, suggest that aid agencies could save 32 cents of each dollar they spend through overhead and salary costs if they used local intermediaries.

Across the globe, aid agencies are trying to hand more money directly to local groups, an effort known variously as "lo-



calisation" and "decolonising aid". In 2016 donors and aid organisations struck a "grand bargain", vowing to provide 25% of global humanitarian funding to local responders by 2020. Yet that target was missed by a wide margin.

It is impossible to put a number on USAID's performance versus other aid agencies, says Raj Kumar of Devex, an aid-focused news group: the data are too patchy. But Mr Kumar says the Swedish and Norwegian governments have historically been considered leaders in the quality of aid delivery, including localisation. Countless aid workers say USAID stands out for being the hardest agency to work with.

Successive American administrations have pushed for more localisation. Under President Barack Obama the agency set a target (which it missed) of handing 30% of funding directly to local groups by 2015. In the Trump era, the "Journey to Self-Reliance" strategy justified localisation as saving taxpayers' money. For the current administration, says Donald Steinberg, a USAID veteran now leading the localisation push, it is a way of "changing the power dynamics" and recognising that local groups are best placed to solve local problems. Ms Power has set a goal of directing 25% of USAID funds to local organisations by 2025.

There is a long way to go. Publish What You Fund, a campaign for aid transparency, had a crack at analysing USAID funding between 2019 and 2021 in ten countries, including Haiti, Jordan and Kenya. It reckons that between 6% and 11% of country-level spending goes directly to local groups, depending on how you define "local".

Power shifts

In a bid to push that figure higher, USAID is changing the way it works in three ways. First, an organisational reboot is under way. To give staff the time to seek out new partners, USAID has asked Congress to increase its staffing by 38% by 2025. On average, a USAID contract officer dished out \$77.6m a year over the past five years, more than five times the average at the Department of Defence. With less pressure to get money out of the door, many could experiment with new organisations that can handle only small sums.

Second, the agency is making itself more accessible to small, faraway organisations. Piles of paperwork are off-putting. In a survey of small and medium-sized development firms by Unlock Aid, a campaign for foreign-aid reform, one-third said they avoid taking USAID funding as a result. Adeso, a Nairobi-based humanitarian group that was handed a USAID project, ended up tangled in audits and disputes with the agency that took their toll on the organisation. USAID is trying to put an end to all that. A new website, workwithusaid.org, provides online courses to help

small organisations bid for awards and connects USAID partners with one another.

Third, USAID is shaking up its relationship with big intermediaries, like the Beltway Bandits. Christopher Hirst, the CEO of Palladium, says the firm faces growing pressure to go into partnership with local organisations on USAID projects and train them to work directly with the agency.

Yet there is only so much USAID can do without reforms by Congress. In some missions, as much as 90% of spending is driven by "earmarks", legislative provisions that direct spending to a particular place. The rules on procurement stretch to over 2,000 pages. Asked in a survey in 2017 to choose the top three things that hold them back in their daily work, 63% of USAID staff pointed to endless approvals and clearances required to get anything done.

Change is possible. In corners of USAID greater risk has led to good results. The

President's Emergency Plan for AIDS Relief, a \$100bn project reckoned to have saved 25m lives since 2003, upped the share of funding it hands directly to local groups from 32% in 2018 to 53% in 2021. Development Innovation Ventures, co-founded by a Nobel economics laureate, Michael Kremer, is a sort of venture-capital fund within USAID. An evaluation of its early investments found that it yielded at least \$17 in social benefit for each dollar invested.

Reducing red tape and cutting out the middlemen is something lawmakers on both sides of the aisle should be able to support. As Gayle Smith, another former administrator of USAID, puts it: "Development isn't something you do to people, it's something people do to themselves." Better to fund local communities directly than private contractors in Washington who spend public money on costly overheads—and boozy celebrations. ■

Rattlesnake roundups

Snake, rattle and roil

MANGUM, OKLAHOMA

A rite—or, to critics, a wrong—of spring

SHAYNE NAYLOR has some advice for people who want to hunt rattlesnakes: "Be vigilant" and watch "where you're putting your hands and feet." Every spring he leads people into the countryside of Oklahoma to seek out snakes. Wielding tongs, hooks and a bucket for stashing their catch, a few dozen hunters look under rocks and into crevices to track down their prey.

The hunt is part of the Mangum Rattlesnake Derby, held on the last weekend in April. Some 30,000 people visit the town, which is normally home to only 2,800. In a snake-pit tent wranglers perform among the rattlers. At a butchery

show snakes are killed and skinned in a gory display. Their meat is fried and served up at a café. Hunters can sell their catch for \$10 a pound, and win a prize for the longest snake, overseen by a newly crowned Miss Derby Princess.

The first organised roundup took place in Okeene, Oklahoma, in 1939. Ranch owners banded together to stop the reptiles from harming cattle and people. The events spread to other states. They have drawn the ire of herpetologists and others, who say they are cruel.

Sweetwater in Texas is home to the largest roundup, held every March. It has been especially controversial because hunters use petrol to chase snakes out of their dens. Such "gassing" can be harmful to other wildlife, including some endangered species, and to groundwater. Efforts to ban it have failed.

Opponents have had more success in Georgia, where declining numbers of eastern diamondback rattlesnakes encouraged greater co-operation from organisers. In 2001 Fitzgerald's roundup was transformed into a wild-chicken festival. Claxton's became a wildlife festival in 2012. And last year Whigham's became a no-kill and no-catch affair. But in Oklahoma, where the western diamondback is more abundant, locals see no reason to stop their roundups. "Kids come out here and run around," says Caleb Allen, out on the hunt in Mangum. "And who wants their kids running around in a field of rattlesnakes?"



Rattlesnake woundup

Lexington | “Be not conformed to this world”

A walk from Washington to New York reveals some good news about America



HOW vexing to the masters of America's Northeast megalopolis that the transit system has failed to compress the tedious 225-mile interval between Washington and New York. If the gods smile on the journey—and they seldom do—the tract houses, big-box stores and occasional gleam of water or shadow of forest might blur past in four hours by car on Interstate 95, or three hours by what passes for a high-speed train, the Acela. Flying can take as long, given Uber rides and security queues. More often, some idly tossed thunderbolt snarls transit, prompting travellers to curse their fate, postpone their meetings and despair over America's odds against China, with its bullet trains and other irritating proofs of competence.

In a rebuff to this yearning for speed, Neil King junior, a former reporter for the *Wall Street Journal*, chose to walk from his home on Washington's Capitol Hill to New York's Central Park. It may be too much to ask those charging along the Acela corridor to pause to visit York, Pennsylvania, or Perth Amboy, New Jersey. But what Mr King discovered on his 26-day walk, recounted in his new book "American Ramble", should at least make them prize the landscape they are hurrying through, and its people.

With a rucksack packed with such essentials as a rain jacket, a laptop and an extra pair of trousers, Mr King, at 61, walked out of his front door in late March 2021. Pandemic restrictions were easing and the forsythia was just starting to bloom. He walked by the fences and National Guard troops protecting the Capitol, attacked less than three months before by supporters of Donald Trump. He headed west to Rock Creek, then followed it upstream.

Mr King planned his route carefully, arranging places to sleep and local mavens to consult. Yet serendipity had its way with him. Walking through Amish country in Pennsylvania he heard a bat thwack a softball and spotted a girl in a dress and baseball mitt field the fly ball. He watched the game, among pupils at the Farmersville Mennonite School, then, at the prompting of their teacher, told them about his journey.

The children rewarded him by singing hymns about death and the afterlife—"My weary feet will cease to roam/Someday I'm coming home"—and the teacher explained the tenets of the Mennonite faith. "Be not conformed to this world," the teacher said, quot-

ing Romans, "but be transformed by the renewing of your mind." It was not the only moment Mr King was astonished to find his walk's aim not just affirmed but elevated.

Mr King's project—"giving in to the landscape", he calls it—is not really an American thing. One recalls more readily such British walker-writers as Patrick Leigh Fermor, Bruce Chatwin, Robert Macfarlane or Rory Stewart. Paul Salopek, another American journalist, is ten years into a 24,000-mile walk around the globe. But Americans on literary excursions into their country's landscape and soul, such as Jack Kerouac, William Least Heat-Moon and John Steinbeck, have tended to choose a conveyance besides their feet. Henry David Thoreau may have written the classic essay on the subject, "Walking" (Thoreau delivered an early version in a lecture in Perth Amboy, Mr King learned), but even he tended to favour the canoe for serious travel. One of Thoreau's main points was that you didn't have to walk far: "Two or three hours' walking will carry me to as strange a country as I expect ever to see."

A hard truth is that America is not a very welcoming place, particularly if you are not a white man, as Mr King is. Unlike Britain, it never had a right to roam, and after the civil war states began imposing no-trespassing laws to restrict black Americans. The authorities say a black teenager was shot and wounded this spring after ringing the wrong doorbell in Kansas City, and a white woman was shot dead when she and her friends turned into the wrong driveway in rural New York. The governor of Texas recently chose to describe the victims of a mass killer, including a child, as "five illegal immigrants". This is no country for strangers.

Mr King is sensitive of his privilege, so much so that on Staten Island, near the end of his journey, his female host, a Polish architect turned innkeeper, impatiently exclaimed: "If you have certain advantages, do me the favour of enjoying them." And he encountered suspicion along the way. Yet he reports more acts of kindness. "Does this provoke any thoughts?" a man asked about his yard display of Trump regalia, then offered food and drink. Another stranger lent Mr King a kayak to navigate the swamp below the dozen lanes of I-95, where, under the traffic, he spotted a doe.

The sapience of strangers

Again and again, Mr King reaped the rewards of a serious walker (the sight of "wind-tossed cloth" drying on a line, the way the spring advances through the trees) and those of an empathetic reporter: the intelligence and moral seriousness of fellow people. In places pivotal to the revolution and civil war, he found Americans sifting for the truth of their history. Others confronted America as it is. On top of a dump at the Edgeboro landfill in New Jersey, the site manager reflected on the ancient Mound Builders of the Ohio and Mississippi river valleys. "Those mounds had sacred and religious purposes," he said. "Us, on the other hand, we're brutal."

Mr King began his journey after beating back a cancer he was given scant chance of surviving. Along the way he spoke by phone with a brother who had hoped to join him but was stricken with his own cancer, which proved fatal. A man at the end of his driveway near Randallstown, Maryland, asked Mr King about his journey, then told him: "As you heal, somebody else is going to get in tune and pick up on your vibe and heal."

"You know," this man said, "this is the Passover, this is the resurrection, this is the renewing." That is aiming high. But at least Mr King's pilgrimage should remind the politicians, lobbyists, executives and journalists clamped to the Acela's rails that this land is their land, and it is worthy of a more noble politics. ■



Green-resource nationalism

Wrangling over white gold

SÃO PAULO

The green revolution will stall without Latin America's lithium

OVER HALF of the world's lithium, a metal used in batteries for electric vehicles, can be found in Latin America. The region also has two-fifths of the world's copper and a quarter of its nickel. Recently delegations from the United States and the European Union have flocked there partly to secure resources that will be needed in the energy transition, and to diversify their supply away from China. In March John Kerry, President Joe Biden's climate tsar, visited the continent. German officials have scheduled at least three high-level meetings in South America this year. Ursula von der Leyen, the president of the European Commission, looks set to visit in the coming months.

But even as the outside world spies resources in Latin America, governments there are taking back control. On April 21st Gabriel Boric, Chile's left-wing president, announced plans to create a state-owned company to produce lithium. If the legislation is passed later this year, private companies will have to form joint ventures in which the state firm has a majority stake. Mr Boric is not alone in his penchant

for green-resource nationalism. On May 1st Mexico's Senate approved changes to the mining code which will reduce the length of concessions for private companies from 50 years to 30. Andrés López Manuel Obra-dor, Mexico's populist president, also signed a decree in February to fast-track the nationalisation of the country's lithium reserves. The governments of Argentina, Bolivia, Brazil and Chile are discussing creating a lithium OPEC to control global prices. In Bolivia the lithium industry is almost entirely run by the state.

Latin America is part of a global trend. Partly in response to higher commodity prices, several countries have taken greater control of their resources. Indonesia, the world's biggest nickel producer, recently banned exports of nickel ore and is promising to do the same with bauxite, the ore for aluminium. Governments in the

Democratic Republic of Congo, Kyrgyzstan and Madagascar are also dabbling with increased state intervention.

Yet Latin America stands out for the speed with which countries are wielding state control. The Resource Nationalism Index, a ranking produced by Verisk Maplecroft, a consultancy, monitors royalty increases, demands for locally produced goods and expropriation of assets. In the latest ranking from this year, Mexico jumped to third place, from 98th in 2018. Argentina is in 19th place, from 41st. Chile ranks 70th, up from 89th in 2018.

Much of this is due to the fact that a wave of recently elected left-wing governments are now in power in the region. They want to do things differently from the past, when wealth from raw materials ended up abroad or lining the pockets of crony-capitalists. The new left has three goals. The first is to increase the state's revenues and economic clout. If forecasts are right, then the green transition could be continent-changing. An IMF working paper reckons that in order for the world to reach net-zero emissions by 2050, revenues for lithium, copper, cobalt and nickel producers could rise four-fold. The cumulative value of global production could be \$13trn between 2021 and 2040 (see chart 1 on next page). That bonanza is about the same as the forecast value of global oil production over the same period.

Latin America controls many of these vital resources (see chart 2 on the next page). Mexico is the world's biggest pro-

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producer of silver, which is used in wind turbines and solar panels. Brazil sits on roughly a fifth of the world's known reserves of nickel, graphite, manganese and rare-earth metals, which are used in green technologies. Chile and Peru alone produce almost 40% of the world's copper.

Chile is one of the places that is most likely to benefit from the windfall. Already mining, mostly of copper, represented 15% of GDP and 62% of its exports in 2021. Codelco, the state copper-mining company, provides over three times the tax revenue of private companies per unit of production, according to CENDA, a Chilean think-tank. Mr Boric hopes the state lithium firm can do the same. Tangible signs of this jackpot are already visible. Last year SQM, one of only two companies that currently mine lithium in Chile, paid more than \$5bn in revenue to the treasury, making it the country's biggest corporate tax contributor. Chile's lithium production quadrupled between 2009 and 2022.

Other countries can smell the money. Argentina is expecting investments in lithium worth \$4.2bn, or 0.7% of GDP, over the next five years. Exports of the metal surged last year, from \$200m to \$700m (or from 7% of all mining exports in 2021 to 18%). Nickel production in Brazil increased by almost a tenth between 2021 and 2022. Last year Vale, a Brazilian mining firm, signed a long-term agreement to supply nickel to Tesla, the world's biggest maker of electric vehicles, though the value of the deal was not disclosed. On April 10th Brazil's regulator gave Sigma Lithium, a startup, approval to start mining lithium from hard rock in the state of Minas Gerais. Its project is valued at over \$5bn.

A second reason why Latin America's politicians are ramping up resource nationalism is that they hope to create more jobs and opportunities for business. Until now the region has failed to produce higher-value goods because of a poorly skilled labour force, low investment in research and development (R&D) and an unpredict-

able regulatory environment. Chile, Mexico, Colombia and Argentina spent an average of 0.3% of GDP on R&D in 2020 compared with 2.7% in the OECD, a club of mostly rich countries. The share of workers who receive some form of skills training is only 15% compared with 56% across the OECD.

Many politicians think natural resources should be used as inputs into local manufacturing rather than be exported as raw materials. On the same day he announced his lithium plans, Mr Boric proclaimed: "This is the best chance that we have to transition to a sustainable and developed economy. We don't have the luxury to waste it." Western governments are courting this desire. In January Olaf Scholz, Germany's chancellor, said while in Buenos Aires that German companies would be "real partners" to South America, asking: "Can one not move the processing of these materials, which creates thousands of jobs, to those countries where these materials come from?"

Finally, a sense of social justice is fueling these politicians' plans. Many hope that their policies will not only increase revenue, but reduce conflict. Since 2000 over a third of all conflicts related to extractive projects globally have taken place in South America, according to the Environmental Justice Atlas, a research project at the Autonomous University of Barcelona. Mexico's mining law would make companies give 5% of their revenues to the indigenous communities in which they mine. Mr Boric's proposal would make companies use extraction techniques that require less water in order to minimise drought, which has been a source of anger among locals and indigenous groups.

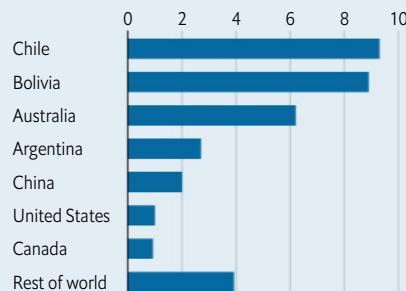
But resource nationalism carries huge risks. Nationalisation has a bad track record in the region. Pemex, Mexico's state oil firm, is the world's most indebted oil company. Venezuela's state oil giant, PDVSA, is synonymous with the country's collapse. Petrobras, Brazil's public oil company, was at the heart of the region's largest corruption scandal, known as "Lava Jato".

And state firms may lack access to the cutting-edge technology that multinational companies typically excel at. For example, LitioMx, Mexico's new state lithium firm, is unlikely to prosper on its own. To date, Mexico has been unable to produce lithium at commercial scale, partly because its deposits are harder to extract, as they are in clay rather than brine. Digging them up will require technology, know-how and investment, which many analysts believe LitioMx lacks.

How has the wave of resource nationalism affected investment? In some places where property rights have been thrown down a mine-shaft, capital flows have dropped. Bolivia has the world's second-

Why nationalisation is tempting

Lithium reserves, tonnes, m
January 2023 or latest available



Sources: US Geological Survey; Yacimientos de Litio Bolivianos

largest lithium reserves, according to its government statistics. But it has yet to pump any out of the ground at scale. In 2019 the government issued a decree overturning a lithium project which involved investment worth \$1.3bn by ACI Systems, a German company, after local protesters demanded higher royalties.

Yet even in Bolivia some firms are prepared to face unstable policies in return for access to scarce minerals. In January Bolivia awarded a Chinese consortium a \$1bn contract to develop its industry. Chinese firms are active elsewhere. On April 21st BYD, a big electric-vehicle maker, announced plans to open a lithium-processing plant with Chile's government. Gotion, a Chinese battery-producer, has promised to produce batteries in Argentina.

Often their interests go beyond minerals to other parts of the green supply chain. On April 27th China Energy, a renewable giant, promised \$10bn worth of investments in renewables in Brazil, particularly in green hydrogen. Jörg Husar of the International Energy Agency reckons Latin America has the largest share of global projects to export green hydrogen.

Resource curse or purse?

For as long as appetite remains insatiable for green resources Latin America will have enough leverage to impose conditions on private firms without strangling investment flows. Yet the big question is whether its slice of the cake ends up being smaller than it might have been. Chile offers a cautionary tale. The government already plays a large role in the production of lithium, which is deemed a strategic resource. Royalties go up to 40% (compared with 3% in neighbouring Argentina), and companies are required to sell up to 25% of output locally at below-market prices to producers who promise to develop the domestic lithium value chain. As a result, Chile is losing market share. Production is forecast to grow by three-fifths by 2026. By comparison, Australia is expected to double production over the same period. ■

Full metal packet

Global metal production, estimated total value
\$trn, 2020 prices



*Based on stated government policies and those under development at Sep 2022

Source: "Energy transition metals", by L. Boer et al., IMF working paper, 2021

Argentina

A libertarian turn

BUENOS AIRES

An interview with Javier Milei

DRAMA IS NEVER far away from Argentinian politics. This year looks set to be a particularly exciting. In October Argentines will go to the polls to elect a new government. For months the leading candidate to oppose the current Peronist government looked to be Horacio Rodríguez Larreta, the technocratic mayor of Buenos Aires, the capital. However with annual inflation at a 31-year-high of 104%, the widely used black-market peso depreciating in value and a severe drought affecting vast swathes of the countryside, it is clear that Argentines are looking for a radical shift.

Within the coalition of the centre-right opposition, known as Together for Change, Patricia Bullrich, a hawkish former security minister, is now a potential challenger to Mr Larreta for the candidacy. But it is Javier Milei, a libertarian economist and congressman, who seems to be benefiting the most from the economic chaos. Argentine polls are notoriously unreliable. However Mr Milei, a 52-year-old outsider, is currently leading in some polls as the most popular individual politician, ahead of the primaries in August to determine which candidates run. (The combined potential vote share of Mr Larreta and Ms Bullrich would, however, still beat him.) His support is highest with men under the age of 30.

Mr Milei cuts a striking figure, even by Argentine standards. A bachelor, he lives alone with five mastiffs, most of which are named after famous economists. He raffles his congressman's salary to the public on YouTube. A Catholic, he says he now may

convert to Judaism. He has said that the two people closest to him are his sister, now his campaign manager, and a rabbi.

It is his anti-establishment rhetoric that has appeared to strike a chord among frustrated voters. His coalition for the presidency, Freedom Advances, revolves around him. "Milei is a celebrity," says Martín Tetaz, a centre-right member of the lower house. Mr Milei is a regular on talk-shows and rants on social media against the "political caste". "He connects with an audience that doesn't feel like debating arguments," says Mr Tetaz.

His policies are radical. Mr Milei voted against the deal the government struck with the IMF last year, which refinanced a \$44bn loan, originally taken out in 2018. This new deal says Argentina should cut its fiscal deficit to 1.9% of GDP, from 2.3% in 2022, by the end of this year. In an interview with *The Economist* Mr Milei describes the strings attached to the deal as "incredibly lax". "What I have in mind is way tougher than that," he adds. He says he will to cut through public spending with a "chainsaw" and reduce government expenditures by 10% of GDP in his first year in office. He would "cut off his arm" before raising taxes. He wants to slash red tape and drop the peso and shift the economy to the mighty US dollar, like Ecuador.

Budget cuts have rarely won votes in Argentina. Most polls show dollarisation is not popular—according to one, less than a third of Argentines polled would be keen on the idea. Mr Milei's more extreme proposals, such as banning abortion, introducing lax gun laws or legalising a market for human organs, disturb many voters. But in a country where left-wing populism has been the norm for decades, his popularity is remarkable. "People like me because I am the only one that says things straight," he says. "Some call me crazy, but the crazy guy is ultimately right about things. Argentina will be liberal again." ■

Paraguay's president

Stability amid chaos

ASUNCIÓN

The same old team prevails again

PUNDITS PREDICTED a tight race. In the end, it wasn't even close. Santiago Peña, a 44-year-old former finance minister and economist at the IMF, took nearly 43% of votes in Paraguay's presidential election on April 30th. Mr Peña hails from the conservative Colorado Party that currently governs the country. By the time his five-year term, which begins on August 15th, is over, the Colorados will have held power for 75 out of the last 80 years.

Mr Peña's plans, though vague, clearly resonated with voters. "He says he's going to support young people who want to get on, that want to fulfil their dreams," says Gabriel González, a 28-year-old builder heading into a polling station in Remansito, a suburb of Asunción, the capital. Advisers to Mr Peña say that a full manifesto will be drawn up soon. Paraguay's ultra-low tax rates and stable macroeconomic policies will probably remain unchanged.

The distant runner-up was Efraín Alegre, a lawyer and former congressman. He headed an ungainly and reluctant coalition. Mr Alegre had lots of ideas, including locking up crooked politicians in a new jail in the mosquito-infested outback. Others would be banished farther afield. Mr Alegre suggested he would extradite Horacio Cartes—Paraguay's president between 2013 and 2018 and the leader of the Colorado Party—to the United States. In January the US government accused Mr Cartes of involvement in "rampant corruption" and barred American firms from doing business with him. No extradition request or formal charges have been made. Mr Cartes denies all of the allegations.

The biggest upset was Paraguayo Cubas, who got 23% of the vote and split the opposition. A nationalist, anti-corruption firebrand, Mr Cubas was expelled from his senate seat in 2019 after brawling with his colleagues. Before that, "Payo", as he is known, was infamous for attacking a judge with his belt before defecating in the judge's office. He said he would shut down Congress, rule with the army and put dishonest officials before firing squads. His movement, National Crusade, saw five senators elected, including one who is currently in jail. Mr Cubas's supporters took to the streets after the election result was announced, letting off fireworks outside the electoral authority, egged on by their leader, who called on them to "die if necessary". Meanwhile the Colorado Party lives on. ■



Anarchy in the CABA



Afghanistan

Taliban 2.0

KABUL, PARWAN AND WARDAK

For half of Afghanistan's population, Taliban rule is less disastrous than feared

FOR TWO decades America and its allies expended thousands of lives and some two trillion dollars in Afghanistan to stop, they said, the Taliban returning the Central Asian country to al-Qaeda plotting and chaos. After the Islamist militants regained power 20 months ago, it was feared that would be Afghanistan's fate. The reality is a little different.

Ask the *hawala* dealers, operators of a vast money-transfer market, clustered in a warren-like bazaar beside the Kabul river. Having for years helped the Taliban finance their insurgency, these well-connected moneymen, who are estimated to provide twice the volume of commercial loans that Afghanistan's banking industry does, thought they had nothing to fear from them. The *hawaladars* had foiled previous efforts by Ashraf Ghani, the country's last NATO-backed leader, and his predecessor, Hamid Karzai, to regulate their largely untaxed trade. Yet the Taliban government

has proved a more committed reformer. It has forced the *hawaladars* to keep computerised records and follow "Know Your Customer" requirements. Non-compliant businesses have been shut down. The boss of the money-changers' union was stripped of his licence to operate. "With these guys, you do what you're told," says Babarak Amiri, a veteran *hawaladar*.

The picture in Taliban-governed Afghanistan is not straightforward. The militants' return has in many ways been disastrous for its 40m people. For women and girls, the disaster has been unambiguous. Afghanistan is now the only country where

it is illegal to be female and study beyond secondary-school level, or to work in most professions. According to the UN, 80% of Afghanistan's 2.5m school-age women and girls are not being educated.

Much of the country has been plunged into hunger, due to a combination of volatile global food prices and an economic crisis triggered by the withdrawal of Western support. It led to a collapse in foreign investment and remittances. With foreign banks refusing to facilitate transactions with the country, Afghanistan's economy shrank by 35% between 2021 and 2022, according to the World Bank.

The Taliban, predictably, have refused to share power with their local rivals. The mullahs are mostly Pashtuns, members of Afghanistan's biggest ethnicity; many of their opponents belong to the Tajik group, the second-biggest. This raises the risk of a return to the ethnic conflict that ravaged the country in the 1990s, precipitating the Taliban's first takeover. Extrajudicial killings have accompanied their efforts to stamp out opposition.

Yet the Islamists are in some ways surpassing the—admittedly low—expectations for their rule. Take their approach to terrorism. They do not appear to be trying to constrain al-Qaeda's remnants in Afghanistan; the group's former leader, Ayman al-Zawahiri, was living in Kabul when ➤

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he was killed by an American drone last year. But al-Qaeda is globally at its lowest ebb, superseded by Islamic State (is), a terrorist outfit spawned by the wars in Syria and Iraq. And the Taliban are attacking is's local affiliate—which they consider a deadly rival—in its rugged hideouts in eastern Afghanistan and elsewhere. Consequently, as Zalmay Khalilzad, a former envoy to the Taliban for Joe Biden and Donald Trump, recently noted, the threat of terrorism launched from Afghanistan has not increased.

Some of the Taliban's efforts to govern Afghanistan are at least as good as their recent predecessors'. When the country's currency, the Afghani, crashed to record lows in December 2021, the clerics turned for advice to a central bank stuffed with Western-trained bureaucrats. It did not have the means to stabilise the currency through bulk-buying, as America had frozen \$9.5bn of Afghanistan's foreign-currency reserves. The Taliban therefore stanched the flow of dollars leaving the country by imposing harsh capital controls, a crackdown on smuggling and the *hawala* overhaul. The Afghani stabilised and is now just 7% lower against the dollar than it was the day before Kabul fell.

The Taliban have improved economic-law enforcement across the board. Tighter controls at the border led to a big increase in recorded exports and customs revenues. Overall revenues for the year ending March 2023 were \$2.3bn, up by 10% on the year ending March 2021. The threat of sharia-law punishments, including hand amputation, deters customs officials from taking bribes, notes an adviser to Mullah Baradar, the deputy prime minister in charge of economic strategy. "The core competency of the Taliban government is the enforcement of laws and orders," he says. "If we find you are doing corruption and we implement sharia laws on you, you will not do corruption again."

To acknowledge such progress is less a tribute to the Taliban's harsh methods than an indictment of the corrupt, NATO-backed governments the Islamists replaced. In Kabul, a city of 4.5m, there are many signs of better law enforcement. Roadworks held up for years by illegal squatters have been pushed through by Hamdullah Nomani, the city's mayor. Street vendors have been corralled into designated areas. Drug addicts have been taken off the streets and into rehab. Roundabouts have been beautified, filthy restaurants closed and 30,000 street dogs inoculated against rabies.

The proportion of businesses that bribe customs officials is down from 62% to 8%, according to a recent World Bank survey. Sanzar Kakar, an Afghan-American entrepreneur who owns the country's biggest auditing company, says his staff are no longer asked for bribes during their regular



visits to the finance ministry, previously "a daily headache". The departure of a "whole crop of corrupt people", including MPS, cabinet ministers and intelligence officials is "one of the biggest blessings".

Though Afghanistan has lost the 75% of its budget formerly donated by foreigners, the Taliban have raised enough revenue to pay 800,000 government employees. Some have received back-pay to make up for a bumpy early couple of months after Mr Ghani's government collapsed.

The Taliban are most concerned, their limited budget disclosures suggest, about paying their fighters. A mini-budget last year earmarked 41% of spending for defence and security. That is a vast outlay for a country no longer at war. With an army of 150,000 and 200,000 police, the Taliban have more forces than Mr Ghani's government. The Taliban army chief of staff says they aim to recruit another 50,000 soldiers and buy anti-aircraft missile systems to knock out American drones.

Too late for the Bamiyan buddhas

Crackpot as they can seem, the Taliban are winning solid reviews from surprising quarters. The boss of a Kabul-based media company, no fan of the mullahs, reckons "Afghanistan is better managed today than Pakistan". He also believes Afghan TV stations are freer to report the news than those in India and Turkey. A dogged band of foreign and local archaeologists and curators of Afghanistan's rich heritage, who remain in Kabul, credit the Taliban for backing restoration of pre-Islamic sites.

Zia ul Haq Amarkhil, governor of Nangarhar province before the Taliban takeover, says they are running things "properly". Like many others in Kabul, he is irritated by the narrative of unremitting doom perpetuated by rights groups and Afghans who fled in 2021. "My brother Afghans outside the country do not agree, but they are not here, they do not know the reality. I am here, I know the reality."

Any improvement in the Taliban's performance partly reflects the different circumstances in which the mullahs are go-

verning. In the 1990s Afghanistan's treasury was a safe-box in the Kandahar compound of Mullah Omar, then their leader. The Afghan state is vastly more capable today. But the Taliban have improved, too. Their reclusive leader, Hibatullah Akhundzada, is a malign figure, responsible for ratcheting up curbs on women from his Kandahar base. Yet the Taliban cabinet in Kabul includes able pragmatists.

Afghanistan's rulers are also assisted by the fact that they, unlike their immediate predecessors, do not have to contend with their own insurgency. It killed an estimated 69,000 soldiers and police between 2001 and 2021 and made economic development perilous or impossible in much of the country. Because companies no longer have to pay for private security, the cost of building projects has fallen by more than 50%, say businessmen in Kabul. In rural areas, telecoms companies can use masts the Taliban had switched off to prevent locals from reporting their movements.

Despite such improvements, suffering is rife. The UN estimates 700,000 have lost their jobs. Middle-class families employed in the sectors that most depend on foreign support—including NGOs, business services, hospitality and the media—are especially hard hit. Fahima, a 26-year-old TV presenter who used to cut a glamorous figure in entertainment and news shows, now sells sex in Kabul to support her family. Finding her first customers, while adhering to Taliban dress code, was tricky, she says in a phone interview. She had to flash glossy high heels from under a burqa. Another longtime sex worker describes an influx of competitors from middle-class families. "This work has become more secret and more dangerous as it's not possible to bribe police any more," she adds.

In the countryside, home to 75% of Afghans and blighted by years of drought, conditions are tougher. "We no longer have to risk our lives to get our crops to market," says Mohammed Tahir, a farmer in Nirkh, a district in central Wardak province that saw heavy fighting as the Taliban advanced. "But everyone is cutting back how much they buy, how much they eat."

In 2019, 6.3m Afghans were considered in need of humanitarian aid; now 28m are. The UN reckons 97% of Afghans live below the poverty line. Some areas are on the brink of famine. The UN's World Food Programme (WFP) has set up food-distribution centres across the country, including in a dingy sports hall in Kabul where 2,500 people recently queued for food. They each emerged with 50kg of flour, a bag of pulses, a bottle of cooking oil and a pouch of salt. Nawaz Ali, a disabled head of a family that includes five daughters, says the ration won't get them through the month.

Last year the UN spent over \$3.25bn on humanitarian aid. This year it has so far ↗

► raised \$425m of the \$4.6bn needed. Due to a shortage of funds, 4m people were recently cut from the list of those being targeted for food aid. The WFP is preparing to stop providing assistance later this month, absent an urgent infusion of \$900m.

The aid is dispersed through UN agencies and NGOs. UNICEF, the children's fund, has paid stipends to nearly 200,000 teachers; the International Committee of the Red Cross is paying 10,000 medical staff. The Taliban are naturally irate. "Barely 10% of UN money gets to the people," claims a Taliban finance-ministry official. "Giving it to the government would drastically reduce overheads."

Some UN officials agree that the emerging "republic of NGOs" is unsustainable—and undermines two decades of efforts to build Afghan institutions. Inevitably, it also helps the Taliban. The millions of dollars of cash the UN regularly flies into Kabul backs the Afghan currency. SIGAR, an American government watchdog, says the Taliban is also skimming off aid money through "licences", "taxes" and other "administrative fees" imposed on NGOs.

Two big things stand in the way of the Taliban winning a modicum of international acceptance. First, their uneven counter-terrorism efforts. Though they attack IS's local affiliate, the Islamic State Khorasan Province (ISKP), they are still said to be pally with their old terrorist ally, the remnants of al-Qaeda, and clearly pally with a newer one, the Pakistani Taliban (TTP), which launches attacks into Pakistan from Afghanistan: in January it blasted a mosque in Peshawar, killing nearly 100 police. Pakistan has mulled launching military raids in retaliation. In April China, Iran, Russia and several Central Asian states moaned about Taliban links to groups that threaten regional security.

Equally damaging to the Taliban's hopes of recognition are their curbs on women and girls. Even Saudi Arabia, one of the few countries to recognise the Taliban's first government, condemned the decision on March 22nd to bar them from Afghan secondary schools and universities. The Taliban have also this year banned women from working for NGOs and UN agencies.

Most of the Taliban's ministers are said to oppose these measures. During their long exiles in Pakistan and Qatar, some educated their daughters. But Mr Akhundzada, a former judge who once recruited his own son to become a suicide-bomber, has a veto on the issue. Beyond his personal views, he is considered anxious to keep the Taliban rank-and-file on-side. Some have defected to the more hardline ISKP. If the Taliban are seen to have gone soft on women's rights, more may follow.

This difference led the powerful interior minister, Sirajuddin Haqqani, to make a rare public dig at Mr Akhundzada in Febru-

ary. "Monopolising power and hurting the reputation of the entire system are not to our benefit," he said in a speech at an Islamic school. Mr Haqqani and other Taliban big shots, including Mullah Yaqoob, who is the defence minister and Mullah Omar's son, have their own power bases within the movement. Their pictures are displayed at Taliban checkpoints.

But there seems little prospect of their forcing a showdown with Mr Akhundzada, who has a bodyguard of thousands of his fellow Noorzai tribesmen in Kandahar. "All the Taliban ministers I meet are shaking their heads over girls' education," says Mr Amarkhil, the former provincial governor. "But at the end of the day they don't have the courage to confront him."

No place for women

Disagreement with the anti-women policies has led to patchy implementation, especially in Kabul and elsewhere outside the Pashtun south. Some NGOs and UN agencies, particularly in health services, have been granted exemptions by individual ministers and governors. Women are banned from working at NGOs, but not in important private companies, including banks and telecommunications firms. They are supposed to work in separate spaces; but segregation is usually observed only when the vice-and-virtue police visit.

Thousands of girls are being educated underground. A women's activist took *The Economist* to visit a secret school in a Kabul side-street. Because she was forbidden to ride in a car with an unrelated man, she arrived separately by taxi, driven by a different unrelated man. She fears this nonsensical loophole will soon be closed. "They are going to come for all of us eventually," she said. The school, a dimly lit room in a rented house, which is part of a country-

wide network, passes itself off as a madrasa. When the Taliban come knocking, the teacher switches from maths to the Koran.

Despite such brave anomalies, it is appalling to witness the freedoms of millions of Afghan women being asphyxiated. Tahiria, a 28-year-old in Kabul, formerly worked as a teacher and personal trainer in a now-shuttered women's gym. (Women have also been barred from parks and women-only public baths.) Now her life consists of housework and daily visits to an actual madrasa. "My parents say I have to obey the new rules," she says. "They used to be so open-minded, but they have changed."

It is also demoralising to many men. "I have two daughters and a wife who trained as an engineer and is a teacher," says a senior civil servant who, unlike many of his peers, decided to stay on after the takeover. If the women's education ban is not overturned by the end of the year, he will join the exodus, further enfeebling the bureaucracy. A digital system introduced by the Ghani government has already been abandoned. "Everyone used to have a laptop on their desk, now we have to do everything with these," he says, holding up a piece of paper slowly gathering signatures as it crawls around his department.

Other problems for the Taliban loom. Revenues may not hold up; some businessmen say punitive taxation will force some firms to close. Despite the movement's fierce reputation, economic desperation is pushing up street crime, many Afghans say. In Kabul even electricity cables are being stolen, says an NGO worker, who has been robbed of two mobile phones at gunpoint in the past year.

ISKP is proving resilient, despite the Taliban's success in killing its commanders. In recent months, this IS affiliate has attacked prominent targets in the capital, including a hotel frequented by Chinese visitors. In March a suicide-bomber blew up a provincial governor as he sat in his heavily guarded office. ISKP operatives are hard to detect because so many are Taliban defectors. Bearded, long-haired young men now receive the most scrutiny at the Taliban's roadside checkpoints.

Even so, the Taliban face no serious challenge for now. Their armed rivals control no terrain. The vast majority of Afghans are exhausted with conflict and resigned to Taliban rule. If the mullahs, taking note of public sentiment, could only accentuate their unpredicted positives, that might not end up too badly for Afghanistan. This is the Taliban's opportunity. If instead they defy public opinion, predicts Mr Amarkhil, disenchantment with the mullahs will build and opposition grow—"from people who are starving, from those the Taliban are suppressing, from those who just want education for their daughters and sisters." ■



To the victors the spoils

Thailand's election

Thaksin times

BANGKOK

The opposition is about to strike a modest blow for democracy

IN 2021 THAILAND'S prime minister, Prayuth Chan-o-cha, was asked what he thought of a rising star in the country's largest opposition party, Paetongtarn Shinawatra. "Who?" he replied. Less than two years later, Ms Paetongtarn leads Mr Prayuth in opinion polls ahead of a general election due on May 14th.

Ms Paetongtarn is the daughter of Thaksin Shinawatra, a tycoon-turned-prime minister, who was ousted in a military coup in 2006. Parties linked to Mr Thaksin have won every Thai election since 2001, running on populist platforms. The impending one looks likely to go the same way. This time the party vehicle is called Pheu Thai, with Ms Paetongtarn as its candidate for prime minister. It is expected to sweep to victory.

Mr Prayuth, a 69-year-old former general, seized power (from Mr Thaksin's younger sister) in a military coup in 2014. Even if Pheu Thai wins the election, the army establishment he represents will make it hard for the party to form a government. Thailand has a history of seesawing between periods of vibrant electoral democracy and military dictatorship; it has witnessed 12 army coups since the replacement of its absolute monarchy with a nationally constitutional one in 1932.

When Mr Prayuth seized power, he promised to strengthen the economy. Instead, his leadership has been defined by incompetence and corruption. Thailand's post-covid economic recovery is the slowest in South-East Asia. Over the past decade, the country has attracted less foreign direct investment than its regional competitors, including Vietnam and Indonesia. Voters are nostalgic for the early 2000s, when Mr Thaksin first won elections, pushing populist economic policies, argues Thitinan Pongsudhirak of Chulalongkorn University. "The last time people remember that Thailand was going somewhere was in 2003. That was peak Thailand." The first country in South-East Asia to become a democracy, it was at that time considered a regional leader.

A younger, increasingly well-educated generation of Thais fears its future is being squandered. Thousands of student protesters took to the streets in 2020 and 2021 calling for Mr Prayuth's government to resign and for reform of the monarchy, an erstwhile taboo topic in Thailand, where denigrating the king can lead to 15 years in



Grin and bear it

prison. The government retaliated, charging at least 240 people under *lèse-majesté* laws, according to a local group, Thai Lawyers for Human Rights.

But the protests changed Thai society. Topics that were once off-limits, including the role of the monarchy and reducing the size of the armed forces, are now openly debated over the dinner table and in public. The upcoming election, it is widely believed, will determine whether the country of 71m slips deeper into democratic decline, controlled by its army and monarchy, or launches a comeback. Many of the student protesters are working as activists for a political party called Move Forward, founded by young, progressive Thais in 2018. It is the only political party that has said it wants to amend the law that criminalises criticism of the monarchy.

At a recent Move Forward rally beside the Chao Phraya river that runs through Bangkok, Thailand's capital, hundreds of supporters in bright orange t-shirts gathered to cheer Taopiphop Limjittrakorn, a well-known craft-beer champion and Move Forward MP. Mr Taopiphop's efforts to make his own beer, inspired by watching YouTube videos of American home-brewing enthusiasts, are the Thai equivalent of Mohandas Gandhi's salt-making. They were in defiance of Thailand's strict alcohol laws, which make it extremely tough for smaller breweries to enter a market dominated by two powerful companies, makers of Singha and Chang beer.

In 2017 Mr Taopiphop was arrested and fined for brewing illegally without a permit. To take his struggle up a notch, he ran for and was elected to parliament. But his bill to reform the alcohol laws—and so "make Thailand more normal"—was blocked by the government. "It is crazy that only two companies get a share of this

400bn baht [\$12bn] industry," he laments. He is running for re-election, to push his bill again. It is an important effort. The military government has coddled monopolists in industries from agriculture to sugar and telecommunications. And it has favoured firms with ties to the army. All this has come at the expense of smaller, more dynamic businesses.

Pheu Thai and Move Forward are expected to win, respectively, the largest and second-highest number of votes at the election. But they are unlikely to be able to form a government. Under the constitution, which the junta forced through in 2016, Thailand's senate, which is packed with military loyalists, has an outsized say in selecting the prime minister. To overcome this bias, an opposition prime-ministerial candidate would need to win three times as many seats in the lower house as a pro-military one.

Making matters worse, the country's constitutional court, electoral commission and anti-corruption commission are crammed with loyal appointees of the military government. Rumours are swirling that, having been thwarted twice before, Pheu Thai is now in conversation with the army establishment over a possible power-sharing agreement. That might be palatable to the army and monarchy. It would sit less well with Thailand's voters. ■

Revolution in the Philippines

Out of ammo

MANILA

A once-proud Maoist insurgency is on its uppers

LAST MONTH the guerrilla leaders of the New People's Army (NPA) ordered its units all over the Philippines to give a 21-gun salute to two fallen heroes. Yet this martial display was diminished by an instruction to give the salute silently, either because the army is out of bullets or for fear a fusillade would alert the police. The few hundred fighters who duly lined up (and presumably whispered "bang") are all that remains of a once-formidable Maoist insurgency. The NPA was launched 54 years ago to overthrow an American-backed president, Ferdinand Marcos. It is now on the brink of yielding to his son and successor, Ferdinand "Bongbong" Marcos.

The guerrillas are a relic of all manner of idiotic politics. At its strongest, the NPA, the armed wing of the shadowy Communist Party of the Philippines (CPP), had an estimated 25,000 fighters. It threatened American troops stationed in the Philippines during the cold war. It was cited by

► Marcos to justify his long and increasingly tyrannical rule. Yet after he was toppled by a popular uprising in 1986, in which the guerrillas played no part, the restoration of democracy and faster economic growth made armed revolution less appealing to young Filipinos. As the NPA's ranks dwindled, its leaders became increasingly lost in arcane ideological debate (leading to important revisions, such as the purgative "Second Great Rectification Movement" of the 1990s). Their fighters meanwhile turned to extorting "revolutionary taxes" from local firms.

Despite the group's manifest unseriousness, America paid it another compliment in 2002. In search of adversaries for its global war on terror, it branded as terrorists the Communist Party, their extortionist guerrillas, and groups of Filipino jihadists and Islamist separatists. The NPA gravely threatened reprisals against American targets. But this last gasp of notoriety did not arrest the Maoists' decline.

Following a rout of the jihadists and a negotiated end to the Islamist separatist movement, the NPA is now considered the Philippines's last internal security threat.

But Bongbong Marcos need not worry overly. The group is estimated to have about 2,000 fighters and no surviving national leader. The CPP's aged founder, Joma Sison, died in exile last December. The party's other foremost leaders, Benito Tiamzon and his wife Wilma Austria, were the subject of last month's silent salute. The government says they were killed at sea when their boat blew up during a chase with the armed forces. The guerrillas claim the government murdered them and blew up their corpses. Either way, the revolution didn't work out. ■

Banyan Back to the future

The rapprochement between South Korea and Japan rests on shaky foundations

WHEN KISHIDA FUMIO arrives in Seoul on May 7th, he will become the first Japanese prime minister to make an official visit to South Korea in more than a decade. His trip is testament to how fast the testy relationship between the neighbours and American allies has improved since early March, when Yoon Suk-yeol, South Korea's president, announced a plan to end a festering dispute over Japanese wartime forced labour and then jetted to Tokyo for a summit.

After bonding over *omurice*, a nostalgic Japanese egg dish, the two leaders set to work. Their governments revived an intelligence-sharing agreement signed in 2016 but put on ice under Mr Yoon's predecessor. They lifted export controls and trade barriers imposed when the forced-labour dispute heated up. A bilateral security dialogue took place last month for the first time in five years; the two countries' finance ministers met this week for the first time in seven years. Japanese and South Korean tourists are flocking to each other's countries.

The improvement in two-way ties has enabled closer three-way co-operation with America. That is why President Joe Biden, who desperately wants his allies to stop bickering about the past and focus on present-day challenges from China and North Korea, hailed Mr Yoon's plan as "groundbreaking". A trilateral defence dialogue restarted last month after a three-year hiatus; two days later, the three countries' navies staged exercises in international waters between South Korea and Japan. Mr Kishida's trip to Seoul serves as a prelude to a trilateral leaders' summit during the G7 gathering in Japan later this month, which Mr Yoon will attend as a guest. If America, Japan and South Korea could co-operate effectively, it would have big implications for

the balance of power in the Indo-Pacific.

Yet the rapprochement rests on shaky foundations. Diplomatic sources rate the negotiations over the forced-labour dispute a clear win for Japan—an unfortunate impression given that compromise is essential. Mr Yoon's plan aims to avert a threatened liquidation of Japanese assets seized by South Korean courts. It involves creating a South Korean government-backed fund to compensate Koreans forced to work in Japanese factories during the colonial era. South Korean officials hoped Japan would apologise anew to the victims and encourage its firms to chip in to the fund, even though Japan considers the matter settled by a treaty signed in 1965. Mr Kishida, hesitant to upset the right of his party, did not budge. So Mr Yoon decided to "take the initiative, and let Japan respond," says Park Cheol-hee of the Korean National Diplomatic Academy.

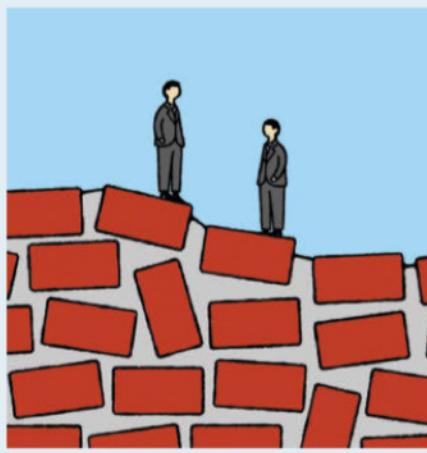
The result is that 60% of Koreans oppose the plan. Only ten of the 15 families involved in the main court case on the issue have accepted money from the new fund; all three living victims have refused

it. Mr Yoon reinforced a perception that he truckles to Japan when he told the *Washington Post* that his country's former colonial ruler should not have to "kneel" for forgiveness "because of our history 100 years ago". Critics in Seoul call Mr Yoon "Japan's number one salesman", a riff on his pledge to be "South Korea's number one salesman".

Mr Kishida has a chance to steady the foundation during his visit. Yet the two sides have different views of what constitutes a "sincere" offering, says Nishino Junya of Keio University in Tokyo. Mr Kishida may bring nothing more than a decision to restore South Korea to Japan's preferred trading-partners list. That would dismay many Koreans, who will be judging what he says about history, says Choi Eun-mi of the Asan Institute for Policy Studies, a think-tank in Seoul. At the least, Mr Kishida should offer the victims "words of comfort".

Officials in Tokyo, Seoul and Washington hope to overcome any disappointment. China's rise and North Korea's sabre-rattling are powerful reasons to get along. Mr Yoon, who will be in office until 2027, is committed to his policy on Japan. Yet there are plenty of potential flashpoints, from territorial disputes to controversies over textbooks. Another of the forced-labour cases is making its way through South Korean courts.

Moving beyond the cycles of recrimination will require a willingness to speak about the past and future simultaneously, rather than viewing troubled history as a problem to be fixed and forgotten. "You can't just put a bow on it and move away from history," argues Tom Le of Pomona College in California. Instead, South Korea and Japan must find ways to "move with history". The future of their region depends on it.



**Immigration**

Wanted: people

China could benefit from foreign labour. So why won't it embrace immigration?

FOR HUNDREDS of years China could boast of having more people than any other country. The title became official in the 1950s, when the UN began compiling such data. Such a large population conferred on China certain bragging rights. A huge labour supply also helped to boost its annual GDP growth, which has averaged close to 9% over the past three decades.

Last month China's reign came to an end. India has overtaken it as the world's most populous country. The demographic trends behind the shift have troubling implications for the new number two. China's working-age population has been shrinking for a decade (see chart on next page). Its population as a whole declined last year—and it is ageing rapidly. This is likely to hinder economic growth and create an enormous burden of care.

Yet when officials in Beijing mull solutions, one seems largely absent from the discussion: immigration. China has astonishingly few foreign-born residents. Of its

1.4bn people, around 1m, or just 0.1%, are immigrants. That compares with shares of 15% in America, 19% in Germany and 30% in Australia. Place it next to that of other Asian countries which also shun immigration and China's total still looks measly. Foreigners constitute 2% of Japan's population and 3% of South Korea's. Even North Korea has a higher proportion of immigrants than China, according to the UN.

China's future economic and social needs resemble those that have made other societies recruit guest workers. In January the government released a list of 100 occupations, such as salesperson and cleaner, where there is a lack of staff. Over 80% of

manufacturers faced labour shortages in 2022, according to one survey. Nearly half of China's 400m blue-collar workers are aged over 40, reported a study in December. That is in line with an official estimate that China will have trouble filling nearly 30m manufacturing jobs by 2025.

An abundance of young and cheap workers once filled these openings. But as China ages and shrinks that supply of willing labour is drying up. Firms complain of a mismatch between the jobs sought by young people, an increasing number of whom have university degrees, and those available. Many young Chinese do not want to work in factories, laments *China Daily*, a party mouthpiece. That helps explain why nearly 20% of 16- to 24-year-olds in cities are unemployed.

China could make better use of its existing population. The country is under-urbanised and its rural residents under-educated by advanced-economy standards. Higher pay and fewer curbs on internal migration would certainly help. But even young migrants from rural areas seem less inclined than in the past to travel to cities for blue-collar work.

In many other countries immigrants do the jobs that pay too little to attract locals. Immigrants have also helped to ease the burden where populations are ageing. Japan, for example, has allowed foreign nurses to tend to its seniors. China faces an ➤

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► even greater challenge in this regard. Unlike Japan, it has not grown rich before growing old, and will have soaring bills for health and social care.

China admits that it needs more young people. The government has tried to coax citizens to have more babies—to little avail. Chinese women, on average, have less than 1.2 children, well below the 2.1 needed to keep the population stable.

In contrast, the state has made little effort to attract people from abroad. In 2016 it set up a three-tiered, points-based system for employment-visa applicants. The lowest tier, class C, includes those with relatively little education and work experience. These permits are difficult to obtain. “Encourage the top, control the middle and limit the bottom,” went a state slogan at the time the system was introduced.

Even those at the top face big obstacles, though. The country’s green-card system, introduced in 2004, is limited and complex. It was meant to save affluent or highly skilled foreign workers from having to reapply for a visa each year. In practice, only 11,000 or so ten-year residence permits were issued from 2004 to 2016, the last year such data were released. During that same period, America, with a quarter of China’s population, issued nearly 12m green cards.

Since then China has established a national immigration agency and tried to ease the application process for residency. But the threshold remains high: applicants must have invested at least \$500,000 in a Chinese business for three consecutive years, be married to a Chinese citizen, have made or be making a significant contribution to the country, or possess skills that are especially needed. None of this will help Chinese manufacturers fill jobs.

Long live the kin

The simple truth is that China has no interest in becoming an immigrant melting pot. Part of this may be explained by foreign bullying of the country in the past. But opposition to multiculturalism is also fuelled by claims of Chinese racial purity long ped-

dled by nationalists. Officials boast of a single Chinese bloodline dating back thousands of years. In 2017 Xi Jinping, China’s supreme leader, told Donald Trump, then America’s president: “We people are the original people, black hair, yellow skin, inherited onwards. We call ourselves the descendants of the dragon.”

That informs immigration and nationalisation policy. An overwhelming share of China’s green cards go to foreigners of Chinese ancestry. Similarly, foreign-born children of Chinese nationals get special treatment when applying to Chinese universities. The Thousand Talents programme to attract academics from abroad enrolled nearly 8,000 scientists and engineers from 2008 to 2018. All but 390 were Chinese-born returnees, according to the Brookings Institution, a think-tank in America.

Citizenship is all but closed to foreigners, unless they are the children of Chinese nationals. Chinese green cards, unlike American ones, do not offer a path. China had only 16,595 naturalised citizens in total in 2020. Japan, meanwhile, naturalises around 7,000 new citizens each year. In America the number is over 800,000.

Public attitudes make it hard to be more open. In 2020 a proposal to ease the path to residency for rich or skilled foreigners faced a populist backlash, with men promising to protect Chinese women from immigrants. In general the state encourages a closed mindset. A national-security campaign warned Chinese women that their foreign boyfriends could be spies, while officials blame perceived social ills on “foreign influences”.

Then there is the one-child policy, which was ditched only in 2016. Couples may now have up to three children. Few want that many. But it may be difficult to convince a generation raised on—and scarred by—population control that high inflows of immigrants are desirable.

That is a shame. Looser immigration policies would not only help employers with labour shortages. They would also encourage innovation. Google, LinkedIn and Tesla were all co-founded by immigrants to America. But the bright young minds from abroad who study in China find it hard to get a visa upon graduation. Meanwhile, many Chinese students are studying in the West—and staying there.

Curiously, the main route to Chinese citizenship now seems to be sporting excellence. Around a dozen footballers, most with no ancestral ties to China, were naturalised in 2019 and 2020 in a failed attempt to help the country reach the World Cup. Another handful of athletes, most with a parent born in China, got citizenship before the Winter Olympics in 2022. Labour shortages in less glamorous trades may soon force officials to consider admitting newcomers who will never win a medal. ■



Counter-espionage

The smokeless war

A campaign against spies is spooking locals and foreigners

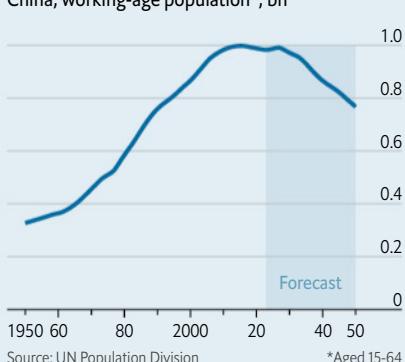
CHINA’S STRUGGLE against spying is “extremely grim”, said a spokesman for the country’s rubber-stamp parliament late last month. The techniques used by foreign spooks, he added, were becoming ever harder to detect. To tackle this, the legislature approved a new, more sweeping, version of the country’s counter-espionage law on April 26th. Among foreigners in China, it is causing jitters. In what Chinese officials call their “smokeless war” against spies, risks to the innocent are growing.

Even before the law was passed, anxieties had been rising. The arrest in March of a Japanese businessman in Beijing caused shivers among fellow executives in China. The man, a senior employee of a Japanese drug firm, Astellas Pharma, and a longtime resident of China, has been accused of spying (no other details have been released). Such charges are far from rare. The foreign ministry in Tokyo says he was the 17th Japanese to be seized by China’s counter-espionage police since 2015. But the latest detainee was unusual: a prominent member of the business community from a big company.

In April family members of a Chinese journalist, Dong Yuyu (pictured), revealed that he had been arrested last year while meeting a Japanese diplomat in Beijing, and accused of spying. Mr Dong is well known among foreign diplomats and journalists. He had been working as a senior editor at *Guangming Daily*, one of the country’s official newspapers. He also contributed to *Yanhuang Chunqiu*, a magazine, when it was strongly pro-reform (it was ►

More available elsewhere

China, working-age population*, bn



► neutered after a hostile takeover in 2016), as well as the Chinese website of the *New York Times*. On the same day as the revised law on spying was passed, the authorities announced the arrest of Li Yanhe, a China-born Taiwanese publisher who had been visiting the mainland. He has been accused of "endangering national security". Books produced by Mr Li's firm include works critical of China's Communist Party.

Recent police raids on firms' offices have also rattled foreign businesspeople. In one such swoop, in March, five Chinese employees of Mintz Group, an American due-diligence firm, were detained in Beijing for reasons that have not been made public. In April police in Shanghai questioned staff at the premises of Bain, an American consultancy, and took away computers and phones, according to the *Financial Times*. Again, the reason is unclear. But amid growing tensions between China and America, Western businesspeople worry that police may be looking for excuses, whether security-related or otherwise, to flex muscle (see Business section).

For the police, the new wording of the counter-espionage law provides plenty of excuses to target people they dislike—both Chinese and foreign. The old version listed colluding to "steal, pry into, purchase or illegally provide state secrets or intelligence" as one kind of espionage. Now it also applies to "other documents, data, materials or items related to national security or interests". In theory this could mean that obtaining non-classified information on topics ranging from the economy to politics could be construed as spying.

In practice it has always been so. But making this clearer in law aims to send a message to Chinese: they must be super-cautious about sharing with foreigners any information that is not available in the country's highly censored public-facing media. China also has many publications that provide news of a more genuine kind, but they are classified. The party's main mouthpiece, the *People's Daily*, produces a thrice-weekly digest of commentary from social media, but even this is restricted to "internal" circulation among officials.

Since the country first adopted its spying law in 2014, it has mounted a publicity campaign mainly aimed at ordinary citizens. Propaganda teams even tour villages, urging vigilance against foreign spooks. In 2015 the Ministry of State Security set up a hotline, 12339, for people to report suspected threats, with substantial rewards offered. That year the government also declared that April 15th would be marked annually as National Security Education Day. It says it wants the "whole of society" to mobilise to "make it difficult for criminals who engage in spying and sabotage even to take a step". It is certainly making foreigners feel less welcome. ■

Lego and the competition

Battle of the bricks

Build your own money tree—or ballistic missile

THE CHINESE name for Lego, Legao, includes the character for happiness. And indeed, China has brought much joy to the world's top toymaker by revenue. Brick by brick, the Danish company has built up its business in the country, which is increasingly central to the firm's future. Last year over 60% of the new shops opened by Lego were in China.

That brings with it unique challenges. In 2015, for example, Lego refused to sell bricks to Ai Weiwei, a Chinese artist known for criticising Communist Party leaders. Mr Ai planned to use the toys in a piece on dissidents. The company eventually backed down, saying it would no longer query the purpose of large orders. More recently, a rainbow-coloured set that celebrates inclusivity, called "Everyone is Awesome", stopped being available in China.

But the focus on China has also led to interesting new creations aimed at the local market. In recent years Lego has released a number of sets that evoke the country's culture. The latest include a traditional lunar-new-year display and a Chinese money tree adorned with red envelopes. Duplo, a Lego line aimed at younger children, has produced a "Learn about Chinese culture" model that incorporates red lanterns and a Mahjong set.

Lego's "Monkie Kid" theme is inspired by "Journey to the West", a 16th-century Chinese legend. Of course, the original monkey king did not have a "dragon jet"

or "galactic explorer". But these sets seem in line with the party's push to build "cultural confidence". So too does "Lego Masters", the local version of a reality-TV show in which adult builders compete. Each episode is inspired by "the profound Chinese traditional culture", says its broadcaster, Shenzhen Media Group.

Staying on good terms with the party is a common challenge for firms in China. So is protecting intellectual property. Lego has dozens of Chinese competitors. And it has fought several successful copyright battles against imitators selling cheaper sets that resemble its own.

Some rivals are taking a different approach. Though it produces "starfighters" and "spider tanks", Lego refuses to make true-to-life models of military equipment. Chinese firms are filling the gap. According to Sixth Tone, a Chinese news site, local toymakers are taking inspiration from the People's Liberation Army, creating Lego-like models of J-20 fighter jets, DF-41 intercontinental ballistic missiles and other Chinese weapons. Some fans are using the creations to make stop-motion animated films that re-enact historical battles.

But Chinese toymakers are fighting an asymmetric war. Lego has hundreds of stores in China. Last year it opened 95 new ones, including a big flagship branch in the western city of Chongqing. This year it plans to open 80 more. It, too, is on the offensive.



New construction in Beijing

Chaguan | Beating the war drums

A new PLA-backed propaganda film normalises the idea of conflict with America



IN THESE TENSE times, a lack of loud war drums in Beijing and Washington has been a rare source of comfort. True, the drums are not quite silent. Some American generals and politicians have talked up the chances of conflict with China within a few years, which is less helpful than they may suppose. People's Liberation Army (PLA) fighter jets keep staging recklessly close, high-speed passes to intimidate Western military aircraft in international airspace near China. The PLA refuses to discuss rules for safely managing close encounters, precisely because it wants to frighten foreign warplanes and ships far away. That shows a dangerous appetite for risk. America and China remain at loggerheads over a rather trivial crisis: the downing of an unmanned Chinese surveillance balloon. What hopes have they of managing a collision on a par with one in 2001 that killed a PLA pilot and obliged an American spy plane to crash-land at a Chinese air base?

Still, when President Joe Biden and President Xi Jinping met in person last November, they agreed on the need to avoid armed conflict. Chinese censors routinely silence online nationalists demanding attacks on Taiwan, for the masses have no right to dictate to Mr Xi when or how that island should be conquered. Chinese public opinion has not, to date, been readied to sacrifice decades of growing prosperity on the altars of war.

A new film about China's air force tests that record of restraint. "Born to Fly", made in close collaboration with the PLA, has topped the domestic box office during the May Day holidays. It depicts test pilots risking (and losing) their lives to perfect a new stealth fighter. The plane is needed for combat against a foreign power that, though unnamed, speaks American-accented English.

Readers planning to watch the film should return to this spoiler-filled column later. Others should know that the movie breaks new ground in the "main melody" genre, as works promoting major party policies are known. Such films are shown to students, party members and government workers nationwide, alongside commercial screenings. "Born to Fly" is the highest-profile flick of this type to normalise the notion that the present-day PLA's mission is to fight and kill Americans.

The movie makes much of its realism. The film-makers have wheeled out PLA veterans to praise its authenticity and even the

acting of its young male lead, Wang Yibo, an elfin former singer in a boy band. But its geopolitical premise is bogus. In the real world, China is locked in territorial disputes with many neighbours. Notably, China claims to control almost all of the South China Sea, building PLA bases atop disputed reefs and rocks. To challenge China's unilateral claims and uphold the principle of freedom of navigation, America and other powers fly and sail through areas of the South China Sea deemed open to all by international law.

"Born to Fly" twists such missions into acts of war. The film opens with foreign jets shattering windows and hurling Chinese fishermen and oilfield workers into the sea with low, supersonic passes. The aggressors chortle "well done" to one another. Told by radio that they are in an area under China's jurisdiction, the foreigners retort: "We can come and go whenever we want." They then proceed to outfly the PLA's ageing planes. At the film's end, the intruders return, firing without warning on Chinese fighters. This time, the PLA has advanced jets and drives them away.

Dismaying, the film blends anti-American fantasies with some of Mr Xi's highest priorities. The test pilots are told they are in a battle against a technological blockade and containment strategy imposed by foreign powers, a line echoing Mr Xi's calls for self-reliance. What is more, the male lead's story could be inspired by Mr Xi's many speeches to the young, which emphasise discipline and deplore softness. The hero is brattish when he arrives at his desert air base. But after visiting a martyrs' cemetery for test pilots and watching his commander choose death to avoid ejecting over a city, he devotes his life to his motherland. When the young man is injured, his parents ask him to quit the PLA. They grumble about his earlier refusal of an offer to study overseas and express doubts that China can ever match Western planes. The hero scolds his over-protective parents, informing them that his generation will give China back its confidence. Even a ludicrous plot device, in which the hero designs a plane-saving technology on his laptop in his spare time, aligns with a PLA campaign to recruit college graduates with engineering and computing skills.

Buzzing the superpower

Successful patriotic works reveal how countries wish to see themselves. "Wolf Warrior 2", a wildly popular film released in 2017, is misremembered as warmongering. In fact, the plot depicts a Chinese commando evacuating civilians from an African civil conflict with the help of a half-American doctor (though the commando also punches a racist foreign mercenary to death, it is true). The China of the film is a proud peacekeeper. At one point, a Chinese warship waits for the UN Security Council to approve a missile strike. In contrast, "Born To Fly" depicts China overcoming backwardness to fight America one-on-one: a much grimmer story.

Foreign critics call "Born To Fly" a copy of "Top Gun: Maverick", a film about American fighter pilots released last year, though not in China. While many of the scenes look similar, the critique is unfair to both films. "Top Gun: Maverick" is wistful and nostalgic, and as interested in human frailties as in noisy machines. It depicts a weary superpower and an ageing pilot enforcing a multilateral treaty on nuclear non-proliferation, ie, defending the rules-based order. Alas, "Born to Fly" is closer in spirit to the first "Top Gun". That film from 1986 shows obnoxious young pilots helping a hegemonic America enforce its will, without concern for the niceties of international law. "Born to Fly" is "Top Gun" with added nationalist grievance and no sex. If it is a hit in China's cinemas, it should alarm the world like a beaten drum. ■



Sudan's civil war

The risk of contagion

KHARTOUM AND NAIROBI

Continued fighting could turn Sudan into a battleground in a wider proxy war

FOUR DAYS after war began in Khartoum, Sudan's capital, armed men stormed the home of Muhammad. Ordering the businessman (whose name we have changed for his safety) and his family to leave, the soldiers mounted anti-aircraft guns on the roof of the apartment. Muhammad's family moved in with relatives in a quieter neighbourhood. But that, too, was soon unsafe as the fighting spread, leaving the streets strewn with bodies.

The battle may have started as a narrow power struggle between the official army, known as the Sudanese Armed Forces (SAF), and the Rapid Support Forces (RSF), a militia-turned-paramilitary organisation. But the longer it continues, the greater the risk that it may draw in outsiders because of Sudan's geopolitical importance.

Sudan sits astride the Nile, Egypt's life-line. It also has ports close to the Horn of Africa, which controls the southern choke-point of the Red Sea and is not far from the Persian Gulf. These arteries of the world

economy are watched over by America, China and France, which all have military bases in Djibouti (see next article). "The Horn is highly strategic, and a microcosm of other international disputes," says Comfort Ero, the president of the International Crisis Group, a think-tank focused on conflict. It is a place where "the West meets the East, where the Gulf meets Europe."

For now the two sides seem evenly matched. The SAF is commanded by General Abdel Fattah al-Burhan, who seized and then consolidated power as de facto leader of Sudan in coups in 2019 and 2021. It started the conflict with considerable conven-

tional military power, including tanks and fighter jets. Though the RSF is ostensibly the underdog, its commander, Muhammad Hamdan Dagalo (better known as Hemedti), has substantial private wealth, because the RSF is said to control elements of Sudan's gold trade. He also leads tens of thousands of loyal troops.

It was these assets that enabled Mr Dagalo to vie with General Burhan for control of the transition that followed the overthrow of the brutal Islamist regime under the former dictator, Omar al-Bashir, in 2019, and later saw him become the country's vice-president. Guns and money may also have helped him to emerge in recent years as a semi-autonomous figure on the international stage, cutting deals with foreign powers. The RSF is not simply an "insurgent militia", notes Sharath Srinivasan, a Sudan expert at Cambridge University. "It's a state actor."

After nearly three weeks of fighting in Khartoum and elsewhere, in particular in West Darfur, neither side has a decisive advantage. The RSF lacks tanks and air power but is compensating by digging into residential neighbourhoods in the capital. There its men are raping women and forcing them to cook for them, according to a Sudanese woman, whose four female cousins escaped through an air-vent after the RSF had occupied their home.

Civilians in Khartoum also have to con-►

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tend with air strikes by the SAF. On May 1st three women selling tea opposite a hospital were killed by a bomb blast. According to the UN, more than 500 civilians have already been killed and many more injured in the fighting (the true figure is likely to be much higher). As many as 800,000 refugees are expected to cross Sudan's borders in the coming weeks and months.

The RSF, whose troops are also better paid and have more recent combat experience than those of the SAF, has managed to secure key parts of the capital including the international airport and the country's largest oil refinery. It also appears to control the presidential palace and the state broadcaster. "For the past two weeks they were roaming around like they owned the place," says Waleed Adem, a resident of a RSF-controlled district of east Khartoum.

The RSF also dominates Mr Dagalo's home region of Darfur and controls two of the region's three air bases. Bloody clashes in el-Geneina, which began when Arab tribal militias affiliated to the RSF attacked non-Arabs in the town, may have subsided.

The army remains in charge pretty much everywhere else. Thousands of Sudanese and foreign citizens have been evacuated from the Red Sea city of Port Sudan, in the country's troubled east, which was secured by the SAF early in the war. The countryside around Khartoum is also more or less peaceful. "It's business as usual," reports a university professor who recently fled the city with his family.

Though the RSF is waging a guerrilla campaign of raids on army units and facilities in the capital, the SAF's control of the skies is taking a toll. "We hit all their supply stores around Khartoum," says a mid-ranking soldier in the SAF. Several convoys of RSF reinforcements from Darfur have reportedly been destroyed by air strikes.

The question is whether either side can quickly break the deadlock. The SAF has decades of experience fighting insurgencies in distant regions, but never before in the capital. It cannot simply bomb its way to victory there as it has tried to do elsewhere. "Khartoum is going to be a bit of a meat-grinder for a while," predicts a Western security analyst. He adds that internal divisions within the SAF's leadership may be hampering its ability to press home its sizeable advantage in heavy weapons.

The RSF, too, finds itself in a quandary. It will struggle to supply and rearm its forces as the fighting continues. Even in the unlikely event of a victory, Mr Dagalo will struggle to lead Sudan. He is loathed in Khartoum by residents who hold him responsible for the massacre of hundreds of protesters in 2019 perpetrated by forces from the RSF, the police and the intelligence service. His troops' current conduct has only alienated them more. "The people have the army's back," says Mr Adem.

Evacuating foreigners

French lesson

PARIS

The rescue flights highlight the importance of France's base in Djibouti

NIIGHT HAD fallen in Paris on April 22nd when the call came through to the French president, Emmanuel Macron, from his military adviser asking for permission to evacuate civilians from Khartoum. It was a high-risk operation, in which special forces would secure a Sudanese air base in a war zone.

That evening French military aircraft and commandos were the first to fly in from Djibouti to the air strip at Wadi Seidna, north of Khartoum. In the early hours of April 23rd, the French and other allies began their airlifts. By April 27th the French had evacuated 936 people, the nationals of over 50 countries.

In recent years France has been losing influence in Africa in the face of powerful anti-French campaigns and the spread of Russia's Wagner Group. Last year France pulled 2,400 troops out of Mali, where it had been running a counter-terrorism operation, after the military junta hired Wagner mercenaries. This year its forces were told to quit

Burkina Faso, too.

Mr Macron is now reviewing France's military presence on the continent and has predicted a "visible decrease" in its footprint. Some bases may become training centres; others may be jointly run by the host countries' armed forces.

However, Djibouti, where France keeps 1,500 soldiers at a permanent base, is a special case. Mr Macron has no intention of pulling out, says an adviser. The facility there is considered critical to France's Indo-Pacific defence posture. For the French, the successful Khartoum evacuation, which relied on Djibouti, confirms more strongly than ever the value of keeping forces on the ground there, whatever their president may decide about bases elsewhere in Africa.

Macron's mission

For the inside story of the evacuation see: economist.com/sudanrescue

The prospects for a protracted war depend on how Sudan's neighbouring countries react. Because of its size as well as its strategic location on the Red Sea, Sudan has long been seen as strategically valuable within the region as well as by China, Russia and the West. It overlooks the shipping lanes leading to the Bab al-Mandab strait, through which around 10% of the world's sea trade passes (see map).

The Gulf countries, in particular the United Arab Emirates (UAE) and Saudi Arabia, have economic interests at risk. In December an Emirati firm signed a \$6bn deal to develop a port and economic zone on Sudan's Red Sea coast. The Saudis and the Emiratis supported General Burhan and Mr

Dagalo after the joint coup, handing out some \$3bn in emergency aid. Neither country has an obvious interest in fuelling the conflict. Saudi Arabia has already evacuated thousands of Sudanese fleeing via Port Sudan. Much as Europe does, it fears a sudden influx of refugees.

Complicating matters, though, is the Emiratis' murky relationship with Mr Dagalo, who received cash and arms in return for sending his RSF to aid their war in Yemen in 2017. He has since cultivated ties in both Abu Dhabi and Dubai, the UAE's two main sheikdoms. Still, the Emiratis do not have "any particular affection for Hemedti", says Harry Verhoeven of Columbia University. Since the war began there has been no evidence that the UAE has continued to supply his forces. So the Gulf countries may be "hanging back and hedging their bets to see which way the cards fall", suggests Ms Ero.

Less clear is the approach of Russia, whose murky mercenary outfit, the Wagner Group, is said to be involved in gold mining in Sudan and reportedly arming the RSF. The Kremlin's main aim is to "thwart a democratic transition in Sudan", says Samuel Ramani, the author of "Russia in Africa". This is because its ambition to build a naval base on the Red Sea is better served by a military government in Khartoum than the embryonic democratic one that was aborted by the junta's coups.



The civil war in Sudan is not yet a proxy one like those in Libya, Syria and Yemen. But the country shares long and porous borders with conflict-racked neighbours, including the Central African Republic, Chad, Libya and South Sudan. Each has its own bewildering array of militias and rebel groups, many with ethnic or business ties to the RSF or to its rivals. Some may watch for a chance to profit from Sudan's chaos. "The longer the conflict continues, the more external actors will meddle," warns Suliman Baldo, who heads the Sudan Transparency and Policy Tracker, a conflict-monitoring group.

Another potential meddler is Issaias Afwerki, Eritrea's president, who has sought ties with Mr Dagalo and has a history of backing Sudanese rebels. Another is Khalifa Haftar, a Libyan warlord with links to the Wagner Group, who is said to have already sent fuel and arms to the RSF.

Mr Dagalo's RSF and Mr Haftar's Libyan National Army (LNA), which controls much of eastern Libya, have worked together in the past. In 2019 RSF troops were sent to support the LNA, which was also backed by the UAE, in its assault on Tripoli, Libya's capital. Two days before Sudan's civil war erupted, Mr Haftar's eldest son arrived in Khartoum for talks with Mr Dagalo.

Whatever support Mr Haftar may offer, the RSF may be limited by the Libyan warlord's need to keep in with Egypt, another of his foreign sponsors. Long Sudan's most influential neighbour, Egypt is a staunch backer of the SAF under General Burhan. It views Sudan as vital to its national security and is loth to see either a civilian government or Mr Dagalo in charge.

Early in the war an Egyptian jet was reported to have struck an RSF ammunition dump. On May 1st Mr Dagalo accused Egypt's air force of hitting targets in Khartoum. Though the extent of its military involvement is unknown, Egypt is likely to step up its support for the SAF if it is flagging. "Egypt is the most serious factor," says Magdi el-Gizouli of the Rift Valley Institute. "The Egyptian goal now is to save central power in Sudan as they know it."

A wider conflagration may still be avoided. Despite ethnic clashes in Darfur, the conflict has so far been generally limited to fighting between the two armed factions. On May 2nd both sides agreed to a seven-day ceasefire starting on May 4th that was brokered by South Sudan's president. Peace talks could begin soon.

All the while, a humanitarian disaster is mounting. Food and water supplies in Khartoum are dwindling. Almost no hospitals in the capital are functioning. Pregnant women have died on route to give birth. "If there is no ceasefire," warns Mohamed Lemine, who heads the UN's sexual and reproductive health agency in Sudan, "everything will collapse." ■

Islamic State

A name to die for

The jihadists are leaderless once again

TWO THINGS can be said with some confidence about the next leader of Islamic State (is), the jihadist terror group that once controlled swathes of Iraq and Syria. He is likely to be called al-Qurayshi—and is unlikely to live to a great age. On April 30th Turkey's president, Recep Tayyip Erdogan, announced that in an operation the day before, run by his country's intelligence agency, the latest leader of is, Abu Hussein al-Qurayshi, had been "neutralised".

The raid apparently took place in the northern Syrian town of Jindires, close to the Turkish border, some 46km from Aleppo. For Mr Erdogan, who faces a tight election next week, it was an opportunity to remind voters of his strongman credentials. He vowed that Turkey would continue its "struggle with terrorist organisations without any discrimination".

The latest al-Qurayshi took over as leader of is in November last year, a few weeks after the death of his predecessor. Abu al-Hassan al-Hashemi al-Qurayshi had been killed in Syria's southern province of Deraa by a faction of the Free Syrian Army, a loose coalition of moderate rebel forces opposed to the regime of Syria's president, Bashar al-Assad. He, in turn, had succeeded Abu Ibrahim al-Hashimi al-Qurayshi. This one, holed up in the rebel-held Syrian province of Idlib, had blown up himself and his family when cornered in a firefight with Amer-

ican special forces in February last year.

Al-Qurayshi is a *nom de guerre* that all three short-lived is leaders have adopted since the death of its first and most notorious caliph, Abu Bakr al-Baghdadi, in 2019. It suggests descent from the Quraysh, the leading tribe in Mecca during the lifetime of the Prophet Muhammad. It is unclear how much authority the name confers over what is now a much looser-knit, cell-based group after its ejection from its strongholds in Syria and Iraq. Since any known is commanders are prime targets, operational security is a priority for them; hence they keep the lowest of profiles.

is is much diminished from its glory days when it controlled about a third of Syria and 40% of Iraq. But it still has influence among insurgent groups in parts of west Africa, which continue to perpetrate violence across the region, and it has a spectacularly nasty branch in Afghanistan. It is also still a threat in Syria. Western intelligence agencies think the organisation can call on 6,000-10,000 fighters in Iraq and Syria and has many more followers.

Quite apart from the routine roadside bombings, ambushes and hit-and-run attacks, a particular concern is stopping is from trying to liberate the 10,000 or so militants held in prisons and detention camps in north-east Syria. These are guarded by the mainly Kurdish Syrian Democratic Forces. In January last year, is fighters attacked Ghuwayran prison in that area in an attempt to free 3,000 of their comrades, many of them foreigners whom their own countries do not want back. The ten-day battle left more than 500 people dead, about three-quarters of them is prisoners, and required American and British special forces and air power to intervene before the Kurds could regain control. ■



Few still rally to this banner

Syrian refugees in Lebanon

Unwelcome guests

BEIRUT

Lebanon's feuding politicians are searching for scapegoats

THE ARMY vehicles drew up outside Umm Mohammad's home in Lebanon's foothills just before dawn. Soldiers searched the house before checking the Syrian family's papers. Three of her sons' residence permits had lapsed because the authorities are not renewing them these days. The young men were taken to the border and handed over to the Syrian army. They ended up in Aleppo. The older two were given ten days to report for army duty.

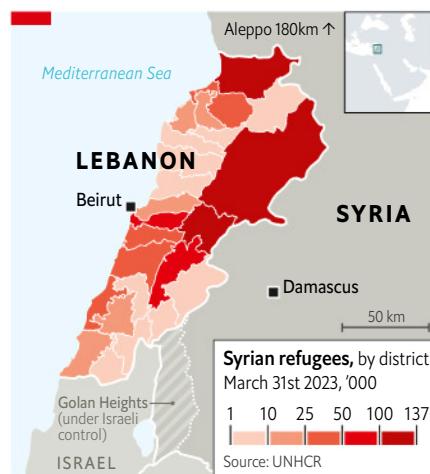
Relief workers have counted more than 60 such raids since the middle of April. There were just 11 during the whole of last year. The expulsions—which Amnesty International says are a violation of international law—are part of a wider crackdown by the Lebanese government on Syrian refugees. Last week it directed local security forces to "apply the law". Parties across the political spectrum have backed the government's efforts, as have local television stations. Syrians in Lebanon have faced a torrent of abuse on social media.

Refugees began arriving in Lebanon in 2011 after the outbreak of the Syrian civil war. Exact numbers are unknown; the government ordered UNHCR, the UN refugee agency, to stop registering them in 2015. The official figure is 1.5m; the reality may be closer to 2m, in a country with a population of 5m. The government has refused to house Syrians in formal camps so they are scattered around the country (see map), many in squalid informal settlements.

Syrians in Lebanon have experienced attacks, rhetorical and physical, before. But the latest campaign has been prompted in part by Lebanon's economic crisis—and is all the more furious as a result. The Lebanese pound has lost more than 98% of its value against the dollar since 2019. Annual inflation is running at over 250%. Most Lebanese struggle to pay their bills.

The refugees are a convenient scapegoat. Locals blame them for crime waves and stealing jobs. Some Lebanese claim that Syrians are living comfortably off UN and NGO handouts (in dollars) while they starve. The international community has been accused of paying refugees to stay in Lebanon to prevent them from going to Europe. "It's a conspiracy against Lebanon," fumed Michel Aoun, a former president, last week.

Blaming Syrians for the country's woes suits feuding Lebanese politicians, as it diverts attention away from their own short-



comings. They have so far failed even to agree on a successor to Mr Aoun, who stood down last October. Pushing through reforms agreed with the IMF, which would unleash billions of dollars in aid, looks far beyond them. Lebanese have gone from being angry with their own politicians "to finding something else to be angry about", says an aid official.

Syrians are more deserving of pity than anger. A large majority cannot make ends meet. Few receive the maximum benefits, which for a family of five or more are the equivalent of \$80 (£64) per month. The UNHCR says this does not come close to covering a family's basic needs. They even have to pay rent for tents in remote areas. At a donors' conference in Brussels in mid-June, the UN will ask for \$4bn for Lebanon. More of the money will go to Lebanese than Syrians.

It is true that Syrians have created pressures in Lebanon. Some have lots of children. Others get mixed up in crime. Some cross back into Syria then return to claim benefits from the UN. But if Lebanon gets too heavy-handed with Syrian refugees it could forfeit the support of international donors. And a sudden exit of refugees would have some costs for the economy: many do jobs in construction and agriculture that some Lebanese workers shun.

The UN and others would favour a safe, voluntary and monitored return of the refugees. For now that seems unlikely so most will stay. But their lives may become increasingly uncomfortable. ■

Russia and Iran

A rail-and-sea passage to India

The much-sanctioned pair are jointly seeking ways to evade their isolation

EVER SINCE a French diplomat and developer, Ferdinand de Lesseps, sliced the Suez canal through Egypt in 1869, linking east and west, many Middle Eastern countries have tried to follow suit. Israel has recently broached cutting a canal from the Mediterranean to the Red Sea, or a rail link from its port at Haifa via Jordan and on to the Gulf. A former Iraqi transport minister tirelessly promotes a scheme to carve a canal from Iraq's southern port of Basra all the way to Turkey. The most serious venture, though, is a Russo-Iranian one to link the Caspian sea to the Indian Ocean.

After decades of feasibility studies, a joint fear of isolation by Western powers is driving Russia and Iran to build a sanctions-proof corridor. Since the West tightened sanctions on Russia after it invaded Ukraine, the ostracised pair have opened a roundabout rail-link via Kazakhstan and Turkmenistan. Russia is upgrading its own ports with Iranian investment. An Iranian shipping company on the Caspian is boosting Iran's fleet of freighters. Russia is helping build a 164km railway through Iran to its border with Azerbaijan on the Caspian shore. Once this is complete it will provide a sanctions-defying rail link that runs

from the Baltic down to Bandar Abbas on Iran's Persian Gulf.

Annual Russian-Iranian trade has already leapt by 20% in a year to nearly \$5bn, says Emil Avdaliani, a Georgian think-tanker. Russian pundits predict that trade with Iran could surpass that with Turkey, worth \$30bn. Last month Russia supplied refined oils (petrol and diesel) to Iran by rail, some of it for transporting onward. It recently shipped 12m tonnes of grain through Iran to India. Other projects include upgrading Russia's canals between the Don and Volga rivers that link the Black Sea to the Caspian. Another rail link, to Iran's southeastern port of Chabahar, could speed up Russian exports to India even more.

Russia once shied away from investing in Iranian infrastructure for fear of Western sanctions. But the war in Ukraine has made it cast such caution aside. It has encouraged Iran to send it military drones for hammering Ukraine. Last year Russia was Iran's biggest foreign investor, far ahead of China. To evade Western sanctions, the pair have unveiled a finance-messaging system as an alternative to SWIFT. And both countries voice simultaneous grandiloquence in challenging a wicked world order.



Ukraine

Atrocity exhibitions

KYIV AND TEREKHIVKA

War-crimes prosecutions in Ukraine are a long game

TEREKHIVKA IS A rambling farming village outside Chernihiv, full of low iron-roofed houses and telephone poles topped with stork's nests. The village boasts a general store and a community centre, and it used to have a kiosk selling soft drinks. The kiosk has been closed since February 24th 2022, when Russian forces invaded and occupied the area for more than a month. The Russians found a use for it, though: for several days soldiers imprisoned a civilian named Oleksandr Marusik there and tortured him, standing on his wounded leg and demanding to know where Ukrainian units were. Unable to bear the pain, Mr Marusik begged them to kill him. Eventually, they let him go.

Amidst the legion of atrocities committed by Russian forces in Ukraine, Mr Marusik's story seems unremarkable. Russia has bombed and shelled civilian targets in Ukrainian cities, killing thousands. Its troops have tortured, sexually abused and murdered non-combatants in towns they have

occupied, such as Bucha. Russia has systematically abducted Ukrainian children. A video clip that surfaced in mid-April appeared to show Russian soldiers beheading living Ukrainian prisoners of war.

Ukrainian prosecutors have opened more than 80,000 war-crimes cases since the invasion, according to Andriy Kostin, the country's prosecutor-general. Yet Mr Marusik's case stands out in one respect: it is one of some 30 that have already led to a conviction. On February 17th a court in Chernihiv convicted a Russian soldier named Denis Kuznetsov in absentia for torturing him.

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The trial shows the efforts Ukraine is making to prosecute war crimes. But it also highlights the problems. Ukraine lacks a strategy for building cases against Russian leaders, as opposed to foot-soldiers. Its allies have provided databases and training, but deployed few investigators of their own. A blizzard of international aid initiatives defy co-ordination. If Ukraine and its allies hope to render judgment on those people responsible for Russia's war crimes, they have work to do.

Serhiy Khamaiko, the prosecutor who tried Mr Marusik's case, says he picked it for a simple reason: he had the evidence. Ukrainian security services had mobile-phone data that placed Mr Kuznetsov, then 20, at the kiosk. Mr Marusik picked Mr Kuznetsov out of a photo line-up, having seen his face when not blindfolded, and recognised his voice on intercepted phone calls. The court sentenced the Russian to 12 years in prison under Article 438 of Ukraine's criminal code, which deals with violation of the laws and customs of war.

But the Ukrainian authorities have no idea where Mr Kuznetsov is. His court-appointed defence lawyer could not contact him. Mr Kuznetsov, if he is alive, may not know he has even been charged: prosecutors are required only to publish a notice in the official government courier. What, then, does his sentence mean? "Everybody asks me that," sighs Mr Khamaiko. Russia ➤

► may undergo a regime change some day, he argues, and the verdict gives a sense of justice to the victim.

At tribunals such as those for the wars in Sierra Leone and the former Yugoslavia, prosecutors learned how to slowly build cases against the senior leaders who organised the violence. In Ukraine that has yet to happen, says Wayne Jordash, an international lawyer in Kyiv. Mr Jordash runs Global Rights Compliance, a legal practice that supports Ukrainian investigators and prosecutors. "There's a focus on direct perpetrator cases, which look like ordinary crimes—the torture in the basement, the rape of the woman," says Mr Jordash. Because the numbers are overwhelming and technical expertise scarce, prosecutors "are only just beginning to focus on how you take those cases upwards".

Some problems are rooted in law. Ukraine's criminal code lacks the concept of command responsibility, which is used to charge senior commanders with war crimes even if they did not explicitly order each one. Also, Ukrainian prosecutors have little discretion: they are required to launch an investigation within 24 hours after being notified of a crime. That leads to a proliferation of minor cases.

Prosecutors' careers prosper when they win lots of trials, an incentive to pursue quick charges against soldiers rather than long investigations of their commanders. A number of Russian pows have pleaded guilty, only to be traded back in prisoner exchanges. Trials in absentia are risky: in 2015 the European Court of Human Rights struck down a conviction in Croatia (calling many others into question) because the country's process for appeals for those tried in absentia was judged to be flawed.

Ukrainian courts cannot accept evidence directly from outside investigators,

so international experts act only as advisers. Many advocates think this insufficient. "It's not enough to send us hundreds of international consultants," says Oleksandra Matviichuk, a human-rights lawyer whose Centre for Civil Liberties was awarded a Nobel Peace Prize in 2022. Ukraine lacks "working hands on the ground", she adds. Some Ukrainian NGOs, including Ms Matviichuk's group, call for setting up hybrid courts that could accept foreign investigators and prosecutors.

War-crimes efforts involving foreign countries and courts are almost indescribably complex. "The space has become overcrowded," says Nadia Volkova of the Ukrainian Legal Advisory Group, an NGO. Ukraine has granted jurisdiction to the International Criminal Court in The Hague. (In March that court issued an arrest warrant for Vladimir Putin himself, along with his minister of children's welfare, over Russia's mass abductions of children.) Meanwhile, six eastern European countries—Estonia, Latvia, Lithuania, Poland, Romania and Slovakia—have pooled their war-crimes efforts with Ukraine's in a Joint Investigation Team.

The EU has created a database for war-crimes evidence. It also wants to host a new tribunal to try Russia on the charge of aggression, which the ICC probably cannot pursue against countries that reject its jurisdiction. America, Britain and individual EU countries periodically send Ukraine forensic and legal experts, and collect testimony from Ukrainian refugees. Some may pursue war-crimes charges under universal-jurisdiction laws. The Atrocity Crimes Advisory Group (ACA), an initiative between America, Britain and the EU, is supposed to co-ordinate those countries' efforts with Ukrainian prosecutors. Unsurprisingly, it is finding that hard to do.

Many of these issues may be teething problems. But Ukraine's situation is not like that at the Nuremberg war-crimes trials, where conquering powers imposed justice on a defeated nation. It is also unlike those in Cambodia, Sierra Leone or the former Yugoslavia, where civil wars gave way to tribunals sponsored by the international community.

Rather, for now, in Ukraine the overwhelming majority of war-crimes cases will be prosecuted in national courts. The invaded country will pass judgment on the invader's soldiers, who may be in Russia and untouchable for many years to come. Klaus Hoffmann, a German prosecutor who works with the ACA, notes that the London declaration on the punishment of war crimes was issued in 1942 when the Nazi leadership was still out of reach. Justice, Mr Hoffmann, says, will come after the fighting is over. ■

The defence of Bakhmut

No Victory Day

KYIV

Ukraine is denying Russia any reason to celebrate at its parade

Vladimir Putin likes a parade. When he invaded Ukraine on February 24th last year, he hoped his "special military operation" would bring triumph within days; some units reportedly had dress uniforms ready packed. Later he hoped his annual May 9th Victory in Europe Day procession would coincide with the fall of Mariupol, a port city on the Azov Sea. But Ukraine held out for another week, and the parade in Moscow was a damp squib. This year's parade now looks menaced; on May 3rd, Russia said it had shot down two Ukrainian drones that had targeted the Kremlin itself. (Ukraine denied responsibility.)

The parade was anyway again likely to be short of much to celebrate. This year Mr Putin's target is much smaller than Mariupol; and it still has not been achieved. For over ten months Russia has been trying to conquer Bakhmut, a town in the eastern Donbas region with a pre-war population of 70,000. A surge in the fighting suggests that Russia's generals are desperately trying to deliver it to the Kremlin by May 9th—whatever the cost. On May 1st the White House said that over 20,000 Russians had been killed since December alone. A large proportion of those is likely to have perished in or around Bakhmut, making it perhaps the costliest battle since Iran's assault on Basra 36 years ago. Ukrainian forces, outgunned, have been retreating 50-75 metres a day, says one official. ►

Maze of good intentions

Ukraine, organisations working on war-crime prosecutions, at May 2023

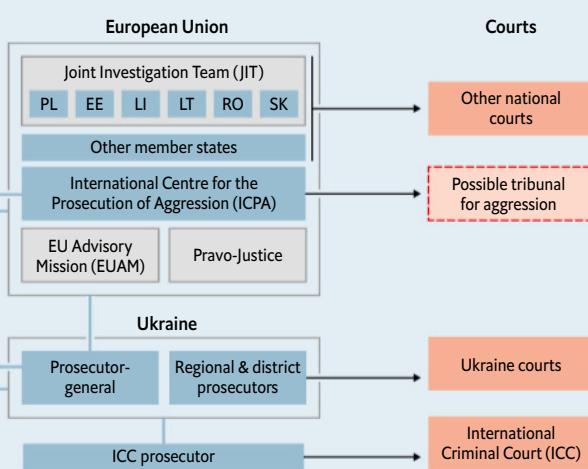
■ Prosecutors and investigators □ Advising bodies — Co-ordination → Prosecution

National prosecutors



Other
5am Coalition; Global Rights Compliance; Clooney Foundation, etc

Source: The Economist





► They are now confined to the city's most westerly districts (see map).

The textbooks, when they are written, will surely focus on why the town was ever fought over in the first place. Bakhmut has limited strategic significance. There are better natural defences in the hills to the west of the town. The city itself has been reduced to a pile of smouldering rubble. According to recently leaked Pentagon documents, America has since January been privately urging Ukraine's leadership to retreat. But Bakhmut has acquired a political weight that appears to trump military necessity. Since the fighting began last July, it has become a symbol of Ukrainian defiance. The Russians desperately want to capture the town, small and ruined though it is, as a fillip for their flagging campaign: it has been the main focus of their fighting since late summer. For Ukraine, it matters for much the same reason—to deny Russia a morale-boosting victory and to wear the enemy down in the process.

Russian forces have made their grinding advance thanks to their artillery dominance as well as the use of human waves of mobilised convicts and of elite airborne assault units, which are now deployed on the flanks of the city. On April 25th a senior figure in Ukrainian military intelligence told *The Economist* that Ukraine controlled just 15% of the city, implying a rate of advance that would mean Russia could take Bakhmut within a few weeks.

Ukraine's generals argue privately that the course of the fighting has nonetheless vindicated their decision to continue to defend Bakhmut. Some Ukrainian commanders say the losses for Russia around the town have been as high as ten to one against it. Independent observers say this is much too high. Konrad Muzyka, a Polish military expert who visited Bakhmut in March, notes that the casualty ratio has changed over time. But at a low point in

Russia's patriotic children

Junk those decadent Western values

Vladimir Putin wants to militarise the kids

AT THE TURN of the year Moscow's Victory Museum, which glorifies Russian valour in the second world war, hosted a "historical quest" for children. A promotional video showed youngsters firing plastic rifles and lobbing pretend-grenades at an oncoming tank. The actual event was less exciting: activities included puzzles and parroting patriotic slogans. The children wore Soviet soldiers' caps. Museum staff and chaperones had the letter Z, a symbol of support for Russia's invasion of Ukraine, stitched onto their t-shirts.

Last year Russia's parliament enacted plans to create a youth movement emulating the Pioneers, a communist-era organisation that used to promote Soviet ideology. The Kremlin also introduced lessons in "Russian values" into the school curriculum, to fend off Western decadence. In September basic military training, including tips on how to handle a Kalashnikov, will become mandatory for students from 16 onwards.

This patriotic push is designed to justify President Vladimir Putin's invasion, which he casts as the defence of traditional values against the West. Children must have a positive impression of army life—after all, many of them may soon be enlisted.

Russians seem receptive. In May last year the Levada Centre, an independent pollster, found that some 80% of them endorsed reviving the Pioneers; 87% of those aged at least 55 were keen. Though younger Russians were less eager to justify their army's actions in Ukraine, most of them still approved.

Nonetheless, researchers at Russia's Higher School of Economics found before the invasion that the young preferred less ideological acts of citizenship, such as local community service. The

Friedrich-Elbert Stiftung, a German think-tank, found that young Russians doubted the state's ability to transform their lives for the better, thanks to stagnant politics and endemic corruption.

Previous youth initiatives have been patchy. *Nashi* (meaning Ours), a pro-Kremlin youth movement that started in 2005 and encouraged the young to harass Mr Putin's opponents, petered out in the early 2010s.

More recent campaigns may be more popular, such as *Yunarmia* (Youth Army), an organisation launched by the defence ministry in 2016, which teaches kids military skills at jolly summer camps. It now claims to have 1.25m members spread widely across Russia, six times as many as *Nashi* ever mustered. Getting wise to the power of social media, the government pays prominent influencers to talk up the joys of membership. Whether it will help to buoy up the morale of young Russian soldiers on the Ukrainian front is another matter.



Get them while they're young

January and February, when Russian forces threatened to encircle the Ukrainian deployment, the ratio probably reached parity, he says: one Ukrainian loss for every Russian one, a worrying state of affairs, given Russia's manpower advantage.

Things improved somewhat in March, though only after Ukraine deployed special forces to secure the northern and southern flanks. The past three weeks, which have coincided with an escalation of Russian firepower, have been especially difficult. Andrei, an artilleryman in the 93rd Brigade, one of two charged with defending

Bakhmut, says that Russian forces can now clobber both remaining Ukrainian roads into the town, making resupply difficult. The north-western route in, he says, is now "impassable". The southerly one is "under constant shelling".

The battle is not over yet. Ukraine has exceeded expectations in Bakhmut, hanging on long after American intelligence thought it would be suffocated. Yevgeny Prigozhin, the head of the Wagner mercenary group, which has supplied the majority of Russian cannon fodder in Bakhmut, is publicly complaining that his troops no

► longer have enough ammunition. Russia's commanders may be deliberately rationing supplies. What is less clear is whether they are doing so in anticipation of a Ukrainian counter-offensive or because of infighting between Mr Prigozhin and the regular armed forces.

Serhiy Cherevaty, a spokesman for Ukraine's eastern command, says that Wagner remains the only real offensive force in Bakhmut. The vast majority of the 30-40 daily waves of attacks there are conducted by their units from positions already in the city, he says. Russian commanders have not hesitated to throw their troops into "meat-grinder attacks", says Dmytro Kukharchuk, a battalion commander in the 3rd Assault Brigade deployed nearby. "If we are storming their trenches, they fire artillery practically at their own soldiers. They really don't care about them."

Even if Russia takes Bakhmut, it would be the very essence of a Pyrrhic victory. Bidding up the capture of a provincial town of dubious strategic value may focus attention on how little Russia has achieved in ten months of fighting. In the process it has frittered away its offensive potential, making itself more vulnerable to a counter-strike. Mr Putin's pageant in Red Square on May 9th will only underline how little he has to show for his invasion. ■



form, a think-tank. The EU is heading for a spending squeeze that requires not rule-tweaking, but a new fiscal settlement.

Start with climate. The EU's target of cutting emissions by 55% by 2030, relative to 1990, requires additional public spending of more than 1% of GDP per year over the current decade, reckons Agora Energiewende, a think-tank. The more governments allow the EU's carbon-permit price to rise, or impose tighter emissions regulations, the lower the public bill. But few governments are willing to be tough with voters: most would rather try to lower emissions by doling out subsidies.

The most egregious of these, in Italy, has cost the treasury around €110bn (\$121bn, or 6% of GDP) since 2020. Known as the "superbonus" scheme, it gave homeowners transferable tax credits amounting to 110% of the costs of energy-saving renovations. It was recently curtailed to a still generous 90%. More handouts are coming: Germany's proposal to make new domestic heating systems run on 65% renewable power from 2024 has elicited fierce resistance. Kevin Kühnert, the secretary-general of the governing Social Democrats (SPD), has already hinted at further subsidies.

Defence is the next big-ticket item. Germany has set up a €100bn fund to plug its armed forces' most urgent gaps. Experts agree that it will not be enough. Defence spending is set to increase there from the current 1.5% of GDP in 2021 to about 2%. Within the euro zone, only Greece and the Baltic states spend more than 2% of their GDP on defence. Overall, European countries will have to spend about 0.5% of GDP more on defence in the coming years to reach NATO's target of 2%.

The urgency of defence increases was prompted by Russia's invasion of Ukraine. But that invasion entails another big bill: rebuilding Ukraine, and perhaps integrating it into the EU. The cost of reconstruction will be around €380bn over a decade, reckon the World Bank, the EU, the UN and the Ukrainian government in a joint assessment. America has shouldered by far

the biggest chunk of military assistance, and will expect Europe to pay for much of the repair bill. Part will come from the private sector, but public spending on reconstruction could still amount to €30bn per year, another 0.17% of the EU's GDP.

Should Ukraine and its 44m citizens join the EU, the bloc's spending mechanisms will need an comprehensive overhaul. Bulgaria, a country of just 7m, is scheduled to get €28.5bn from the EU between 2021 and 2027, about €4,150 per citizen. If Ukraine got the same amount per head, the bill would come to around €180bn, or €25bn a year (0.14% of EU GDP). Either richer countries would have to pay more, or poorer countries would get less. But the latter seems highly unlikely: in April Poland and other border countries briefly blocked shipments of cheap Ukrainian grain because their farmers were angry at the competition.

Meanwhile the continent is getting old. Europe's working-age population is already shrinking; the total number of people in employment could soon follow. The commission projects annual age-related spending, which includes pensions and health care, will increase by 1.4 percentage points of GDP between 2019 and 2030. That will need to come from somewhere. Taken together, climate change, defence, Ukraine and ageing could add about 3.3% of GDP in spending per year.

There is little to offset the increased costs. A growing economy is unlikely to ease the burden. On the contrary, the party is over, as one Brussels official puts it, pointing out that the post-pandemic economic recovery is winding down. Medium-term projections put annual EU growth at below 2%. That is no surprise. A shrinking or at best stagnating workforce can only produce more with higher productivity or more capital. Most investment in renewables and energy efficiency will make the economy greener, but hardly more productive.

In the short term, most EU countries will manage. Inflation is pushing up revenues more than spending, for now. Southern Europe continues to enjoy the largesse of the EU's pandemic-recovery fund; as with defence, most countries are struggling to spend the cash. But the plans of fiscally strong places such as the Netherlands show increasing demand for government resources. The country that once led the "frugal four" plans to stick, just about, to the EU's old deficit limit of 3%, before looking set to breach it after 2025. Christian Lindner, Germany's finance minister, is pushing back against spending demands from his Green and SPD coalition partners. The EU and its members will soon be forced to upend their fiscal policies. By comparison, the wrangling over fiscal rules is a walk in the park. ■

Europe and debt

A reckoning is near

Debt-rule fights herald a big fiscal reset

FISCAL RULES always have exemptions. The one California passed in 1849 had an exception in case of insurrection. Many resource-rich countries' rules can be suspended if commodity prices crash. And most guidelines have some kind of out in case of a pandemic. But in Europe exemptions have become so frequent lately that it is not clear how to reinstate the rules at all.

The EU's member states are arguing with Brussels over how to change the rules before re-applying them. Debt levels and interest rates are far higher than in 2019, when the rules last applied (see chart). But spending needs for security, defence, energy and climate protection have gone only one way. The European Commission's latest proposal for a new set of rules was criticised by all sides, which is often a sign of a decent compromise.

But this is a sideshow. "The risk of the current discussion on fiscal rules is that we lose sight of the bigger picture," says Sander Tordoir of the Centre for European Re-

Charlemagne | The saucepan uprising

France's President Emmanuel Macron hopes to reinvent himself in 100 days



DURING HIS audacious first bid for the French presidency, in 2017, Emmanuel Macron would scold supporters at campaign rallies who jeered when he name-checked his rivals. "Don't whistle at them; let's beat them!" the 39-year-old pretender urged the crowds with a smile, adapting a slogan borrowed from the high priest of political positivity, America's Barack Obama. French politics, Mr Macron argued forcefully then, was in need of benevolence and collective endeavour not obstructive division. It was time to move an irritable, rebellious country to a more stable, consensual place.

Six years later, France seems stuck in an impasse. The French are once again fired up by revolutionary rage and seem convinced that the country is run by an anti-democratic despot bent on destroying the bedrock of all that the French cherish. The opposition trades in a form of declinist *misérabilisme*. The grotesque effigies of the president's head in a noose, or the burning of bins on the cobbled streets of Paris, glorify violent revolt. On May 1st an armour-clad policeman was set alight by a Molotov cocktail. It was the low point of the 13th one-day strike against Mr Macron's modest decision to raise the minimum pension age from 62 years to 64, which is now law. Petrol-bombing troublemakers represent a minuscule minority. But 63% of the French want to keep up the struggle against the new law, and 72% say they are unhappy with Mr Macron as their president.

The latest instrument of choice for protesters is more prosaic, but no less symbolic: the saucepan. A few years back the *gilets jaunes* (yellow jackets) adopted high-vis fluorescent jackets to mark the fury of those who felt invisible and ignored by the president. This time, protesters stage *casserolades*, or concerts of banging pots and pans, to signify discontent at his failure to listen. Saucepan-banging was popular in the 1830s among republicans contesting Louis-Philippe's reign, and it did not end well for him. Today's cacophony of metallic banging may not drive Mr Macron from his palace. But the message is forceful: if the president will not listen to us, then we will make sure we cannot hear what he has to say. Mr Macron has given himself 100 days to conduct a mini-tour of France, to talk to people and try to reset his presidency. The *casseroleurs* are set on drowning out his voice.

Take a step back, and there is something deeply strange about a society that has so much going for it working itself into such a frenzy about so little. France has a robust, redistributive welfare state, high levels of social spending, falling unemployment, long holidays, world-leading corporate brands, a healthy stockmarket, a thriving tech sector, lower inflation and stronger economic growth than Germany. Every evening, images of real war and extreme hardship on the European continent are beamed into its living rooms. Yet France has turned the raising of the pension age to 64 into a national psychodrama. Forget the coming upheaval of artificial intelligence, or quantum computing, or the worrying level of southern Europe's water table. France is heading to the barricades to fight yesterday's battles. And its re-elected president is portrayed, absurdly, as an autocrat for having gone ahead and done what he said during his campaign that he would.

The reasons for all this are numerous. Obstreperous opposition parties at both extremes thrive on division and fear. The weak and divided centre-right Republicans cannot decide whether their future lies in co-operating with Mr Macron or making trouble. The constitution creates excessive expectations of a single leader. Militant unions care little for the culture of consensus. Among the books prominently displayed for sale during a recent day of protest in Paris were Lenin's "The State and Revolution" and Alan Woods's "The Ideas of Karl Marx".

The president also bears a big share of the blame. His original sin was a failure, after his re-election in April last year, to campaign properly for the parliamentary elections two months later. Mr Macron lost his majority, mishandled his pension reform, alienated even moderate union leaders, and found himself having to push the law through parliament without a direct vote. The advocate of consensus-building between the left and the right ended up driving a bulldozer through the centre of French politics. On April 28th Fitch, a ratings agency, downgraded France's sovereign debt to the same level as Britain's, citing "political deadlock and (sometimes violent) social movements".

No sound of silence

Where does this leave Mr Macron, who has four more years in office? Guiding and nudging the prickly French out of their comfort zone is a challenge for any leader. For the president, his "100 days" is a way of buying time, giving people a chance to let off steam and countering the populist charge that he is disconnected. For those who meet him on his walkabouts, it is a chance to tell him to his face—and boy, does he get close—how angry they are.

This period also gives Mr Macron time to work out how to govern differently. Fresh parliamentary elections would probably leave him even shorter of a majority. A new prime minister would make sense only if he or she could reboot the government. Without a formal coalition, bill-by-bill negotiation will render tricky anything but the most uncontroversial reform.

Mr Macron is a serious, intelligent, ideas-driven leader, who thinks ahead and knows where he is trying to take France. But he is also someone who reckons he knows better than everybody else, and has trouble concealing it. This makes his connection with the French tense, and his governing style solitary and abrasive. In this respect, the saucepan-banging is a broader metaphor. For there is a big difference between talking and listening, not to mention believing that your interlocutor has something useful to say. If a re-invented president is to emerge from the "100 days", it might usefully be one who has also learned to curb his own instincts. ■



King Charles III

Crowning story

TRAFAVGAR SQUARE

The coronation preparations involve scones, jam, chrism and carriages

ON MAY 6TH, in London, a man will be given a hat. He has never seemed that keen on this hat. At the age of 20, King Charles III described the realisation he would be king as dawning upon him "with the most ghastly inexorable sense". His predecessors were little keener. King Edward VIII described kingship as "an occupation of considerable drudgery"; King George VI awoke on the morning of his coronation with "a sinking feeling". Britons themselves seem similarly nonplussed. According to YouGov, a pollster, almost half say they are unlikely to watch the coronation, yet everyone has been talking about it for weeks.

The coronation, as the royal website explains, is "a solemn religious ceremony". The reminder is needed, for the list of those participating this weekend includes people with such titles as the Rouge Dragon Pursuivant, the Rouge Croix Pursuivant and the Portcullis Pursuivant. It involves a Garter King of Arms and people with titles so antique that their adjectives appear to be on back-to-front (the Lords Spiritual and Temporal of this realm). It in-

volves beadles, heralds, princesses, kings, queens and His Most Godly Beatitude Theophilos III, Patriarch of Jerusalem and All Palestine. There are "Game of Thrones" episodes with more sober cast lists.

The ceremony that will unfold in Westminster Abbey is little more sensible. It includes a Stone of Destiny, a Sword of Spiritual Justice and oil made with olives harvested from the Monastery of Mary Magdalene in Jerusalem. It demands bowing, scraping, chanting and anointing with chrism from a special Coronation Spoon. It involves far too many men in tights. It has caused the British government's website—

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which usually offers clarification on such things as self-assessment tax-return deadlines (January 31st)—to start offering clarification on what the Earl of Erroll will be carrying on the day (a silver baton).

Monarchy, as even monarchs are apt to point out, doesn't belong in the modern world. "Really, the day for kings and princes is past," wrote the future Edward VIII in 1920. "Monarchies are out-of-date." The 20th century tended to agree. It opened with King Umberto I of Italy being shot by an assassin in 1900. For many royals, things only got worse. The assassinations of the kings of Portugal, Greece and the Tsar of Russia followed; others were booted out. In 1948 King Farouk of Egypt observed that: "Soon there will be only five Kings left...the King of Spades, the King of Clubs, the King of Hearts and the King of Diamonds"—and the King of England.

Things did not turn out quite as badly as Farouk predicted. Today, 22% of the world's countries still have a hereditary ruler as their head of state. Though things are not quite as striking as that statistic implies, since many of those monarchs are Charles, who is sovereign of 15 countries. At least for now. Several of his realms have hinted that they may get rid of him.

Some think Britain should join them. The number of Britons considering the monarchy to be "very important" has, according to the National Centre for Social Research, fallen from 65% in 1983 to 29% today (see chart on next page). PR disasters rather than pitchforks are what unsettle ➤

► modern monarchies—and the royals have had many. There has been money in suitcases. There has been Prince Andrew.

Republic, a pressure group that campaigns for the abolition of the monarchy, argues that the royals fall “well short of the standards we should expect in public life”. Pro-royal outlets such as the *Telegraph* and *Tatler* offer advice on coronation scones; Republic offers a recipe for protest. It encourages people to come to Trafalgar Square on May 6th, bring placards and shout “Not my king” as Charles goes past. It promises speeches and an earnest, principled stand against the monarchy.

Which is the big problem with republicanism. “So long as the human heart is strong and the human reason weak,” argued Walter Bagehot, a renowned Victorian editor of this newspaper, “royalty will be strong...and Republics weak.” As Bagehot realised, the identity of the person who wears the hollow crown is, in a way, irrelevant. What matters is the sparkle.

The British royal family might be anachronism incarnate; it might offer uncomfortable imperialist echoes and entrenched inequality. But it also offers chrisim and crowns, scones and jam, and men on horseback with tubas. The proportion of Britons who want to abolish the monarchy has risen over the years—from 3% in 1983 to 14% now; among 18-34 year-olds the figure is over 20%. But this is scarcely the stuff of revolution.

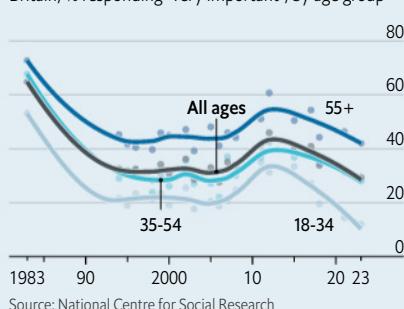
And working royals do work. They hardly toil in mines but they do visit unenviable numbers of regional manufacturing centres. On a single day in March Princess Anne visited a stable and an industrial park in Birmingham while Charles went to Hamburg-Dammtor Railway Station in Germany and the “future site of the Green Energy Hub Hamburg” to hear about its “ongoing transition to a carbon-free port”.

They do so without complaining. Mostly. In 1984 Princess Margaret made a guest appearance on “The Archers”, a long-running Radio 4 soap opera. On it, she acted as herself, attending a charity fashion event.

Firm opinions

“How important or unimportant do you think it is for Britain to have a monarchy?”

Britain, % responding “very important”, by age group



Source: National Centre for Social Research

When she finished reading her lines, the producer offered her guidance. “That’s very good, ma’am,” he said. “But do you think you could sound as if you were enjoying yourself a little more?” Princess Margaret replied: “Well, I wouldn’t be, would I?”

The people watching a coronation rehearsal one night earlier this week, as the clocks of London strike midnight, are enjoying themselves. The roads around Trafalgar Square are unusually quiet. They have been shut to allow the military to practise. There is a shout. Suddenly the street fills with soldiers, sailors, horses and the sort of scene that demands vocabulary more commonly seen in Horatio Hornblower novels—bayonets, breeches, postillions and rapiers. The overall effect is less as if an army has marched by than as if the 18th century has.

The watching crowd includes students from Nigeria; tourists from everywhere; local drunks; and Andrew Lloyd Webber, the composer (he loves a brass band, his wife says). More horses appear; a military band oompahs off towards Big Ben. A royal coach drives past, lights blazing, entirely empty inside. The drunks and tourists look thoroughly delighted. ■

The London Stock Exchange

Bourse correction

Britain is again liberalising its listing rules. And again, it won’t help much

JULIA HOGGETT has an unenviable task. She started running the London Stock Exchange (LSE) in 2021. The previous year the value of Apple, an American tech giant, had overtaken that of the entire FTSE 100 index of London-listed shares. At that time she was a senior official with the Financial Conduct Authority (FCA), a regulator; she remembers sitting down and scribbling out a list of all the things about Britain’s stockmarket that needed fixing. Then she became its boss.

Ever since Ms Hoggett has been busy working with the FCA to put those bullet points into action. Rules on dual-class shares, which grant directors extra voting rights and are popular with startup founders, have been relaxed. Early investors can now hang on to more of their shares when a firm lists, rather than having to sell. Prospectus requirements are becoming less onerous and the process for raising follow-on capital more streamlined.

On May 3rd the FCA proposed its latest set of changes, which it will consult on over the next two months. These aim to simplify the structure of the stockmarket. At

present it is split into four “segments”, each of which has a different set of rules for issuers. The FCA wants to merge the top two (“standard” and “premium”), which contain the largest firms listed on the LSE.

This targets two long-standing gripes among investors and companies. First, that Britain’s stockmarket looks offputtingly complicated to outsiders. Second, that the distinction between the standard and premium segments does more harm than good. Firms in the standard tier are subject to less burdensome rules but feel tarred by its inferior brand; they are also ineligible for inclusion in indices like the FTSE 100. That makes their shares less attractive to fund managers who benchmark their performance against such indices.

Firms in the premium segment ought to benefit by comparison. But in recent years only the standard segment has grown, suggesting that issuers do not value a premium listing enough to make up for the extra regulation it entails. Nor do investors: in general, premium-listed firms see no valuation benefit compared with rivals following laxer rules abroad.

In other words, the new reforms would be a step in the right direction, just like the other measures taken by the LSE and the FCA over the past two years. Unfortunately—and again like all the other recent rule changes—it would be a small step. To see why, consider how far Britain’s stockmarket has deteriorated even as its administrators and regulators have rushed to shore it up. In 2022 just 1% of the capital raised through global initial-public offerings (IPOS) was raised in London. At its peak in 2006, the City’s share was 18%.

Meanwhile, LSE’s existing denizens are leaving. Barely a month goes by without another FTSE 100 or FTSE 250 firm deciding to de-list; in 2022 companies worth £80bn (\$100bn, or 3.6% of GDP) did so. Giants are now following: Flutter, a betting firm, and CRH, a building business (each worth £28bn). Arm, Britain’s most successful young tech company, which was taken private in 2016, will this year re-enter public markets in America rather than Britain.

The reason is that the rot in Britain’s stockmarket goes far deeper than its rule book. Ageing, risk-averse domestic pension schemes have all but disappeared as a source of capital. Founders and their bankers find City investors hostile, citing the number who lined up publicly to declare they would not back Deliveroo, a food-delivery firm, at its IPO in 2021. Executives complain that British shareholders insist on far smaller pay packets than American ones. Dealmakers, after Brexit, no longer see the LSE as a gateway to European capital, so they recommend the vast pool of it available in New York instead. Ms Hoggett’s original list was surely a long one. But much of it is beyond her power to fix. ■

Bagehot | Long farce through the institutions

The Conservatives still have no idea how to reform Britain's institutions



FROM THE perspective of the typical Conservative MP, Richard Sharp was a perfect choice as chairman of the British Broadcasting Corporation (BBC). A former Goldman Sachs banker and committed Brexiteer, Mr Sharp thought the BBC had a “liberal bias”. Mr Sharp was a Tory donor, close to both Boris Johnson, the former prime minister, and Rishi Sunak, the current one. Unfortunately, Mr Sharp was too close to Mr Johnson: he resigned on April 28th for failing to declare his role in introducing the former prime minister to someone willing to lend him money.

Mr Sharp’s departure is the latest example of an often overlooked Conservative failure. The Conservatives have run the country for 13 years. But they have failed to shape its institutions. The Tories have lost almost every fight they have picked—whether against Whitehall or the BBC or the quangos that run British life. Each Conservative government since 2010 has promised to fundamentally alter how Britain works. Each has failed.

It is not for want of trying. Every one of those governments has pledged to shake up the civil service, for instance. Dominic Cummings, Mr Johnson’s revolutionary adviser, promised a “hard rain” on the mandarins; he was gone 18 months later. When senior civil servants themselves are hoisted out, they are replaced by more of the same. Rather than rein in the civil service, the civil service has begun to rein in ministers. Dominic Raab resigned as justice secretary last month after being found to have bullied staff.

Taming the Treasury, Britain’s overmighty finance department, has been a goal of successive Conservative prime ministers. Liz Truss was simply the most zealous, firing the department’s permanent secretary on day three of her ill-fated 45-day premiership. Theresa May’s team also wanted to restrain the department. Mr Johnson resented the Treasury as an obstacle to his beloved big projects. Yet today the Treasury is stronger than ever. Mr Sunak, a Treasury alumnus, sits in 10 Downing Street; Jeremy Hunt, the chancellor, veers little from the department’s orthodoxy.

If the Treasury is still supreme despite the efforts of the Conservative Party, so are the technocrats. Ms Truss had a staring contest with the Bank of England, which refused to blink. Ms Truss lost her job. Conservatives may seethe about Andrew Bailey’s performance as the bank’s governor. Inflation is, after all, still skipping

along in double digits, albeit owing to factors beyond his control. Yet changing the current set-up is beyond the pale. Even rejigging its mandate, once discussed relatively openly by both parties, is seen as excessive radicalism. What the bank says, goes.

David Cameron proposed a “bonfire of the quangos”, the independent bodies that controlled everything from water regulation to Britain’s charities. They are more powerful than ever. The establishment in 2013 of NHS England, which oversees £160bn of spending (\$200bn; about 7% of British GDP), effectively stripped the health secretary of a say over the day-to-day operations of the health service. The Office for Budget Responsibility, a quango that monitors government spending, now has a near-sacred position that belies the fact it is barely a teenager.

Brexit was supposed to create a leaner, more efficient British state once the shackles of EU law had been removed. Parliament, rather than officials, would dictate policy. Instead, European red tape has been replaced by British red tape, with EU law effectively copied and pasted into domestic statute. Plans to repeal these laws en masse have been scrapped. This may be wise. But it was not what the Conservatives promised. Rather than strip down regulation or remove legislation, as is supposedly their bent, the Conservatives are much more likely simply to gripe about it. It is easier to complain than to achieve anything, even in government.

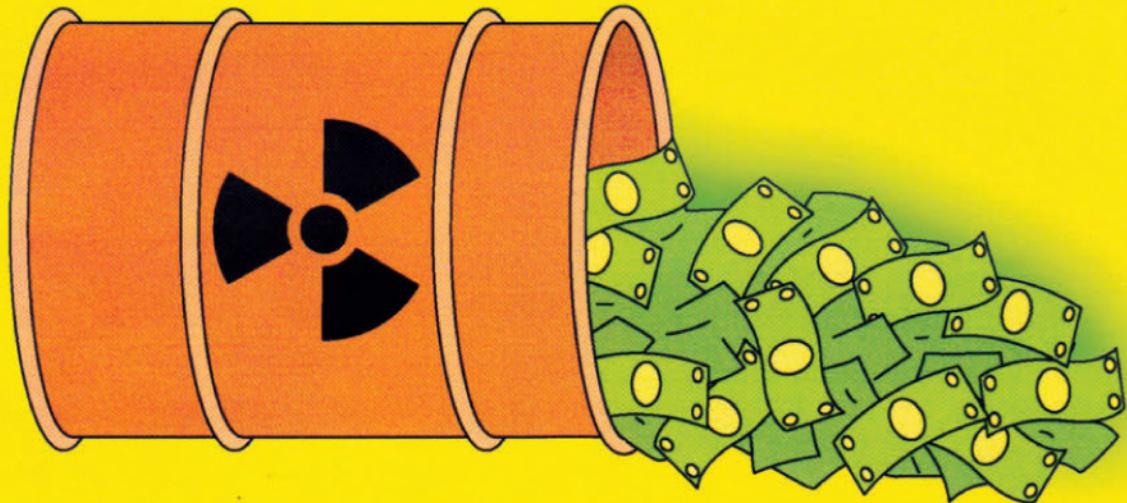
Yet an advantage of the British system of government is that quick, sweeping change is possible. Armed with a majority and competent leadership, a government can do what it likes. It took New Labour little time to fundamentally alter the country’s institutions. Within its first few years Labour had passed the Human Rights Act and given the Bank of England its independence. It pushed through devolution to Scotland and Wales. New quangos, such as Ofcom, which regulated broadcasters, were created.

Labour managed to change both the shape of Britain’s institutions and the people running them. At the start of the Blair era, the establishment was still filled with patrician Tories. British society would have been recognisable to Peter Cook, a 1960s satirist who mocked the reactionary tendencies of its pale, public-school elite. By the end of the New Labour years, the people at the top of Britain’s institutions were, on the whole, far more liberal and diverse.

Skip forward 13 years and the Conservatives oversee institutions that are largely unchanged from the Blair era. Conservative MPs seethe about the influence of European judges on the country’s laws. But they do little about it. Attempts to put their own people into positions of power have largely failed. At least Mr Sharp actually made it into his post. The Conservatives have repeatedly botched plans to install Paul Dacre, the editor-in-chief of DMG Media, which publishes the Tory-supporting *Daily Mail* and other titles, as head of Ofcom. The Conservatives still live in New Labour’s world, however much they may hate it.

Cheers, Gramsci’s crying

The Tory party has no excuses. New Labour knew how they wanted Britain to work. The Conservatives have produced no such vision. Conservatism is in general allergic to big ideas and systemic thinking. Most Tory MPs are happier moaning about institutions than altering them. Instead of learning from its mistakes, the government has given up. Mr Sunak has neither the time nor the inclination to radically alter British institutions between now and the next general election. After more than a decade in power, the Conservatives have not figured out how to reform the state. They may not get another chance for a while. ■



Our crony-capitalism index 2023

A bumpy ride for billionaires

War, tech woes and cock-ups have pummelled certain plutocrats

OVER THE past 20 years, Britain's capital was so welcoming to oligarchs that it became known as "Londongrad". Many bought mansions from Highgate to Hyde Park; a couple bought into football clubs. After Russia invaded Ukraine in February last year, 48 oligarchs were placed under Western sanctions. The immense wealth of many of Vladimir Putin's associates highlights the problem of crony capitalism and why more should be done to combat it.

According to the latest instalment of our crony-capitalism index, which first estimated how much plutocrats profit from rent-seeking industries almost a decade ago, crony capitalists' wealth has risen from \$315bn, or 1% of global GDP, 25 years ago to \$3trn or nearly 3% of global GDP now (see chart 1 on the next page). Some 65% of the increase has come from America, China, India and Russia. Overall 40% of crony-capitalist wealth derives from autocratic countries and amounts to 9% of their GDP. There are hundreds of billionaires around the world whose riches are largely believed to derive from sectors which often feature chummy dealings with the state.

The way we estimate all this is to start with data from *Forbes*. The magazine has published an annual stock-take of the world's wealthy for nearly four decades. In 1998 it reckoned that there were 209 billionaires with a total worth of \$1trn, equivalent to 3% of global GDP. This year the publication details 2,640 billionaires worth \$12trn or 12% of GDP. Most of those listed do not operate in rent-seeking sectors. Adjusting for rising prices—\$1bn in 1998 is now equivalent to \$3.3bn—there are 877 billionaires (at 1998 prices) with a collective worth of \$9trn.

We classify the source of wealth into rent-seeking and non-rent-seeking sectors. An economic rent is the surplus remaining once capital and labour have been paid which, with perfect competition, tends towards zero. Rent-seeking is common in sectors close to the state, including banking, construction, property and natural resources. It can sometimes be possible for rent-seekers to inflate their earnings by gaining favourable access to land, licences and resources. They may form cartels to limit competition or lobby the government

for cosy regulations. They may bend rules, but do not typically break them.

Russia is, once again, the most crony-capitalist country in our index (see chart 2 on the next page). Billionaire wealth from crony sectors amounts to 19% of GDP. The effects of the Ukrainian war are clear, however. Crony wealth declined from \$456bn in 2021 to \$387bn this year. Only one-fifth of Russian billionaires' wealth is derived from non-crony sectors, which shows just how distorted the economy is.

In March last year, the G7, the EU and Australia launched the Russian Elites, Proxies and Oligarchs (REPO) Task Force to "isolate and exert unprecedented pressure on sanctioned Russian individuals". A year later it announced that it had blocked or frozen \$58bn of assets. But REPO admits that in some cases oligarchs have found it easy to evade sanctions by using shell companies, passing assets to family members or investing in property. Wealth is increasingly stored in manicured lawns and marble columns.

Pressure on the oligarchs comes from Russia, too. In March Mr Putin chastised them for becoming "dependent on foreign authorities" by hiding their assets offshore. Mr Putin is a hypocrite. By one estimate he has stolen more than \$100bn from Russia—which has helped pay for a compound on the Black Sea estimated to cost \$1.4bn and a \$700m yacht impounded by the Italian authorities last year. But he is not on the *Forbes* billionaires' list.

Our index illuminates other trends ►

among the mega-wealthy. Many of America's 735 billionaires have been hit by the crash in tech stocks last year; three-fifths of global tech-billionaire wealth originates there. The country's NASDAQ composite, a tech-tilted index, lost about a third of its value between November 2021 and December 2022. We reckon American tech billionaires saw their riches decline by 18%.

Overall crony-sector wealth amounts to around 2% of GDP in America, whereas non-crony-sector wealth is 15%. But tech exhibits some crony characteristics. America's 20 biggest tech companies raked in half of all the industry's sales in 2017, making it the country's most concentrated sector. Tech firms are among the biggest lobbyists in Washington, with eight firms collectively spending \$100m last year. Reclassify tech as a crony industry in our index and America's crony wealth increases to 6% of GDP.

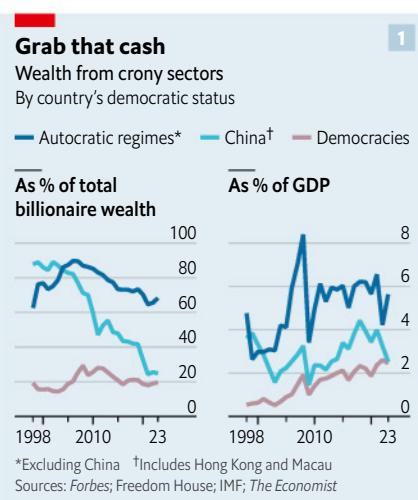
Meanwhile, Chinese billionaires continue to struggle with the vagaries of their government. Since Xi Jinping launched a crackdown on private capital, crony wealth has fallen sharply, from a peak of 4.4% of GDP in 2018 to 2.5% now. Tycoons of all stripes operate only with the consent of the state. In 1998 there were just eight billionaires in the country (including Hong Kong and Macau), with a total worth of \$50bn. Now its 562 billionaires command \$2trn.

By our measure crony capitalists account for about one-quarter of that total. A recent working paper published by the Stone Centre on Socio-Economic Inequality, part of the City University of New York, finds that between 83% and 91% of corrupt senior officials were in the top 1% of the urban income distribution because of their illegal incomes. Without that money, just 6% would be in that bracket.

Since Mr Xi came to power in 2012 over 1.5m people have been punished in an ongoing anti-corruption drive. High-profile tycoons also face more scrutiny. When Jack Ma, a co-founder of the tech giant Alibaba, disappeared in late 2020 after criticising the authorities, he was worth nearly \$50bn. He recently re-emerged worth half of what he had been. Bao Fan, a billionaire banker, was whisked away in February to help with an investigation. He has not been seen since.

Official talk of "common prosperity" has created a cottage industry for getting money out of China. Singapore is a prime destination for it. In 2019 the country had just 33 Chinese family offices—firms which manage a family's assets. There were perhaps 750 by the end of 2022.

India's leader, Narendra Modi, has favourites among the country's corporate captains. Over the past decade, wealth from crony-capitalist sectors has risen from 5% to nearly 8% of its GDP. Gautam Adani, the owner of the conglomerate of



the same name, was briefly the world's third-richest person in September. But in January his company was accused of fraud and stockmarket manipulation by Hindenburg Research, an American short-seller. It denies all accusations. His wealth has fallen from \$90bn to \$47bn.

Don't take a slice of my pie

What happens when cronyism gets completely out of control? If elites so enrich themselves that they impoverish a country, a "kleptocracy" forms, declared Stanislaw Andreski, a Polish sociologist. He warned against such regimes and their effects in the late 1960s. It has taken more than 50 years for Western countries to heed him.

Identifying kleptocracy is more art than science. Our findings correlate only somewhat to indices of democracy and corruption. And in any case, at what level does

corruption destroy the functions of the state? USAID, America's agency for international development, issued an 84-page "dekleptification" guide last year. After studying 13 countries including Brazil, Malaysia and Ukraine, it recommends breaking up corrupt monopolies and digitising ownership registries, among other important measures.

America is also trying to whip up international fervour for a crackdown. In March it hosted its second "summit for democracy". Seventy-four countries representing two-thirds of global GDP declared that, among other things, they would work to "prevent and combat corruption". Russia and China were understandably missing. Brazil, Indonesia and South Africa were among those less understandably so.

At the summit Janet Yellen, America's treasury secretary, pointed out that "kleptocrats launder kickbacks through anonymous purchases of foreign real estate". So starting next year America will require firms formed or operating in the country to reveal their real, or "beneficial", owners. Another 36 countries have signed up to America's declaration to make concealing identity more difficult. But transparency is not a silver bullet. Last year a new law in Britain required foreign businesses that own property assets to register themselves and disclose their true owners. A report in February by an anti-corruption watchdog found that the owners of 52,000 of the 92,000 properties subject to the new rule remained undisclosed. Shady owners skirt rules and registries often lack the resources to police them.

America also frets about "golden" visas, which sell citizenship for a chunk of cash. Five Caribbean tax havens sell passports which provide visa-free travel to around 150 countries for \$100,000-\$150,000 each. Britain's tier-one visa scheme, launched in 2008, gave permanent residency within five years to foreigners who could prove they had £1m (\$1.25m) to invest in British bonds or shares. It closed a week before the war in Ukraine started because of fears about Russian money (talk about closing the stable door once the thoroughbred has bolted). Of the 13,777 visas issued, a fifth went to Russians (including ten to oligarchs now under sanctions), a third to Chinese.

Back in London, a warning lies in Highgate cemetery. There you can find the grave of Alexander Litvinenko, not far from oligarch mansions (and also Karl Marx's tomb). He was murdered in 2006 by Russian agents with a dose of polonium-210 after making lurid allegations about Mr Putin's circle. Litvinenko is buried in a specially sealed lead-lined casket to prevent radiation leaking out. Now Western authorities need to prevent hazardous assets seeping into their countries. ■





Consumer economics

The missing middle

NEW YORK

Who are the winners and losers amid America's consumer slowdown?

AFTER A FOUR-YEAR spruce-up Tiffany & Co, an upmarket American jeweller, reopened the doors of its flagship store on New York's Fifth Avenue to the public on April 28th. At first glance the grand unveiling seems conspicuously ill timed. Hours earlier the Bureau of Economic Analysis had reported that nominal consumer spending in America barely grew in March, amid stubbornly high inflation and a slowing job market.

Yet the throng of well-heeled New Yorkers who queued up on opening day to enter what Tiffany has modestly rechristened "The Landmark" hints at a more nuanced story. Hard economic times have, as in the past, pushed consumers of middling means to trade down to budget-friendly stores and products, boosting the performance of those businesses. Wealthy households, however, remain flush with cash, leaving businesses that cater to the affluent surprisingly buoyant. That has raised awkward questions for firms that offer their customers neither frugality nor luxury, but something in between.

It has been a rollercoaster three years for America's consumers—and the businesses that cater to them. The onset of the covid-19 pandemic brought a sharp contraction in spending that was followed by an orgy of indulgence (see chart 1 on next page). Lower-income households took part in the revelry, spurred on by juicy stimulus cheques and an uptick in wages for less skilled workers as businesses raced to rehire waiters, shop assistants and the like.

Then, around 12 months ago, surging

inflation led consumers to start tightening their belts, albeit with significant variation across the income distribution. A sharp rise in food and fuel prices triggered by Russia's invasion of Ukraine, coupled with a jump in rent costs, hit households further down the income ladder particularly hard, given the higher share of spending they allot to such essentials. Over the course of 2022 the inflation rate for households in the bottom income quintile was one-fifth higher than that for the top quintile, according to Goldman Sachs, a bank, offsetting faster wage growth among low earners (see chart 2).

Inflation in America has begun to ease, falling from a peak of 7% last June to 4.2% in March, on the Federal Reserve's preferred measure of consumer prices. Still, elevated price levels are weighing heavily on the less affluent, notes Gregory Daco of EY, a consultancy. Extra household savings amassed in the pandemic have dwindled from a peak of nearly \$2.5trn in the middle of 2021 to \$1.5trn or so, with the bulk held mostly by high-income households, according to Joseph Briggs of Goldman Sachs. Wallets at the top of the income distribution have also been fattened by a surge in asset prices in recent years, notes Paul Lejuez of Citigroup, another bank. Although markets have fallen from their frothy peaks, the S&P 500 index of large companies is still up by 26% compared with January 2020. House prices have risen by 38%.

This unevenness in the financial health ➤

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of consumers has had two effects. The first is that businesses at the wallet-sparing end of the price spectrum have gained new customers. While the poorest households have cut back on all but essential spending, those of middling means—with larger shopping carts—have been shifting to cheaper stores and brands, says Sarah Wolfe of Morgan Stanley, one more bank.

Analysts reckon that sales at Burlington, a discount department store, grew by 13.2% year on year in the first quarter of this year, compared with a decline of 4.2% for Macy's, a middle-class stalwart. Growth at Walmart, a big-box retailer favoured by the thrifty, is expected to have clocked in at a respectable 4.9% for America last quarter, while Albertsons and Kroger, two mid-range supermarkets, are forecast to eke out a meagre 2.5% and 1.3%, respectively. A similar pattern is on display within retailers: in-house brands at Walmart are snatching sales away from branded goods from suppliers like Procter & Gamble and Unilever, which have jacked up prices to protect margins.

Consumers are bargain-hunting beyond department stores and supermarkets. On April 25th McDonald's, a purveyor of cheap calories, announced an expectations-beating 12.6% growth in American same-store sales for the first quarter, compared with a year earlier. On April 20th IKEA, a Swedish maker of cheap furniture,



said it was investing \$2.2bn to expand its presence in America—days before Bed Bath & Beyond, an assuredly middle-class rival, declared bankruptcy.

The second upshot of the uneven health of consumers is that, as wealthy shoppers keep splurging on the finer things in life, businesses at the wallet-emptying end of the price spectrum continue to thrive. Last year the market for luxury goods in America grew by a handsome 8.7%, well above inflation, according to Euromonitor, a market-research firm (see chart 3). On April 12th LVMH, the world's largest luxury conglomerate and owner of Tiffany & Co, reported first-quarter sales growth of 8%, year on year, in America—down from 15% in 2022 but still bubbly. Hermès, a maker of eye-wateringly expensive handbags, saw no slowdown in sales in America in the first quarter. The pattern extends well beyond designer wear. Luxury-car sales have been on a two-year tear, hitting a record 19.6% of the total market in January, according to data from Kelley Blue Book, another market researcher.

The resilience of the luxury business has been helped by a shift in focus since the financial crisis from the merely rich to the positively loaded, notes Claudia D'Arpizio of Bain & Company, a consultancy. The penthouse floor of "The Landmark" is dedicated entirely to such ultra-high-net-worth shoppers. Whereas aspirational buyers may in good times splash out on a pair of Gucci sneakers, those at the tippy-top of the income distribution are reliable patrons even when the economy looks shaky. That has made luxury a less cyclical business than it once was.

The centre doesn't hold

With consumer spending shifting to the two extremes of the price spectrum, some firms have already begun to reposition themselves. One strategy is to beef up pricier ranges. On April 3rd L'Oréal, a beauty giant whose brands extend from the affordable Garnier to the luxuriously expensive Lancôme, said it would spend \$2.5bn

buying Aesop, a maker of \$40 hand soaps.

Other businesses are reducing exposure to the shaky middle. On April 14th Walmart announced it was selling Bonobos, a mid-range menswear brand, for a mere \$75m, well below the \$310m it paid to acquire it in 2017.

A third strategy is to invest in offerings for the budget-conscious. Video-streamers from Netflix to Disney have launched ad-supported tiers to mop up customers who balk at rising subscription prices.

Investors would do well to take note. Conventional market wisdom dictates steering clear of businesses in "discretionary" spending categories (cars, clothes and other non-essentials) in favour of "staples" (necessities such as groceries) in tough economic times. The new logic of consumption suggests that the pedlars of the most essential fare can expect to do well as the economy sours. But so can sellers of the exceedingly discretionary. ■

Online commerce

Latin America's other Amazon

MEXICO CITY

MercadoLibre soars as other e-emporiums sink

IN MARCH AMAZON announced it would fire 9,000 workers—bringing to 27,000 the total number it has laid off this year. The e-commerce giant's share price is down by a third since 2021. Other online-shopping darlings, from Shopify in Canada to Coupang in South Korea and Grab in South-East Asia, have suffered a similar fate (see chart on next page). With one exception. At \$64bn, the market value of MercadoLibre, an Argentine firm listed in New York with operations across Latin America, has been rising lately and is back roughly to where it was at the start of 2022—and twice that before covid-19. In April, as the world's tech firms were sacking workers en masse, it said it would hire 13,000, mainly in Brazil and Mexico, raising its workforce by a third.

MercadoLibre needs more workers. On May 3rd it reported that revenues grew by 35% in the first quarter of 2023, to \$3bn. Last year goods worth \$35bn changed hands on its platform, helping generate \$1bn in pre-tax profits. How is it flourishing as similar firms elsewhere struggle?

Its success is a mix of good management and good fortune. Early on it expanded from connecting buyers and sellers into payments, initially to allay users' fear of fraud. Its payments system, MercadoPago, is now widely trusted and used beyond its platform; more than \$100bn flowed

Basket case studies

United States, personal-consumption expenditures



Prices by income quintile

% increase on a year earlier



through it in 2022. The company has also built its own logistics network to deliver packages quickly in a region where infrastructure can be patchy. In ten years it has gone from not touching parcels, all of which were handled by third-party shippers, to having a hand in ferrying 93% of its e-commerce packages. More recently it added a fast-growing advertising business. Unlike Amazon, which regularly receives complaints about working conditions, employees rank MercadoLibre among the best Latin American firms to work for.

MercadoLibre also benefits from a deep understanding of local shopping habits, notes Ricardo Tapia of the University of Anáhuac in Mexico City. For instance, by accumulating points for purchases, its shoppers can gain benefits such as free delivery. What may seem gimmicky to Western shoppers, for whom a big benefit of buying online is that it saves time, is a big draw for game-loving Latin Americans.

The resulting strength has allowed the firm to take advantage of fortuitous circumstances. As everywhere in the world, the pandemic accelerated the growth of e-commerce in its region. In Mexico, MercadoLibre's third-biggest market after Brazil and Argentina, 63m people bought something online in 2022, up from 37m in 2018. In contrast to more mature markets such as Britain, the number of Latin Americans buying online did not drop back down after an initial boom in 2020.

The region's brick-and-mortar retailers, which are rapidly improving their own digital offerings, and online giants such as Amazon have cottoned on to this trend. To keep growing, MercadoLibre may need to boost penetration in less online countries such as Colombia, where Amazon is weaker, and perhaps move into new segments, such as groceries. But it does at least enjoy another advantage over foreign rivals, for which Latin America is a peripheral market-focus. Failure in its home region is simply not an option, says Agustín Gutiérrez of McKinsey, a consultancy. Nothing concentrates the mind like survival. ■

Returning to the fiesta

Share prices, January 1st 2022=100
\$ terms



Technology

Coding in the moonlight

Two-timing your employer: a tech worker's guide

TWO WORK laptops, two work calendars, two bosses and two pay-cheques. So far, neither of Matt's employers is any the wiser. The tech worker (who, for obvious reasons, asked *The Economist* not to use his real name) meets deadlines and does what is requested, though not more. He is not the only one.

People working several jobs is nothing new. Low earners have long had to juggle shifts to make ends meet. At the other end of the pay scale, directors often sit on a few corporate boards. According to America's Bureau of Labour Statistics, at any given point in the past 30 years, between 4% and 6.5% of the American workforce was working more than one job. Estimates from the Census Bureau put that share even higher, going from 6.8% in 1996 to 7.8% in 2018.

What is novel, as Matt's example illustrates, is the rise of the job-juggling white-collar type, especially in the technology industry. Thank—or blame—remote work. Despite efforts by bosses to lure or coerce people back to their desks, the share of techies working fully remotely remains 60% higher than in other sectors (see chart). Without managers physically looking over their shoulders, some of them are two-timing their employers. Mid-career software engineers report applying for more junior positions so that they can “underpromise and overdeliver”, with minimal effort.

Matt took a second job, or “J2” as he calls it, for two main reasons: boredom and concerns over job security. The tasks required by his first job, working remotely as a data scientist for a medium-sized tech firm, were not particularly challenging, taking him only eight hours a week. He had no inclination to “play office politics and move up the corporate ladder”. He did, though, covet cash. He reckoned he could take on a second job, double his pay and gain a safety-net were he to be laid off.

After interviewing for a few weeks, Matt found a promising J2: data engineering at a startup. He suspected that demands on his time would be as low as they were at his first job. He was mostly right, though striking a balance required some footwork. In his first week a rare J1 meeting was scheduled at the same time as one of his J2 “onboarding” sessions. Some fellow members of an online forum for the overemployed on Reddit, a social-media site, claim to have taken two meetings at once, with video off. If called on to speak at the same



Seeking a shadow salary

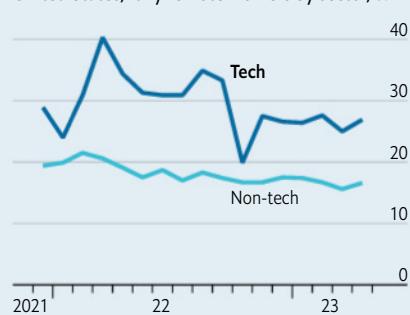
time, they feign connectivity problems or play a pre-recorded audio clip of a dog barking. Matt decided to tune in to the J1 call and reschedule his onboarding, blaming a doctor's appointment.

The rise of generative artificial intelligence like ChatGPT may in time make double-jobbing harder by replacing some menial tech tasks. Until then, coasters can themselves use clever chatbots to help structure computer code, write documents and even conduct preliminary research. ChatGPT cannot replace the work of a software engineer, says one overemployee, but it gets you 90% of the way there.

The employee-employer relationship has historically favoured the employers, who wield more clout because they can typically choose from more workers than workers can among companies. Matt thinks of his ruse as taking back some control. Two decently paying jobs afford him flexibility. And, he says, flexibility is power. If he were to get laid off, or if one job were to become unreasonably demanding, he could go and find another. For now, he thinks he is safe. So safe, in fact, that he is starting his search for a third job. ■

Remotely working

United States, fully remote workers by sector, %



Sources: “Why working from home will stick”, by J.M. Barrero, N. Bloom and S.J. Davis, NBER working paper, 2021; WFH Research



Journalism and artificial intelligence

Ghost writers

PERUGIA

Robot reporters imply profound changes to the news industry

A SENSATIONAL SCOOP was tweeted last month by America's National Public Radio: Elon Musk's "massive space sex rocket" had exploded on launch. Alas, it turned out to be an automated mistranscription of SpaceX, the billionaire's rocketry firm. The error may be a taste of what is to come as artificial intelligence (AI) plays a bigger role in newsrooms.

Machines have been helping deliver the news for years: the Associated Press (AP) began publishing automated company earnings reports in 2014. The *New York Times* uses machine learning to decide how many free articles to show readers before they hit a paywall. Bayerischer Rundfunk, a German public broadcaster, moderates online comments with AI help. AP now also deploys it to create video "shot lists", describing who and what is in each clip.

As AI improves, it is taking on more creative roles. One is newsgathering. At Reuters, machines look for patterns in large data sets. AP uses AI for "event detection", scanning social media for ripples of news. At a journalism conference last month in Perugia, Italy, Nick Diakopoulos of Northwestern University showed how ChatGPT, a hit AI chatbot, could be used to assess the newsworthiness of research papers. The judgments of his model and those of human editors had a correlation coefficient of 0.58—maybe a close enough match to help a busy newsroom with an initial sift.

ChatGPT-like "generative" AIs are getting better at doing the writing and editing, too. Semafor, a news startup, is using AI to proofread stories. Radar AI, a British firm, creates data-driven pieces for local papers

("REVEALED: Map shows number of accessible toilets in south Essex"). Its five human journalists have filed more than 400,000 partly automated stories since 2018. In November Schibsted, a Norwegian media firm, launched an AI tool to turn long articles into short packages for Snapchat, a social network. News executives see potential in automatically reshaping stories for different formats or audiences.

Some sense a profound change in what this means for the news industry. AI "is going to change journalism more in the next three years than journalism has changed in the last 30 years", predicts David Caswell of BBC News. By remixing information from across the internet, generative models are "messing with the fundamental unit of journalism": the article. Instead of a single first draft of history, Mr Caswell says, the news may become "a sort of 'soup' of language that is experienced differently by different people".

Many hacks have more prosaic concerns, chiefly about their jobs. As in other industries, employers portray AI as an assistant, not a replacement. But that could change. "We are not here to save journalists, we are here to save journalism," Gina Chua, executive editor of Semafor, told the Perugia conference. The industry needs all the help it can get. On April 20th BuzzFeed shut down its Pulitzer-prizewinning news operation. A week later Vice, a one-time digital-media darling, made cuts; it is reportedly preparing for bankruptcy. As Lisa Gibbs of AP puts it: "In terms of challenges to journalists' employment, [AI] is not highest on the list." ■

Short-sellers

Can I sink Icahn?

An upstart activist investor takes on a veteran of the trade

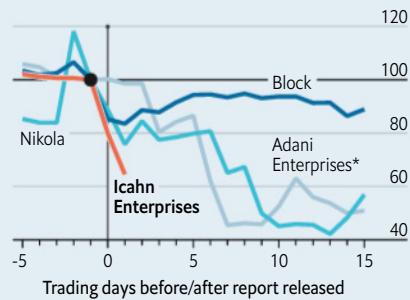
BEFORE CARL ICAHN was an activist investor, he was an arbitrageur. Although it was swashbuckling corporate raids during the 1980s that made him infamous, some of Mr Icahn's earliest campaigns involved investing in closed-end funds, a type of investment company which often trades at a discount to the value of its assets. Closing this gap, perhaps by agitating for the fund to liquidate its holdings, yields a profit.

Mr Icahn's own investment holding company, Icahn Enterprises, suffered no such discount. Until this week the firm had a market capitalisation of around \$18bn, more than triple the reported net value of its assets. These include majority ownership of energy and car companies, in addition to an activist-investment portfolio. On May 2nd Hindenburg Research, a short-selling outfit founded in 2017 by Nathan Anderson, accused Icahn Enterprises of operating a "Ponzi-like" structure. Icahn Enterprises has shed more than a third of its market value since Hindenburg released its report. It has become the latest of Hindenburg's targets to hit the skids—and the headlines. Mr Anderson's firm has previously taken aim at Nikola, a maker of electric lorries, the Adani Group, one of India's mightiest conglomerates, and Block, an American fintech giant (see chart).

Hindenburg's latest report alleges that Icahn Enterprises has inflated the value of its assets and funded its dividend with proceeds from selling shares to unwitting investors. It also calls on Mr Icahn to disclose the terms of personal loans secured against his majority holding in Icahn Enterprises. And it scolds Jefferies, Mr Icahn's ➤

Hindenburg blow-ups

Share prices, day before Hindenburg Research report released=100



Source: Refinitiv Datastream

*Adani Group flagship company

long-time investment bankers and the only big bank whose research analysts cover Icahn Enterprises, for allegedly turning a blind eye to the firm's risks. Mr Icahn, Hindenburg argues, "has made a classic mistake of taking on too much leverage in the face of sustained losses". Bill Ackman, another famed activist investor who once locked horns with Mr Icahn over an investment in Herbalife, an American supplement firm, gloated on Twitter that there was a "karmic quality" to the report.

Short-sellers' targets can be hamstrung in their immediate defences—share prices

can tank quickly but detailed rebuttals take time. Even so, Mr Icahn's first response looks muted compared with that of Hindenburg's recent victims. In March Block described Hindenburg's report as "factually inaccurate" and threatened litigation. In January the Adani Group accused the short-seller of "selective misinformation". After stating that Hindenburg's report is "self-serving", Mr Icahn said on May 2nd merely that his firm's performance would "speak for itself". Jefferies has not commented on Hindenburg's claims.

Quite how messy this activist show-

down becomes remains to be seen. Hindenburg's report pitches a dozen of classic shareholder activism, which involves trying to drive a target's share price up, against a newly prominent practitioner of short-selling, which aims to send it through the floor. The stakes are higher for Mr Icahn. His brand of activism requires investors to take him more seriously than they do the bad managers that, in his "anti-Darwinian" view, American commerce seems to promote. Icahn Enterprises must now prove that the same thing is not true of its own boardroom. ■

Bartleby Corporate rituals

From the public to the private, ceremonies pervade business life

FOR A PUBLIC demonstration of the importance of ritual, the coronation of King Charles III on May 6th will be hard to beat. The ceremony will take place at Westminster Abbey, where monarchs have been crowned since William the Conqueror in 1066. There will be anointing, homage-paying, oath-taking and all manner of processing. In any other circumstances this kind of behaviour would warrant a medical diagnosis. But the alchemy of tradition means that it will instead call forth a sense of continuity and the idea of shared history.

Rituals are also a big part of corporate life. There is nothing to match coronation levels of weirdness, much as some chief executives might like the idea of robes and a throne. But firms have their own ceremonies and rites. Some are internal: the repetitive rhythms of performance reviews and weekly meetings, budget processes and farewell cards are all ritualistic. Others are more public, from investor days to conference calls with analysts. The pandemic spawned a host of new customs, from regular events designed to lure people into the office to dedicated times of the week devoted to concentrated work.

Business rituals can arise spontaneously—those informal games of office bingo for when the boss uses their favourite bit of jargon. They can also be entirely private. No rule exists to say that, on entering a hotel room, the business traveller must check the minibar; that if the hotel manager has written a letter welcoming him, he must feel absurdly pleased; that if there is a plate of fruit, he must immediately eat all of it. Yet all of these things are as if ordained.

The prime example of the set-piece ceremony is the annual shareholders' meeting. As a way of getting things done,

this format is dreadful. Any information that shareholders actually need is available to them elsewhere. Many people delegate their voting rights to others. Plenty come just for the sandwiches.

But as a ritual it matters. The board of directors enter and sit on a podium; some of them may say absolutely nothing. The bosses give presentations to show that shareholders could not wish for a better set of managers. A succession of small shareholders then take the microphone and harangue the company's management for being totally useless. It is performative, to be sure, but a bit of a performance doesn't go amiss for something as bloodless as corporate governance. The annual meeting offers a useful physical reminder of who is accountable to whom.

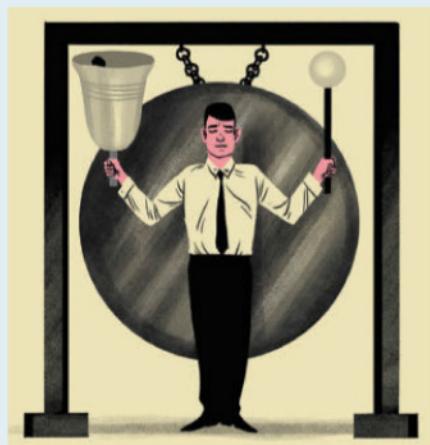
Standard rites of this sort can evolve into company-specific ones. Amazon has attached a copy of its very first letter to shareholders, from 1997, to every one it has published since as a way of demonstrating that an underlying ethos endures even as the world around it changes.

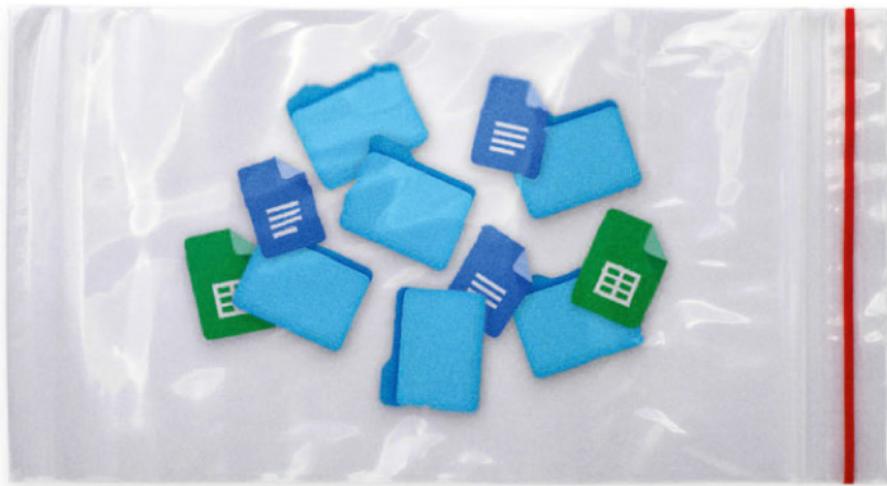
Rituals are also used as a way of build-

ing culture and team spirit. The financial industry has a long-established custom of giving "tombstones" out to clients and bankers when a transaction closes. The original tombstones were ads in newspapers, so called because they were laid out in a way that resembled gravestone inscriptions. The modern versions are sometimes known as "deal toys". Lucite may not have much intrinsic value but the ritual survives as part-reward, part-commemoration, part-brag. Plenty of firms have less involved celebratory rites, like ringing bells or banging gongs when they hit certain sales milestones.

Even simple rituals can encourage a sense of community and purpose among employees. A paper published in 2021 by Tami Kim of the University of Virginia and her co-authors asked volunteers to participate in a set of physical movements before starting out on a brainstorming exercise. Some looked at each other during this warm-up and others did not. The people who maintained eye contact rated the subsequent brainstorming as more meaningful.

But turning everything into a ritual also risks being tiresome. The only thing worse than an unnecessary meeting is an unnecessary meeting with stretching beforehand. Hosting colleagues at a regular meal and calling it "Fabulous Friday" is going to be most appealing to those who would otherwise be having a "Friendless Friday". And one person's ritual is another person's ordeal. Ms Kim's paper mentions a digital agency that holds regular sessions in which employees share personal stories about moments that changed their lives. This is indeed a ritual, but so is hanging, drawing and quartering. If there is a golden rule of corporate ritual, it is that it should make people feel as if they belong.





Business in China

Information overlords

SHANGHAI

Chinese data-security laws send a chill down the spine of Western executives

AS CHRISTOPHER WAS preparing to board a flight from New York to Singapore in February 2019, he was pulled aside by local authorities and told to stay put. An Interpol "red notice", a request for local law enforcement to make an arrest on behalf of another government, had been issued on his name, he would soon learn. The executive, who has asked that his real name not be used because his case is ongoing, was the founder of an international advertising group that a few years earlier had got into big trouble in China over data security.

Christopher's company entered China in 2012 and began co-operating with state-owned firms, using telecoms data to create advertising products. In 2014 the government signalled that it would strengthen data security, elevating it to the status of a national-security concern. Not long after, the offices of Christopher's firm were raided. A dozen of his local staff were detained; two of them were held for up to two years. He hired Chinese lawyers to assess the situation but was never able to learn the specifics of the charges.

It was not until he was denied entry to Singapore, several years later, that he came to understand the allegations against him. According to an Interpol document reviewed by *The Economist*, Chinese authorities had accused Christopher's company of having "illegally obtained a substantial amount of private information of Chinese citizens in the name of 'targeted advertising'". He was, the government claims, liable for these alleged violations.

Since lifting self-destructive covid-19

rules earlier this year, China's leaders have gone on a charm offensive to lure back foreign businesses and investors. Yet the government is launching sporadic raids on foreign companies. In March the local staff of Mintz Group, an American firm that conducts corporate investigations, were arrested in Beijing. Shortly after, authorities showed up at the offices of Bain & Company, an American consulting firm, where staff were questioned and some electronic equipment confiscated. Several other foreign firms that deal in data and intelligence have reportedly faced similar situations. The entire industry of corporate investigators who help foreign investors understand what is happening on the ground in China has been rattled. Both Bain and Mintz have said they are co-operating with the authorities.

Pulling up the data drawbridge

Meanwhile Chinese firms that sell information about the Chinese economy and companies are being forced by their domestic overseers to curtail their operations abroad. According to a *Wall Street Journal* report on May 1st, one such company, called WIND Financial Information, has recently informed some foreign clients that it can no longer provide its services. Firms supplying Chinese corporate records, such as Qichacha, are no longer permitted to do so outside China. To the dismay of academics around the world, CNKI, a digital subscription platform for Chinese research papers, suddenly became inaccessible to accounts outside the country in

March. In just the past few months many of the links that have helped the world understand China have been severed.

Chinese authorities have given no explanation for the raids on Mintz and Bain, or for curtailing the information services available to foreigners. But a growing group of experts finger the stepped-up policing of data in recent years. In 2021 the government enacted laws on data security and personal information that have wide-ranging implications for how such data can be transferred, where and by whom.

The Personal Information Protection Law of 2021 is one of the strictest such statutes in the world, lawyers say. It restricts the transfer across borders of any information that can be used to identify individuals. Merely forwarding an email with a signature containing a Chinese citizen's personal information may constitute an infraction, notes one lawyer. Almost all global companies in China are thought to be operating in violation of the letter of the code. Many have applied for an extension to comply with the rules. To fully comply, corporations will probably need to turn their China businesses into islands of information that have little contact with their global operations.

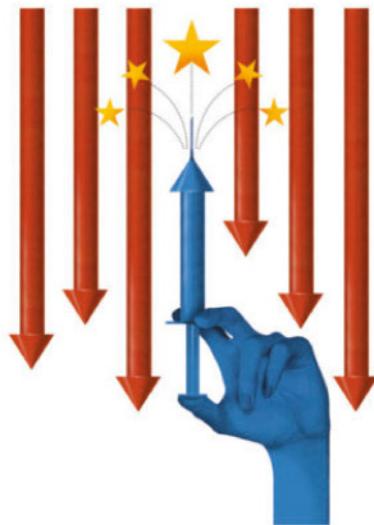
The vagueness of these and other rules creates more risks for businesses. Take China's espionage law, updated on April 26th to give security agencies more access to data that may present a national-security threat. Like many data-related laws, it leaves wide open the definition of what constitutes such a threat. This, says Aynne Kokas, author of "Trafficking Data: How China is Winning the Battle for Digital Sovereignty", lets the government redraw the lines as its threat perception changes. Companies are left on tenterhooks.

Many of the risks to firms have existed for years, notes a foreign executive with years of experience in China. Now they are becoming much more material. Companies must start making more sober assessments about whether they are putting themselves or their local staff in harm's way, he warns. And as China further tightens its data laws, more and more businesses—from investment banks and law firms to news organisations—may be ensnared.

After years of seeking to resolve his case, Christopher says no further details have emerged from China. The vague charges related to illegal data acquisition have never been explained, he claims. He has spent years agonising over how things went wrong. He says that his company never had direct access to personal information in China. Getting his hands on such data, he says, was impossible from the beginning. A red notice remains on his name today, making most forms of international travel a hassle at best—or, at worst, a risk of being extradited to China. ■

Schumpeter | America needs a jab in the backside

Pfizer offers a guide for coping with paralysis over M&A and China



WHEN SCHUMPETER recently visited New York, it was at its springtime best. There were cherry blossoms in Central Park, birdsong in the bushes, and—to drown out any false sense of serenity—the usual cacophony of car horns and jackhammers in the streets. Whoosh up in elevators to the salons of Wall Street's gilded elite, and it only gets better. The views are breathtaking, the preferences revealing—CDs lining the shelves of one legal beagle, a handkerchief in the top pocket of another. Yet if you thought such veterans had seen it all, think again. “It’s a shitload more complicated than it’s ever been,” says the boss of one bank.

The hierarchy of concerns changes depending on whom you talk to. But the components are the same. An interest-rate shock not seen for more than a generation. The difficulty of doing deals when money is no longer cheap. A maverick approach to antitrust from the sheriffs in Washington, DC. The rhetorical—if not yet real—decoupling between America and China, which business is afraid to speak out against, however much it stands to lose.

So it was serendipitous that one of the New York companies your columnist visited was Pfizer, at its new headquarters in Hudson Yards. The pharma giant, worth \$220bn, is rare among American firms in shrugging off many of the sources of uncertainty. Its covid-related partnership with BioNTech, a German vaccine developer, has given it a strong enough balance-sheet to take higher interest rates in its stride. It is a dealmaking machine, uncowed by the trustbusters. And it remains proud of its business in China. It may be sticking its neck out. But if that helps stick a needle into the skittish rump of corporate America, all the better.

You can tell Pfizer is flush with cash by visiting its new digs. The main meeting room is a futuristic “purpose circle”. The shimmering executive suites look like they belong on the starship *Enterprise*. A spiffy newish double-helix logo emphasises its devotion to science. The first topic of conversation is mergers and acquisitions. In little over a year it has splashed out \$70bn. That includes the \$43bn takeover of Seagen, a maker of cancer medicines, announced in March. It is the biggest pharma deal since 2019.

Pfizer can do M&A because unlike most firms, it is not paralysed by the short-term economic outlook. Instead it is galvanised by the certainty that its covid-related bonanza is tapering off.

Though sales of pandemic-related vaccines and antivirals beat Wall Street’s expectations in its first-quarter results on May 2nd, they still contributed to a 26% drop in overall revenues compared with the same period in 2022—and will fall further this year. It also faces a looming patent cliff from 2025 onwards, affecting non-covid blockbusters such as Eliquis, an anticoagulant, and Ibrance and Xtandi, two cancer drugs. To offset both of these forces, Pfizer is buying and developing a pipeline of new drugs that it hopes will generate \$45bn of revenues by 2030. Like the rest of big pharma, it benefits from the fact that smaller, cash-strapped biotech firms are struggling in the high-interest-rate environment. That makes them relatively receptive to takeovers.

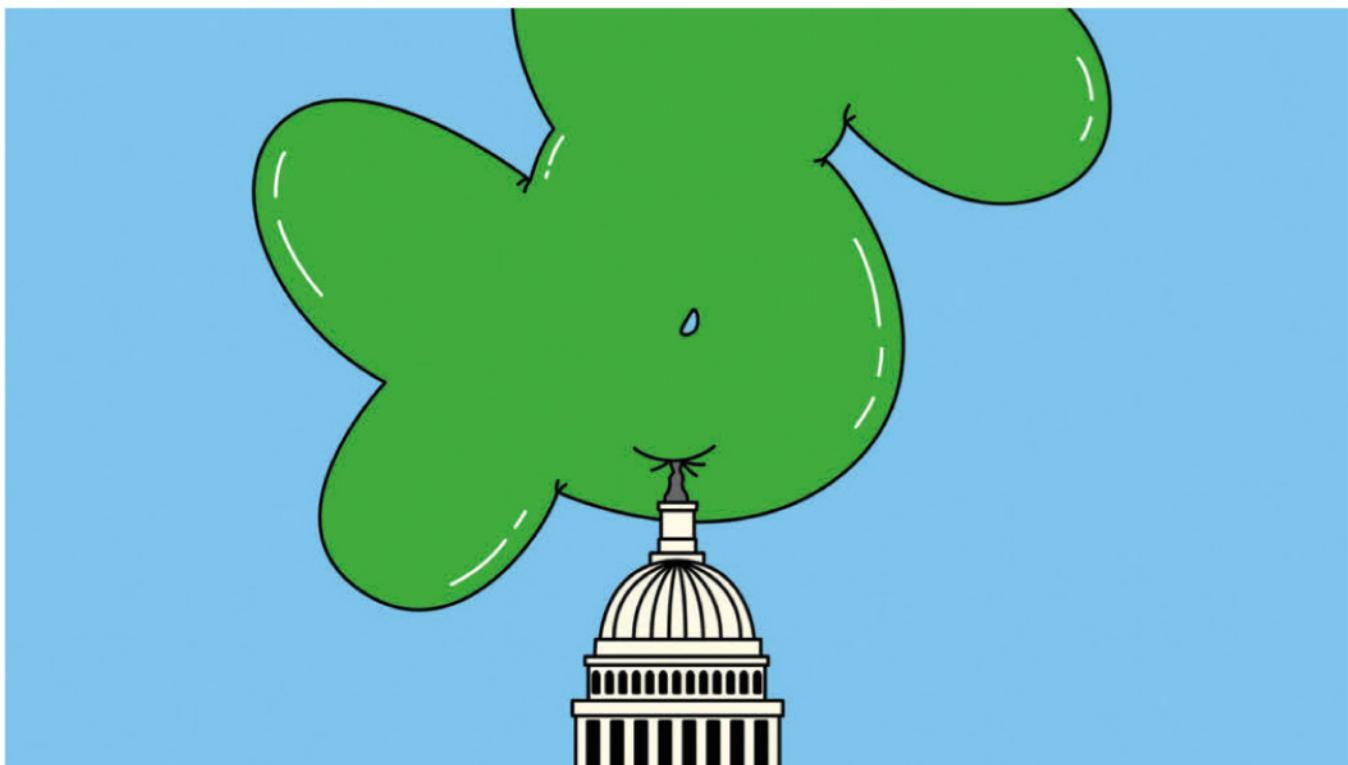
In doing such deals, Pfizer is unintimidated by the trustbusters, who are having a chilling effect on dealmaking in other industries. Jeff Haxer of Bain & Company, a consultancy, notes that America’s Federal Trade Commission and Department of Justice are likelier to sue to stop deals taking place than tackle M&A-related competition concerns through remedies such as divestments. So far they have failed to block many transactions, but the timeline for doing deals has lengthened. That affects the cost of financing for the buyer, and raises risks that the seller could be left stranded. Pfizer has taken steps to head off the trustbusters, such as playing down cost-cutting (ie, job-threatening) “synergies”, and playing up its commitment to cancer innovation. It insists the Seagen acquisition will close by early 2024.

Unlike many other American firms, Pfizer also remains unusually bullish about its business in China. It employs 7,000 people in the country, which helped bolster covid-related revenues in the first quarter. Its CEO, Albert Bourla, was one of a few bosses of well-known American firms to attend the China Development Forum in Beijing in March (Tim Cook of Apple was another). Last month Pfizer signed a memorandum of understanding with Sinopharm, a Chinese drugmaker, to market a dozen innovative drugs in the country. It may make sense for a company with a promising business there to double down on its operations. But in a tense geopolitical climate in which many American businessmen fear a backlash if they raise their voices in defence of the trade relationship, it is bold nonetheless.

So far Wall Street has given Pfizer little credit for its purposefulness. Its share price has fallen by almost a quarter this year. Critics argue that it may be overpaying for Seagen, and that the acquired drugs may not generate enough revenues to move the needle at Pfizer. They worry that pressures on drug pricing in America may end up destroying some of the economic rationale for its acquisitions. Pfizer still has its work cut out convincing investors its post-covid future is a bright one. As Mr Bourla put it: “It’s not enough to save the world. We need to increase the stock price.”

Seeing the vial as half-full

Other industries might argue that big pharma, with some of the juiciest margins outside the tech industry, is unrepresentative of corporate America, and offers few lessons in how to cope with the current wave of uncertainty. Yet it is worth remembering that it is often in the depths of M&A squeamishness that companies with strong balance-sheets strike the best deals. An investment banker notes that in 2009, during the global financial crisis, Pfizer paid \$68bn for Wyeth, a vaccine-maker, despite misgivings on Wall Street. As luck would have it, more than a decade later that underappreciated business helped Pfizer rescue the world during the covid crisis. It can pay to be bold—even in mysterious ways. ■



Budget bargaining

In God we bust

WASHINGTON, DC

America's debt nightmare goes beyond dysfunction in Congress

ON A WALL in Manhattan, not far from Times Square, America's debt clock ticks higher, from \$3tn when it was inaugurated in 1989 to more than \$31tn today. After climbing for so many years with no obvious economic fallout, it is easy to ignore, not least because it was moved from its location on a busy street corner to a quiet passageway. But its relentless climb is suddenly a risk to the global economy. That is because its numbers are now butting up against America's debt ceiling—a device as manufactured as the clock itself, though one that presents a far graver danger.

The debt ceiling is the amount Congress has authorised America's government to borrow in order to meet its basic obligations, from providing medical insurance to paying military salaries. The current ceiling for gross debt is \$31.4trn (117% of GDP), and America is careening towards it. On May 1st Janet Yellen, the treasury secretary, warned that the government was set to exhaust its cash reserves and run out of budgetary gimmicks as soon as June 1st.

At this point, America would face either a sovereign default or swingeing cuts to

state spending. Either outcome would be devastating for global markets. A default would undermine faith in the world's most important financial system; big budget cuts could trigger a deep recession. Even if Congress manages to raise the debt ceiling before anything so dire happens, its flirtation with disaster serves as a warning about the deterioration of America's fiscal health and the difficulty of recovering it.

The debt ceiling is a political creation devoid of any fundamental economic meaning. No other country binds its hands in such a crude manner. However, this means it needs a political solution, which cannot be taken for granted given present

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gridlock. Investors have started to turn queasy amid the uncertainty about whether Democrats and Republicans will be able to work together. Yields on Treasury bills maturing in early June rose by a percentage point after Ms Yellen's warning, an indication that few want to hold government paper that may get caught in the crossfire.

A bill proposed by Kevin McCarthy, Republican Speaker of the House of Representatives, would push the ceiling into 2024, while slashing trillions of dollars in spending over the next decade and gutting plans to combat climate change. The bill passed the Republican-controlled House on April 27th but is a non-starter for Democrats, meaning it will not clear the Senate.

Separately, a gambit by Democrats in the House, known as a discharge petition, could enable a simple increase of the ceiling. But it would require five Republicans to break ranks with Mr McCarthy and side with the Democrats, which few are likely to do heading into an election year.

Still, the betting is that America's politicians will somehow find a way through the impasse, as they have done in the past. President Joe Biden has invited leaders from both parties to a meeting in the White House on May 9th, at which negotiations are likely to get under way—something Mr Biden had hoped to avoid, preferring a "clean" bill to raise the ceiling.

If and when this happens, America's budgetary gymnastics will fade from view, much like the debt clock itself. That, however, will be a shame, for the country's fi-

►nances are on increasingly precarious ground. The core measure of vulnerability is not, in the first instance, America's debt level but rather its ballooning fiscal deficit.

Over the past half-century the federal deficit in America has averaged about 3.5% of GDP a year. In the near future such a level—once seen by fiscal hawks as evidence of profligacy—may come to be viewed as a relic of a more prudent time. In its latest update in February, the Congressional Budget Office (CBO), a non-partisan body, projected that America's deficit would average 6.1% over the next decade.

This is probably an underestimate. The CBO does not include recessions in its projections. Even without the scale of spending unleashed when covid-19 struck, recessions lead to higher deficits as tax revenues fall and automatic stabilisers such as unemployment insurance rise.

Like many analysts, the CBO is also struggling to put a price tag on the Biden administration's vast new industrial policy. It at first thought spending on subsidies for things like electric vehicles and renewable energy would cost about \$400bn over the next decade. But because so many of the subsidies come in the form of uncapped tax credits, Goldman Sachs, a bank, reckons the bill may be closer to \$1.2trn.

What's more, the CBO only offers projections based on current laws. As the political landscape changes, so do laws—with a disconcerting tendency for deficits to drift wider. In 2017 Donald Trump passed a series of tax cuts that are due to expire in 2025. In making its projections the CBO is required by statute to assume that they will expire as scheduled. Yet few politicians want to raise taxes. Mr Biden is also vying to implement a student-loan forgiveness plan that would add to the deficit.

When factoring in just a portion of these variables—the higher spending on industrial policy plus the continuation of Mr Trump's tax cuts—the deficit would average 7% over the next decade and hit nearly 8% by the early 2030s. Year after year, such expansive borrowing would lead to much bigger national debt. On the CBO's trendline the federal debt would roughly double to nearly 250% of GDP by mid-century. Well before that time the debt clock in New York, which currently runs to 14 digits, would need to add a 15th as national debt passes \$100trn.

There is no ironclad threshold beyond which deficits or debt are a problem. Rather, they can be seen as corrosive, threatening to visit progressively more harm on the economy. When debts are large to begin with, higher interest rates—on full display over the past year—are harder to digest. The main reason the CBO recently revised up its deficit estimates for the 2020s is higher financing costs for the government. At the start of 2022 it had forecast rates on

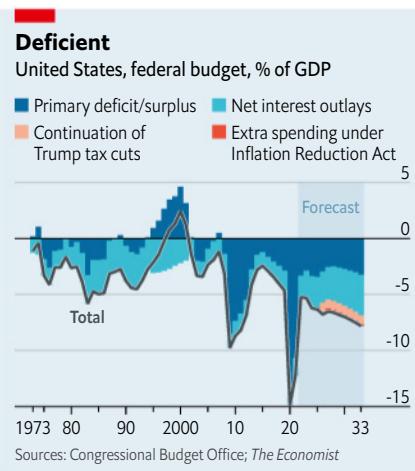
three-month bills to average 2% over the next three years; now it expects 3.3%. Whereas interest outlays amounted to less than half of defence spending over the past five decades, the CBO now projects they will be a third higher than such spending by 2033. The guns-or-butter dilemma risks becoming a bonds-not-guns straitjacket.

Rates may come down in future. They may also stay high for a while yet. And in the higher-rate world that America now inhabits, large deficits can lead to pathologies. To fund so much borrowing, the government must attract a greater share of savings from the private sector. This leaves less capital for corporate spending, reducing the ability of firms to invest. With less new capital at their disposal, workers become less productive and growth slower.

At the same time, the government's need to attract savings from investors at home and abroad can place upward pressure on interest rates. The risk that investors, especially foreigners, decide to shift money elsewhere would add to America's fiscal vulnerability. That, in turn, would constrain the state's ability to deploy stimulus in the face of cyclical slowdowns.

The result would be an economy both poorer and more volatile than it would have been in a universe where deficits were kept under control. In short, fiscal incontinence is something best avoided.

How to avoid this sorry fate? The economic prescription is straightforward; the politics of delivering it are anything but. Even before the interest-rate shock, it was easy to predict that deficits would increase over time. The biggest share of federal spending is mandatory expenditures on social security, health insurance and the like, which are prescribed by laws and not subject to the vagaries of the annual budget-setting process. Already big, they will bulge as the population ages. Annual spending on income support for the elderly will be as much as all spending on education, the environment, national defence, science and transportation by 2033.



The government estimates that trust funds which help bankroll both social security and health programmes will be insolvent by the early 2030s. At that moment America would face a basic choice between slashing benefits and raising taxes. A similar calculation will apply to all other aspects of the federal budget: some combination of reducing expenditures and raising revenues is the only way to prevent a crippling rise in the federal deficit.

They ought to know

In reporting this article, your correspondent spoke to three former CBO bosses. As economists who have spent more time than just about anyone in America thinking about its fiscal picture, they are uniformly worried about the risks of rising deficits and the lack of appetite for fixes.

"The average American has gone through the 21st century with presidents who said we didn't have a problem. So why should anyone bother now with hard reforms?" says Douglas Holtz-Eakin, who led the institution under George W. Bush. "There's going to be a generation of voters that can't get anything they want, because all the money has been spoken for."

Doug Elmendorf, the CBO's boss under Barack Obama, says Republicans have learned that it is toxic to cut entitlements, while Democrats have learned to steer clear of tax rises. "Both those positions are obviously politically popular, but they take off the table the biggest pieces of the federal budget," he says. "So it's increasingly hard for either party to develop a plan that puts fiscal policy on a sustainable path, much less agree on a set of policies."

Keith Hall, boss from late in Mr Obama's time through much of Mr Trump's, thinks it will take a fiscal crisis to force action. "But then we're looking at really draconian cuts that give us a bad recession, simply because they waited too long," he says. "Policymakers, Congress and the president, they just don't take it seriously."

For all their concern about the fiscal outlook, the former CBO directors are, like most sane individuals, also unanimous in the view that a failure to lift the debt ceiling now, therefore opening the door to default, is a horrific idea. The mere threat of doing so risks further impairing the government's finances by driving up borrowing costs and weighing down economic growth. America requires a serious political debate and bipartisan agreement to put its budget on sounder footing. Alas, its leaders are inclined neither to seriousness nor to agreement. ■



Borrowing problems

Run from the hills

GUIYANG

A far-flung province is a harbinger of doom in China's local-debt crisis

LOCALS IN GUIYANG have a keen sense of the distance between them and everywhere else. Over cold rice noodles bathed in chilli paste and vinegar, an elderly resident of the city in south-west China lists a number of recent economic achievements of his home town—namely, the shortening of travel times to other places. Chengdu, a megacity in nearby Sichuan, is now just three hours away by high-speed rail. Chongqing, another metropolis, can be reached in just over two. China's Herculean construction of uber-fast trainlines has even brought Hong Kong, the southern financial centre, within a seven-hour ride. These travel times are rattled off with considerable pride. Not long ago they would have taken three to four times as long.

Yet this progress has been costly, and is proving to be unsustainable. Over the past decade Guizhou, the region in which Guiyang sits, has accrued enormous debts through its building efforts—ones which it can no longer repay. Many of the region's roads and bridges went untravelled over the past three years as covid-19 stopped people moving about. A local bridge-builder was recently forced to extend maturities on its bonds by up to 20 years. The region is also known for its shantytowns. Guiyang is scattered with skyscrapers and green hills poking out from between them, as well as old, crumbling buildings. The government has spent well beyond its means in renovating such dilapidated residences. One

shanty renovation in Guiyang, called Huaguoyuan, is among the world's largest housing projects. The property developer has already defaulted.

Guizhou is a far-off region to many Chinese people in wealthy eastern areas. But its debt problems will set the tone for the rest of the country in the coming months. The province will probably be the first to receive a central-government bail-out. Indeed, local officials are already asking for help. On April 11th a government think-tank based in Guiyang said that the province does not have the ability to resolve its debts by itself and was seeking advice from the central government.

An expensive helicopter

This has kicked off a national debate about the moral hazard of providing such a rescue. Guizhou's debts are a small part of the \$23trn Goldman Sachs, a bank, estimates to be burdening local officials across the country. Editorials in Chinese media have called for strict "debt discipline" and warn of the huge cost to the central government should it implicitly guarantee local debts.

The pressure on Guizhou's officials is immense. The province is said to owe about 2.6trn yuan (\$380bn, or 130% of local GDP) in various forms including bonds and opaque debts owed by local-government-financing vehicles (LGFVs), which are run like private firms but ultimately backed by the local state. The interest rate on these

debts has surpassed the province's GDP growth rate, note analysts at Natixis, a French bank. Interest payments make up more than 8% of the province's fiscal expenditure, compared with a national average of 6%. Some cities in the province are already spending most of their funds merely to pay off debt. In Guiyang annual interest payments equal 56% of yearly revenues, according to an estimate from Rhodium, a research firm.

There is little hope of bringing in more revenue to meet the costs. The area has always been an economic backwater: the local topography is one of endless misty hills that for millennia made travel hard and villages poor. Guizhou's economy is reliant on the connectivity brought by its new roads and tunnels. Many locals are farmers. The region does not have much manufacturing, and has just one important corporation of which to speak: Moutai, a state-owned firewater-maker, which is, admittedly, one of the country's most valuable firms. Meanwhile, funding costs for the local government are now the second-highest in the country, after the north-western province of Qinghai. They continue to rise as firms struggle with payments. The region's LGFVs have already experienced more than 20 defaults on trust loans and other hidden debts since the start of 2022, many more than in other provinces.

As problems have intensified in recent weeks, economists and investors have warned that the central government has few palatable options. An investment manager says the debt-heavy growth model of the past two decades has been unable to buy prosperity in China's poorest regions—and will inevitably lead to crises in such places. Guizhou is at a "breaking point", he says, and the central government must come to the aid of it and other weak links. Zhou Hao of Guotai Junan, a Chinese investment bank, says the central government will not wait around for a high-profile default in Guizhou, owing to the turmoil that such an event would cause in China's bond markets, where funding could quickly dry up. "Guizhou going bust will create too many side issues," he says.

The makings of an official bail-out are now coming together. On April 24th Cinda, one of China's largest state-owned asset managers, said that it was sending a team of 50 experts to Guizhou to survey the situation. Centrally controlled firms such as Cinda could be used to inject liquidity into troubled LGFVs. They could also swallow up some debts in exchange for equity. Policy banks may also take a bigger role. Some have already been called in to help pay back a few of the province's LGFV debts. Some of these piecemeal measures are buying time, but much bigger action could be required soon. It is a situation as bracing as a shot of Moutai. ■

Searching for a villain

Capital v labour

SAN FRANCISCO

Are greedy firms causing inflation?

IN THE THREE years before covid-19, rich-world consumer prices rose by a total of 6%. In the three years since they have risen by close to 20%. People are looking for a villain—and firms often top the list. According to a recent survey by Morning Consult, a pollster, a third of Americans believe that “companies’ attempts to maximise profits” have contributed “the most” to inflation, more than any other factor by far.

It is not just the public who blame fat cats. “Recent inflation has been driven by an unusual expansion of profit margins,” Paul Donovan of UBS, a bank, has argued. A study by America’s Bureau of Labour Statistics (BLS) suggests “dealer mark-up” has raised the price of new vehicles. Central bankers are getting in on the act, too. Last month Fabio Panetta of the European Central Bank said “there could be an increase in inflation due to increasing profits.” Last year Lael Brainard, formerly of the Federal Reserve, now a White House official, said that “reductions in mark-ups could also make an important contribution to reduced pricing pressures”.

The problem is that, at an aggregate level, evidence for head-honcho greed is thin on the ground. What seems to be happening is that families and firms are sharing the spoils of the post-pandemic economy. This makes sense. Arguments for “greedflation” rest on unsure theoretical ground. Firms did not suddenly become avaricious. Red-hot demand, linked in part to massive stimulus programmes in 2020-21, is the true source of price pressure—and can sometimes result in margins expanding.

The theory also fails on its own terms. To believe that corporations are making

Party's over

OECD countries*, labour compensation as % of GDP



Sources: OECD; The Economist

Profit-shifting

United States, unit price for goods and services*
% change since Q1 2020



Sources: BEA; The Economist

*Non-financial companies

out like bandits is to believe they are winning the fundamental battle in economics. Output must flow either to owners of capital—in the form of profits, dividends and rents—or to labour, as pay and perks. Economists refer to this as the “capital” or “labour” share of GDP. When one group wins, by definition the other must lose.

We have estimated the labour share across the OECD, a group of mostly rich countries. For much of the pandemic this was above its average during the preceding decade, suggesting that labour had the upper hand (see chart 1). In 2020 companies continued to pay people’s wages—helped by stimulus programmes—even as GDP dropped. In 2021 and 2022 strong demand for labour allowed many existing workers to demand more pay. It also pulled new people into the workforce. Across the OECD the share of working-age folk in a job is at an all-time high of 70%.

Another way of assessing the balance of power is to look at “unit prices”. The second chart shows recent changes in the price of an average American good or service, split into the relative contributions of profits and labour costs. Corporations had the early spoils, but since 2021 workers have fought back. A calculation for the euro area published in a recent paper by Goldman Sachs, a bank, also suggests a relatively even match-up. If you are fuming at paying \$10 for a coffee, blame the barista serving it to you as much as the owner.

Recent months have been tougher for companies. In the first quarter of this year profit margins at those in the S&P 500 index of big American firms are expected to sharply drop, perhaps because consumer tolerance for higher prices has worn thin. Workers, though, seem to be holding their own. The OECD’s headline rate of inflation is now decisively declining, even as there is little evidence of slowing wage growth. The latest monthly data from the BLS show that, after falling for much of 2021 and 2022, American hourly real pay is rising once again. David has not defeated Goliath, but he is putting up a good fight. ■

The John Bates Clark Medal

Prize fighter

SAN FRANCISCO

Gabriel Zucman’s work is enormously influential—and controversial

SINCE THE global financial crisis of 2007-09 the world has worried more about inequalities of wealth and income. That is in large part a result of work done by a band of French economists, in particular Thomas Piketty, Emmanuel Saez and Gabriel Zucman, which documents a rise in inequality in many countries across recent decades. On May 2nd the American Economic Association awarded Mr Zucman the John Bates Clark Medal, a prize for economists under the age of 40, for his efforts.

Other economists usually greet the winner of the Clark medal with a resounding cheer. No one has a bad word to say about Oleg Itskhoki, last year’s winner, who studies exchange rates and the like. They had a slightly different reaction to the announcement about Mr Zucman, who works at the University of California, Berkeley. He is a more divisive figure. Some were delighted; others, rather less so.

On one side, you have enthusiastic cheerleaders. They point out, reasonably, that Mr Zucman has drawn on unique data sets, including the leaked “Panama papers”, to tell new stories about inequality and tax evasion. Mr Zucman is currently working on measures of “real-time” inequality, allowing economists to “estimate economic growth by income groups, race, and gender”. “A lot of my work is about trying to improve our measurement tools,” he has explained. His research has also pro-



The angel Gabriel

vided intellectual ballast for those who want higher taxes on the rich.

On the other side, you have Mr Zucman's detractors. Their core concern is a methodological one: that Mr Zucman and his co-authors make important assumptions in their economic models, which have the consequence of overstating growth in inequality in recent decades. The detractors also suggest that such assumptions underestimate the behavioural response of individuals to high rates of taxation, thus making significant levies seem like a better idea than they are in reality.

Mr Zucman's estimates of the rise in inequality tend to be at the top end of the range found in the literature. At the other extreme, a paper by Gerald Auten of America's Treasury department and David Splinter of Congress's Joint Committee on Taxation finds that since the 1960s the share of post-tax income commanded by the top 1% of Americans has been largely steady, rather than rising sharply as Mr Zucman and his co-authors have concluded. Others point to discrepancies between different pieces of published work. Lawrence Summers, a former treasury secretary, has said

that he finds critics of Messrs Saez and Zucman's work "largely convincing".

Mr Zucman does not exactly try to quell the controversies. In person he is demure and charming. Online, however, he is pugnacious, frequently taking people with whom he disagrees—including, on occasion, journalists at *The Economist*—to task. The controversies surrounding his research mean that Mr Zucman will always stand a little outside the economic mainstream, even with his new medal from the establishment firmly in hand. But he is probably fine with that. ■

Buttonwood Knights off horseback

What the deal for First Republic says about America's banking system

"**L**IFE ISN'T knights on horseback," Logan Roy, boss of Waystar Royco, a media conglomerate, and lead character of "Succession", a television drama, tells his son Kendall. He is warning his offspring that life is not about heroes. "It's a number on a piece of paper. It's a fight for a knife in the mud."

As usual, the old bastard was right. Almost everything in finance can be reduced to a deal between two parties: a number on a piece of paper. Every time someone buys a share they are cutting a deal in which they swap cash for a slice of a company; a loan is a deal in which one party pays cash now in exchange for a stream of the stuff through time. Private-equity investing is the art of a good deal; so is buying property. Sometimes one person gets a good deal, another a bad one—but not all deals are zero-sum. A borrower and lender can both walk away happily from a paid-off mortgage.

A healthy financial system, then, is rife with deals. A sickly one is not. When the system is consumed by uncertainty or fear, it is just about impossible to get to a good deal. That another bank was willing and able to buy the troubled First Republic, which was seized by the Federal Deposit Insurance Corporation (FDIC) on May 1st, is therefore something of a relief. After a flurry of dealmaking early in the global financial crisis of 2007–09, there was too much uncertainty and fear for more to be done. And there was no deal to be cut for the entirety of Silicon Valley Bank (svb) in March. When your columnist recently asked a bank boss why he did not submit a bid for svb, he quipped back: "Other than the \$20bn hole in its balance-sheet?"

The deal for First Republic includes three main parts: a payment of \$10.6bn in cash by JPMorgan Chase to the FDIC; a

promise to pay \$50bn more, plus interest at a fixed rate, over the next five years; and a credit guarantee for loans JPMorgan is assuming. It was structured in this manner to raise the sum JPMorgan was willing to pay, and thus to reduce the burden on the FDIC, as is the regulator's goal.

At first glance, the guarantee and loan appear a little strange. First Republic's problem was not, after all, that it offered bad mortgages to risky borrowers. Its problem was that it offered 30-year mortgages at a 1% interest rate to rich people, reportedly including Mark Zuckerberg—and that rates have jumped since, reducing the value of the loans. Yet the credit guarantee serves a purpose. It makes it easier for JPMorgan to meet regulatory capital requirements, one of which assigns risk-weights to assets. Loans with a guarantee attract a lower weight.

The funding line also looks a little needless. JPMorgan has plenty of excess funding. It has more than \$500bn in cash parked in deposits with the Federal Reserve and other banks. But to help fund the \$180bn or so in assets JPMorgan is

acquiring, the bank will take on \$90bn in new deposits, \$30bn in loans from the Federal Home Loan Bank, plus the \$50bn loan from the FDIC. In theory, JPMorgan could simply pay the FDIC \$60.6bn, rather than \$10.6bn, in cash now and forgo the loan. The problem is that banks also have to meet liquidity-coverage ratios (a measure of the cash or cash-like assets a bank has on hand to meet an estimate of outflows in a stress scenario). Depleting even large cash buffers at the same time as acquiring new liabilities would ding the firm on this measure. On a call with analysts Jeremy Barnum, JPMorgan's chief financial officer, described the loan as helping the bank both better match assets with liabilities as well as manage "liquidity consumption".

All of which is to say the deal was made just sweet enough for JPMorgan to bite. It did not harm the acquirer, and the acquirer did not have to raise new equity. Banks that bought assets from svb also did so without raising fresh capital. This makes sense: problems faced by banks become more acute when they take actions that might spark runs. Indeed, the collapse of svb followed an equity-issuance announcement. Crafting a deal that leaves an acquirer materially worse off might spark a similar situation. Such a scenario is hard to imagine at JPMorgan; it is not so elsewhere.

Still, a deal that leaves an acquirer strong and minimises regulatory costs leaves nothing for shareholders or bondholders of the old bank. That is probably what they deserve, given they invested in an insolvent institution. But it is also why investors in other banks now fear they will meet a similar fate. The share and bond prices of other smaller regional banks have plunged. If this spooks depositors, more deals will be needed.



Free exchange | Stop digging

How Japanese policymakers ended up in a very deep hole



INVESTORS BETTING on tighter monetary policy from the Bank of Japan (BoJ) have experienced very few victories over the past three or so decades of ultra-low interest rates. The first decision by the BoJ's new governor, Ueda Kazuo, proved to be no exception. The central bank's flagship policy of yield-curve control, which caps ten-year government-bond yields at 0.5% with aggressive bond-buying, was left unchanged on April 28th. Instead, the BoJ's policymakers announced a review of their monetary policy. The exercise is expected to last a year, possibly longer.

There is a bleak comedy in seeing speculators nursing burned fingers once again. But the policy review may transpire to be more meaningful than the bureaucratic exercise it appears at first glance. The report will assess decisions made by the BoJ since the Japanese economy entered a period of deflation in the 1990s.

The starting point must be the grim reality in which the central bank finds itself. Yield-curve control, which began in 2016, was a concession to the fact that the BoJ's enormous asset-purchases were causing problems in the functioning of the country's bond market, and that little additional stimulus was possible. The BoJ's problem is now drastically different: Japanese inflation is at its highest since the early 1980s, but even a modest increase in rates could be disastrous for the economy. After decades of attempts to stimulate a stagnant economy, the country's central bank is in a nasty bind, unable to move much in any direction.

To understand why, it helps to return to the source of the problem. In the late 1980s Japan had a colossal asset bubble, primarily in stock and property prices. Six of the world's ten most valuable companies called the country home. The bubble was popped deliberately with interest-rate rises in 1989, which prompted stock prices to fall immediately, and land prices to grind ever-lower throughout the 1990s. Since then, Japan has been trapped in what Richard Koo of the Nomura Research Institute, linked to the bank of the same name, referred to as a "balance-sheet recession". Firms and households concentrate on paying down debts, rather than investing and consuming, which crimps economic growth.

As a result of decades of thrift, Japan's residents have far more financial assets than debt, and do not look enormously vulnerable to a rise in rates. Instead of piling savings into stocks, households

instead prefer bank deposits, in which they now hold an impressive ¥1.1 quadrillion (\$8trn), the equivalent of almost 200% of Japan's GDP. Non-financial companies hold another ¥56trn.

Around the world, households are usually squeezed by higher rates. Japan's might prove beneficiaries, at least in the short-term. Marcel Thieliant of Capital Economics, a research firm, notes that households' net interest income would rise by ¥4.7trn, or 1.5% of their annual disposable income, with every percentage-point increase in Japanese interest rates. Combined with a stronger currency, which would make imports to the country cheaper, it seems probable that households would rather enjoy a rate rise.

The pain would be felt elsewhere, however. The first sufferer would be an institution that has become far more indebted as the private sector has saved: the central government. In last year's budget, about 8% of spending was allocated to interest payments, even at an average interest rate on government bonds of 0.8%. A percentage-point rate rise across the board would mean more than doubling the share of spending, as bonds are rolled over.

The impact would drip through over years, although not as slowly as once would have been the case. The fact that the BoJ now owns more than half the Japanese bond market, and even more of those of longer maturities, has sped the pace at which higher rates would affect the fiscal arithmetic. When the BoJ buys a bond, it creates a reserve asset that pays its benchmark rate. If rates rise, the BoJ immediately owes more on these reserves. It would shoulder losses for which the government would have to pay.

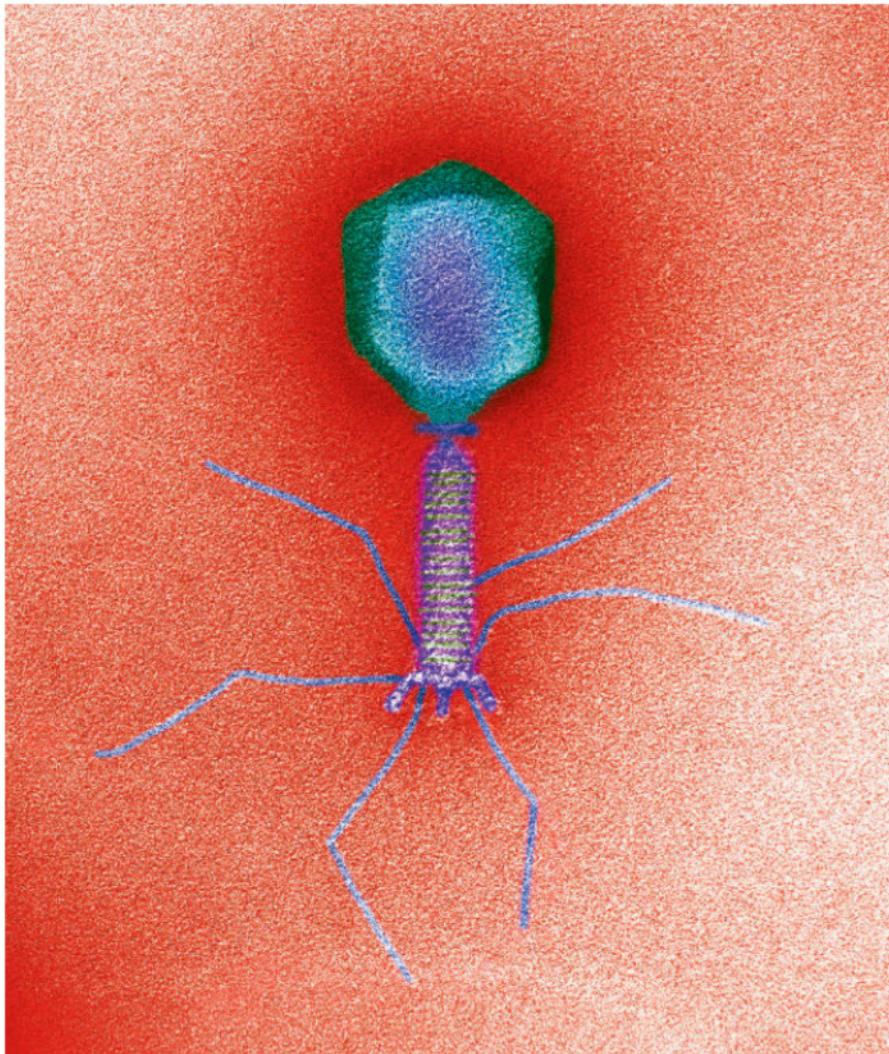
The second part of the economy that would immediately feel the pain of a rate rise is the banking system. Higher rates would cause large unrealised losses on the assets of smaller financial institutions. The Japan Centre for Economic Research, a consultancy, suggests that, if long-term interest rates were to rise by a percentage point, the economic value of regional banks (their worth according to expected cash flows from assets and liabilities) would drop by the equivalent of 60% of their capital.

I wouldn't start from here

Crushing demand by dramatically weakening some of Japan's most vulnerable lenders would, in time, work as a method of limiting the most recent burst of inflation, even if it is hardly the ideal way to achieve such a goal. Yet solving the long-term problem of deficient demand is now harder, too. Despite the huge increase in government debt over the past three decades, fiscal stimulus has come in fits and starts; enough to prevent total economic collapse, but not to ignite stronger growth. For years, a concerted effort to raise consumer spending through much more aggressive government spending was the clear Keynesian prescription for Japan. The rise in government-bond yields complicates the picture.

It sounds a little bit strange to say that Japan is still recovering from a crisis that began around the same time as the Berlin Wall was collapsing, but the country's economy has never experienced a concerted recovery from the asset-bubble implosion. In 1990 Japan's GDP per head was about 18% below the level in America. In 2021, by the same measure, Japan's economic output per person was 39% below America's.

Thus the third-biggest economy in the world remains in a nasty situation, which its policymakers have played a part in maintaining. Mr Ueda, an outsider to the BoJ from academia, has a chance to convey that plainly. The review should be a cry for help. Admitting to a problem is the first step towards finding a solution, especially when any solution will be unpleasant. ■



Infectious diseases

Viral therapy

TBILISI

As antibiotic resistance grows, phage therapy—pioneered in the Soviet Union—is attracting more interest

IT WAS ON the golf course that Barry Rud first noticed something was seriously wrong. A trim 60-year-old who played hockey as a young man, he found himself unable to take more than a few steps without gasping for breath. His doctors said he had caught a strain of *Pseudomonas aeruginosa*, one of the growing number of “superbugs” that have evolved resistance to many common antibiotics.

Mr Rud’s experience illustrates a growing problem—and one possible solution to it. Antibiotics are among medicine’s most spectacular achievements. A class of “silver bullet” drugs that destroy disease-causing bacteria while sparing the patient’s

own cells, they have defanged all sorts of once-feared illnesses, from cholera to syphilis. They have drastically reduced the risks of surgery (patients often died from infections caught on the surgeon’s table) and chemotherapy, which destroys the patient’s immune system.

But their magic is waning. Repeated exposure to a lethal threat has led bacteria to evolve resistance to many existing antibi-

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otics, blunting their efficacy. At the same time, much of the pharmaceutical industry has lost interest in finding new ones. It has been almost 40 years since a new class of antibiotics has been made available to patients. Some infections, including gonorrhoea and tuberculosis, are once again becoming difficult to treat. One estimate, published in the *Lancet* in 2022, reckons antibiotic resistance directly caused 1.2m deaths in 2019, and was indirectly implicated in 3.8m more.

With antibiotics unable to cure his illness, Mr Rud took a chance. He travelled to the Eliava Institute in Tbilisi, Georgia, one of a handful of institutions specialising in the study of bacteriophages. These are viruses that infect and kill bacteria. The Eliava Institute uses them as living antibiotics, hoping to cure a human’s disease by causing one in the bacteria making him sick.

“Phages” are little known outside the former countries of the Soviet Union, which did the most to develop the idea. In Georgia they have been part of the local pharmacopoeia for decades. (Indeed, 2023 marks the Eliava’s centenary.) Little vials containing stale-tasting liquid full of antibacterial viruses can be bought at pharmacies across Tbilisi. Now, as worries about antibiotic resistance build, Western firms are taking a second look.

Set phages to kill

Despite their name, bacteriophages infect, rather than eat, their prey. Owing to the profusion of bacterial life, phages are the most abundant biological entities on the planet. Most resemble a cross between a Moon lander and spider. An icosahedral head (think of a 20-sided die) holds their genome, and is attached to a tail of proteins that culminates in a spray of fibres. When the fibres encounter a suitable receptor on a bacterial cell wall, they bind the phage to its victim, driving its tail through the cell’s membrane and allowing its genome to enter its new host.

One of two possible fates awaits the unfortunate bacterium. “Lysogenic” phages weave their own genomes into that of their host, leaving it alive with its new cargo of viral DNA. If the phage is “lytic”, though, it hijacks its host’s cellular machinery to assemble copies of itself. These proliferate until they burst out, killing the bacterium in the process. It is the latter sort of phage that is of interest to doctors.

As living antibiotics, phages have several advantages, at least on paper. Since they can make more of themselves, initial dosages can be relatively small. Unlike chemical antibiotics, they can evolve as readily as their prey, potentially blunting a bacterium’s ability to develop resistance. And the myriad differences between human cells and bacterial ones means they are unlikely ➤

► to do any damage to the patient.

A century ago, phages were the most promising tool in the antibacterial arsenal. Felix d'Herelle, a microbiologist at the Pasteur Institute in Paris, used them to treat the first patient in 1919, after downing a dose himself to ensure they had no harmful effects. One of his colleagues was a young Georgian scientist named George Eliava, who returned home to found the institute that now bears his name.

But with the discovery of penicillin, the first antibiotic, in 1928, phages fell from favour. Production of penicillin surged during the second world war, crowding the phages out. That has left a shortage of good-quality trial data on their use in humans. (The first and so far only clinical trial on phages in Britain ended in 2009, concluding they were both safe and effective against an ear infection). What data exist indicate that phages are not harmful to humans. Four reviews of the available literature, all published since 2020, suggest very low rates of adverse affects (the figure for antibiotics, phage researchers are quick to point out, can be as high as 20%).

How well phages actually do at curing infections, though, is another question. Although encouraging anecdotal evidence has been trickling in for decades, regulators need big, formal clinical trials. A report published last year by the Antibacterial Resistance Leadership Group, a gathering of experts, concluded that the lack of data meant phages were not ready for clinical use. "We have a lot of catching up to do," says Steffanie Strathdee, a director of the Centre for Innovative Phage Applications and Therapeutics at the University of California, San Diego.

That uncertainty has not stopped a wave of medical tourism to the Eliava Foundation's Phage Therapy Centre. It treats more than 500 foreign patients a year. Most, like Mr Rud, are charged €3,900 (\$4,300) for two weeks of on-site treatment and months' worth of bottled phage to take home. Patients from more than 80 countries have visited the clinic.

Treatment involves three steps. The first is to figure out exactly which bacterium is responsible for the disease. Proper identification is crucial, as some phages are so target-specific that they may have different effects on two bacteria from within the same species. Second, a phage has to be found that can successfully attack the bacterium in question. This can sometimes be done simply by looking in existing phage libraries, of which the Eliava has one of the world's largest.

Sometimes, though, its researchers must go hunting for something suitable. The core principle is to look for a phage in the same place as one would find the bacteria it infects. In practice this often involves a lot of laborious sifting through human

sewage and hospital waste, as these are reliable sources of resistant bacteria. (So are urban rivers such as the Mtkvari, which runs by the Eliava's grounds.)

Finally, the phages must be encouraged to grow, and the resulting solution purified. Although the number of laboratories that can replicate parts of this process is on the rise, Vakho Pavlenishvili, the Eliava Foundation's head of phage production, says it remains the only place capable of handling the entire process from bacterial analysis through to phage prescription.

But expertise is spreading. More clinical trials of phage therapy have begun around the world in the past three years than in the preceding two decades (see chart). In 2022 Technophage, a Portuguese company, completed a trial of a phage cocktail designed for patients with diabetic foot ulcers. It hopes to begin the next round of trials sometime later this year. BiomX, an Israeli firm, is testing a phage cocktail of its own on *P. aeruginosa*, a common cause of hospital-acquired infections. Adaptive Phage Therapeutics, an American firm, has three trials in the works: one on cystic-fibrosis patients with opportunistic infections, one for infections in prosthetic joints, and, like Technophage, one on diabetic foot ulcers.

One problem facing would-be phage therapists is that, as natural entities, phages cannot be patented. One solution is to tinker with a phage's genome, since edited genomes are eligible for protection. A Danish company called SniprBiome hopes to produce tweaked phages capable of tackling *E. coli* infections. It has completed initial trials in humans, and hopes to discuss bigger ones with regulators later this year.

Even if the phages themselves cannot be patented, other things made from them can. Dressings or implants coated in phages are one example. Adaptive Phage Therapeutics has patented parts of its phage library and its high-speed manufacturing process. The firm hopes to be able to go from the identification of a bacterium to regulatory approval of a phage to kill it

within six months. The same process could take 15 years for a new antibiotic, says Greg Merril, its founder.

Regulators are adapting, too. In America the Food and Drug Administration has allowed companies to accelerate their early-stage clinical trials. In 2018 regulators in Belgium adopted new rules known as the Magistral pathway, which allow pharmacies to sell phages to patients who have a prescription. The researchers who lobbied for the new rules hope to see similar changes across the rest of the EU. "I find [British regulators] to be incredibly engaged and interested," says Martha Clokie, a researcher at the University of Leicester. She is part of a collaboration that hopes to bring high-quality phage manufacturing to Britain, and to build up a national phage library to go with it.

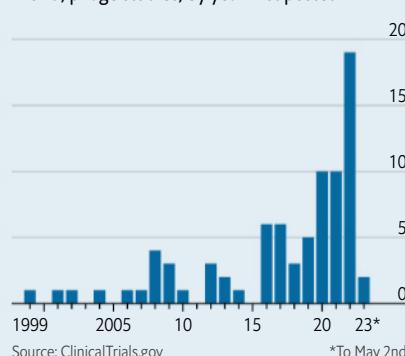
And phages could find uses outside medicine, too. They have been used to treat rot in cabbages for almost a century. Trials have begun on potatoes, corn, citrus fruit and grapevines. Animal farming consumes huge quantities of antibiotics, prescribing them to cattle and pigs to encourage growth. That makes the industry a big driver of antibiotic resistance. ACD Pharma, a Norwegian firm, has spent 15 years researching the potential application of phages to fish-farming. It launched a product to tackle a single bacterium in salmon in 2018. In 2022 sales rose by 1,000%. The firm is trying to adapt its product to tackle other types of bacteria, too.

Make it so

For now, though, all these remain hopes rather than certainties. There are plenty of questions left to answer. Some are big and conceptual. Since phages are foreign bodies, for instance, they are likely to spur a patient's immune system to produce antibodies to neutralise them. That could be a problem, especially with repeat prescriptions, as a body primed to repel a phage is one in which its effectiveness will be limited. Whether phages can be tweaked to overcome such defences remains to be seen. Others are humdrum but essential: doctors will need to work out ideal doses, the best administration mechanisms, and which sorts of patients might be best suited to the treatment.

Not even the most dedicated advocates of phages think they will replace antibiotics. But they hope they might serve as a treatment for infections for which nothing else works, or as a supplement to conventional antibiotics in order to strengthen their effects. For that to happen, though, will require building the infrastructure to explore the idea properly. For now, the facilities to do that simply do not exist. "We can receive a thousand patients," says Dr Sturua, back at the Eliava Institute. "But we can't receive a million." ■

Going retroviral
World, phage studies, by year first posted



Oceanography

What lies beneath

Much of Earth is unexplored. An ocean census hopes to change that

“EARTH” HAS always been an odd choice of name for the third planet from the Sun. After all, an alien examining it through a telescope would note that two-thirds of its surface is covered not by earth at all, but by oceans of water.

Because humans are land-lubbing animals, most of the Earth remains under-explored. Marine biologists think the oceans might host more than 2m species of marine animals, of which they have so far catalogued perhaps a tenth. Oceanographers are fond of pointing out that scientists have mapped nearly all of the Martian surface, but less than a quarter of the seabed.

A new initiative hopes to change this. Launched in London on April 27th, Ocean Census aims to discover 100,000 new species of marine animal over the coming decade. It is backed by Nekton, a British marine-research institute, and the Nippon Foundation, Japan’s biggest charitable foundation. Its first ship, the Norwegian icebreaker *Kronprins Haakon*, set sail on April 29th, bound for the Barents Sea.

The initiative is happening now for two reasons. One is that, the longer scientists wait, the less there will be to catalogue. Climate change is heating the oceans, as well as making them more acidic as carbon dioxide dissolves into the water. Already around half the world’s coral reefs—thought to be home to around 25% of all ocean species—have been lost. Oliver Steeds, Nekton’s founder and chief executive, says that one of Ocean Census’s priorities will be cataloguing species thought to be in the greatest danger from climate change. Otherwise, he says, the risk is of “the forest burning down and not knowing what was there before [it] was lost”.

The second reason is technological. Marine biologists find about 2,000 new species a year, a rate hardly changed since Darwin’s day. Ocean Census is betting it can go faster. “Cyber taxonomy”, for instance, involves feeding DNA sequences from animals into computers, which can quickly decide whether it is a new species. The ability to describe new creatures, as well as simply cataloguing them, has also improved. Fancy cameras on remote-operated vehicles, for instance, allow scientists to make laser scans of deep-sea creatures such as jellyfish without removing them from their habitat. Just as the immense pressures of the deep sea are fatal for humans, taking such a jellyfish to the surface

for examination reduces it to gooey slime.

Ocean Census is not the first attempt to conduct a systematic survey of life in the oceans. The Census of Marine Life was a ten-year effort, begun in 2000, to seek out new species. The Global Ocean Sampling Expedition, which ran from 2004 to 2006, aimed to catalogue microbial life in the sea by sampling waters from across the world. (It was funded by Craig Venter, a biologist-cum-entrepreneur, and carried out on his personal yacht.)

Exactly what the new effort might turn up, of course, is impossible to predict. But history suggests it will be fruitful. Half a century ago scientists discovered hot vents on the sea bed that were home to organisms living happily in conditions that, un-

til then, had been thought inimical to life. These days, such vents are one plausible candidate for the origin of all life on Earth.

There are more practical benefits, too. Many drugs, for example, come originally from biological compounds. An ocean full of uncatalogued life will almost certainly prove a rich seam from which to mine more. One type of marine snail, *Conus magus*, was recently discovered to produce a painkilling compound 1,000 times more potent than morphine.

To help make use of its data, Ocean Census plans to make it freely available to scientists and the public, who will be able to scour it for anything useful or surprising. The point of exploration, after all, is that you never know what you might find. ■

Archaeological entomology

Tides of filth

Shipwrecked insects offer insight into life aboard ship in the 17th century

A GREAT DEAL of romance attaches these days to the “Age of Sail”, the period between the 15th and 19th centuries when wooden sailing ships reached their technological apogee. Historians, however, have a less rosy view. The journals and logs that have survived from the era do not paint an especially pretty picture of conditions aboard.

A new paper offers insight from an unexpected source. Written by Eva Panagiotakopulu, an entomologist at the University of Edinburgh, and Ana Catrina Garcia, an archaeologist at Nova University in Lisbon, and published in *Biological Invasions*, the paper examines two shipwrecks off the Azores, both of which date to about 1650. The first, known as Angra C, is thought to be a Dutch ship;

the second, Angra D, was Spanish.

Expeditions to both wrecks have recovered everything from ropes, tools and buckets to wheat grains and decking planks—as well as the remains of various species of insects. The researchers were interested in how sailing ships ferried invasive species from one continent to another. But their findings also shed light on the unpleasant realities of life at sea in the 17th century.

Among the preserved insect parts were wings from the American cockroach, *Periplaneta americana*. (Despite its name, it is not originally from America.) Aside from its distinct lack of charisma, this species lives off waste and spreads serious diseases including salmonella. More than 30 individual flies from a species called *Dohrniphora cornuta* were also identified. It is often found living in rotten food, and is also fond of sewage.

Piophila casei is another fly known as the “cheese skipper”. It lays its eggs on cheeses, dried meats and smoked fish. It also has an appetite for rotting human flesh, and gets its name because its larvae readily “skip” from corpses to food. The researchers also dug up the remains of *Teichomyza fusca*, widely known as the “urine fly” because its larvae thrive in urine-soaked wood.

One ocean-goer’s journal from the 1600s notes that “Most people did not take the trouble to go above to relieve themselves.” Whether this was really common practice has been debated. Drs Garcia and Panagiotakopulu’s stomach-turning findings suggest it was. But that is a detail likely to be left out of the next “Pirates of the Caribbean” film.





Europe's heart and history

The emperor's new abode

MACERATA

Might Charlemagne's capital, long placed in Germany, have actually been in Italy?

AN AIR OF mystery surrounds the off-white dome, framed by slender cylindrical towers, rising from the alluvial soil that sweeps from the Chienti valley to the Adriatic. Guidebooks describe the church of San Claudio as a Romanesque abbey of the 11th century. Yet many people in and around the nearby town of Macerata—local councillors, journalists, clergy—say the building is really two centuries older. They also think it is intimately linked with Charlemagne, literally Charles the Great, often described as the “Father of Europe”.

To be precise, they believe this numinous spot was the headquarters of the conquering monarch—the place where he held court between wars, built a personal

chapel and left his earthly remains. They cheekily challenge the firm consensus which ascribes that distinction to Aachen in north-west Germany. “It is one of the many secrets of this part of the world,” says Marco Rotunno, a veteran guide to the Marche region, where the church stands.

Eccentric as this claim may sound, its

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ramifications are far from trivial. Over the centuries, Charlemagne has been enlisted as a figurehead of rival nations and ideologies. In the modern era he has become a symbol of peaceful European unity. It suited the founders of Europe's post-war institutions to showcase Aachen, a city close to the intersection of Germany, France and the Benelux lands. But what if Europe's historical heart lies south of the Alps?

Heirs and traces

Objectively as well as symbolically, Charlemagne was a pivotal figure in his continent's history. At his death in 814, he controlled what today are France, Germany, the Low Countries and northern Italy; he had overrun central Europe as far east as Hungary. Using Christianity, Latin and literacy as instruments of soft power, he began turning these lands into a single cultural and commercial realm. On Christmas Day in the year 800, he was crowned as emperor (a sovereign of many peoples, not just one) by the pope. The ceremony in Rome was a spectacular challenge to the worldly and spiritual masters of Constantinople, until then the strongest claimants to the mantle of ancient Rome, and to the leadership of Christendom.

Nobody—not even the iconoclastic Italians—doubts Aachen's subsequent role as capital of the Holy Roman Empire, the polity Charlemagne founded. Its status was flamboyantly affirmed by another roving warrior-monarch, Frederick Barbarossa, in the mid-12th century. He established the cult of Charlemagne as a saint, whose body, in a gilt coffin, attracted awestruck pilgrims. The question, say the Italians, is what went before. The texts in Latin that relate Charlemagne's life identify his HQ as “Aquisgrana”: a reference to Aachen, conventional wisdom holds.

Not so, insisted Giovanni Carnevale, a learned and charismatic Italian priest who spent the last four decades of his long life (he died in 2021 at 96) developing an alternative theory. Drawing on Latin, French and German sources, as well as oral history and archaeology, he found scores of reasons for his claim that San Claudio was the first Aquisgrana—before the place-name, along with Charlemagne's body and other artefacts, was moved north by Barbarossa.

The accounts in Latin present Aquisgrana as a place prone to earth tremors, where vines and olive trees were cultivated and you could go hunting by the sea. All these details fit San Claudio. A couple of other medieval churches were described by their founders as copies of “Charlemagne's chapel”, one in the English town of Hereford, another in France near Orléans. They uncannily resemble San Claudio and bear no likeness to the octagonal chapel in Aachen.

The history buffs of the Marche are not ➤

► the first to covet the legacy of Charlemagne. Various cities purport to be his birthplace. He was claimed by both sides in Franco-German contests that lasted for nearly a millennium. From the 11th century onwards, Norman-French poetry and song hymned the emperor as a Gallic hero and linked him to the cult of St Denis, the centre of which was Paris. He was invoked by French Crusaders as an anti-Muslim warrior (in truth he intervened in the internal feuds of Islamic Spain, but made no general attack on Islam).

The Holy Roman Empire, meanwhile, was mainly a Teutonic phenomenon, and a focus of early German patriotism. Napoleon Bonaparte finally scotched that empire in 1806, while appropriating the mantle of Charlemagne for himself. But when a united Germany was proclaimed in 1871, its leaders were also fascinated by the earlier emperor. In 1915 Kaiser Wilhelm II made a copy of a magnificent imperial crown mistakenly associated with Charlemagne and placed it in Aachen. In 1938 Adolf Hitler ceremonially brought the original crown from Vienna to Nuremberg, a royal stronghold in medieval times. American soldiers returned it to Vienna in 1946.

Even today, Charlemagne's ghost hovers in unlikely places. The clergy and courtiers who have choreographed the coronation of King Charles III, in Westminster Abbey on May 6th, were obliged to mug up on the rites used by England's medieval kings, for which Charlemagne's elevation in Rome was a prototype. Indeed, it is mainly thanks to the warrior-monarch that Charles was established as a royal name: in many European tongues, the word for king derives from Charles.

You might conclude that the facts of Charlemagne's life are so vague, and so contested, that any claim on him is fair game. Certainly not, says Philip Daileader, a historian at the College of William & Mary in Virginia. Although his motives remain an enigma, Charlemagne's basic biography is better established now than at any time since the ninth century, the professor says. Florian Hartmann of Aachen University finds the Italian theory bizarre and unconvincing. In his view it relies too much on texts written for propaganda purposes. Charlemagne's own decrees are a better source, Professor Hartmann reckons—and they put him in Germany.

Back at San Claudio, enthusiasts are unbowed. They too have been mulling Charlemagne's coronation in Rome in 800 and his subsequent movements. A Latin text has him in Aquisgrana in March 801 and in the Italian town of Spoleto in April. "Is it really possible that he dashed over the Alps to Germany and then hastened back to Italy, all in a matter of weeks?" asks Mr Rotunno, the guide, with a smile. "But if his capital was really here..." ■

Commercialising space

Reach for the stars

When the Heavens Went on Sale.

By Ashlee Vance. Ecco; 528 pages; \$35. WH Allen; £25

KWAJALEIN ATOLL is as close to the mid-dle of nowhere as you can get. Some 3,000km (1,900 miles) from Papua New Guinea, and almost 4,000km from Honolulu, this tiny speck of land in the middle of the Pacific Ocean became, on September 28th 2008, the unlikely site of an improbable revolution.

After three failed attempts, SpaceX, a company set up by a comparatively obscure dotcom millionaire called Elon Musk, at last got one of its Falcon-1 rockets into orbit. It thus helped prove that a private firm run on a relative shoestring could do something which had, hitherto, been the preserve of a handful of nation-states and giant aerospace firms. A decade and a half later, the plucky insurgent has become the incumbent. SpaceX flies more rockets, and carries more satellites, than every other spacefaring entity combined.

But SpaceX serves only to set the stage for the story told in Ashlee Vance's new book. Mr Vance—who published a well-received biography of Mr Musk in 2015—is more interested in the group of swash-

buckling startups that have tried to follow in SpaceX's contrails. After spending months hanging around offices and launch-pads, talking to engineers and bosses, he profiles four other space hopefuls in "When the Heavens Went on Sale". They are Planet Labs, which makes imaging satellites, and Astra, Firefly and Rocket Lab, all of which make rockets.

Two of them have been strikingly successful. Planet Labs helped pioneer the idea that lots of cheap mass-produced satellites could accomplish far more than a few fancy expensive ones. The firm makes what are, in effect, private-sector surveillance satellites, photographing the entire planet and giving everyone from hedge funds to journalists the kind of imagery that not even governments had two decades ago. All this was done by an outfit that began life in a garage. Planet Labs' first "clean room", designed to protect a satellite's sensitive optics from dust, was a garden greenhouse bought on the internet.

Rocket Lab is another success story. Founded in New Zealand—not a country known for its space industry—it very nearly pulled off a feat that no other rocket-maker had ever managed: getting a rocket into orbit on the first try. (Bumbling external safety officials got in the way.) Like SpaceX, the firm has a "fail fast" strategy, trying things quickly, learning from the inevitable explosions, then trying again soon.

The book is an illuminating romp through an industry marinated in the signature mix of starry idealism and ruthless capitalism brewed in Silicon Valley in the second half of the 20th century. But it is more than a paean to this spit-and-sawdust, fake-it-till-you-make-it style of business. Astra's experience is a cautionary tale of the risks and stress of applying that sort of bravado to something as unforgiving as rocket science. The firm went public in 2021 and offers flights to paying customers. But its machines have a disappointingly spotty record.

And unlike their counterparts in the early days of Silicon Valley, the rocket jockeys must always keep half an eye on politics. After the first iteration of the firm went bust, Firefly was bailed out by Max Polyakov, a Ukrainian businessman and space enthusiast who made his money in internet dating. But soon Mr Polyakov was in effect forced out of the company by America's government, after unsubstantiated allegations (denied by him) that he might be passing information to Russia.

Readers hoping for a technical treatise on rocket science should look elsewhere. But for an insight into the people and culture driving the new space age, Mr Vance's book is the place to start. After the wonder of the Moon landings, space somehow contrived to become boring. These days it is exciting again. ■



Blast-off for SpaceX & co



World in a dish

Finders, keepers

SOMEWHERE WITHIN 180 MILES OF MANHATTAN

A hunt for ramps exemplifies the pleasures of foraging for dinner

THE SKY looked like the top half of a landscape painting by J.M.W. Turner—cerulean, cloud-dappled and shifting in a light wind. The first pale blossoms were just emerging on the otherwise bare branches of trees; hordes of mayflies flew kamikaze missions into eyes and mouths, delirious after months of winter. For some discerning humans, the real attraction of the spring's first warm weekend in the American north-east lay not in the air above them, but on the ground: pairs or trios of slim, elegantly tapered dark green oval leaves that sprang up from forest floors all over the eastern United States.

These are ramps, a type of wild allium that tastes like a cross between garlic and spring onions, with a sharp, peppery edge (much like wild garlic in Europe). The search for them is not as competitive as the pursuit of truffles can be, but no self-respecting forager will reveal the site of a prized patch. Your correspondent's is within a four-hour drive of Manhattan, and even typing that much makes him uneasy.

As with other foraged, hunted or fished foods, only part of the reward of ramps lies in their consumption. That said, the consumption is delicious. Blanching the leaves, pounding them with garlic, almonds and a sprinkling of pecorino, then whisking the paste with olive oil and a bit of salt, yields a wonderfully gutsy pesto. Tossed, when raw, with a hot oil-dressed pasta, the leaves wilt slightly, giving a lovely crunch and perfume to a simple, more-than-the-sum-of-its-parts dish. Ramps go beautifully with asparagus, peas and other

early-spring vegetables. The bulbs can be pickled but are best left alone. Snipping off just the leaves ensures they will sprout again next year; digging up the bulb kills the plant.

Ramps are a tricky and elusive crop. They can be grown in gardens, but they are finicky about soil moisture and can take up to a decade to reach maturity. That makes cultivating them commercially risky. And their season is short, lasting just a few weeks: by May, they have either withered or been eaten by insects. In the woods, they appear at roughly the same time as morels (likewise a forager's treasure and a harbinger of spring). Finding both requires patience, alertness and a bit of good luck. First-timers should be prepared to return home empty-handed.

But so what? The joy of foraging, like the satisfaction of recreational fishing, lies not just in the haul, but in the thoughtful, focused peace of the search. By walking slowly and scanning the forest floor, foragers will come to see even the most familiar woods anew. Finding ramps means ruling out all the other springtime shoots that resemble them. Ruling out those shoots means noticing them, which means paying attention.

The upshot is that you cannot forage quickly, still less while looking at a mobile-phone screen. In this way ramps are a slow food; but, because their season is a brief verdant interlude between the shivers of winter and the sweltering summer, they are also a fast one. They are a reminder to enjoy fleeting pleasures while you can. ■

A history of watches

Pocket rockets

Hands of Time. By Rebecca Struthers. Hodder & Stoughton; 288 pages; £22. To be published in America by Harper in June; \$35

UNDER FIRE over his pension reforms, in March President Emmanuel Macron incurred more French ire by surreptitiously slipping off a luxury watch midway through a television interview. More than two centuries ago, another watch embodied France's power struggles. An anonymous admirer of Marie Antoinette commissioned Breguet, the royal watchmaker, to make her a timepiece on a limitless budget, an object seen as emblematic of the *ancien régime*'s excesses. Breguet narrowly escaped the guillotine during the Terror, and laboured on the watch for the rest of his life. His workshop finished it four years after he died—and 34 years after its intended owner had lost her head.

The fate of Marie Antoinette's watch is one of many gripping tales in Rebecca Struthers's "Hands of Time". A British historian and watchmaker, she chronicles the development of timekeeping devices from ancient Egyptian water clocks to the Apple Watch. Denis Diderot's 18th-century encyclopedia stated that mastery of horology required "the theory of science, the skill of handwork and the talent for design". "Hands of Time" is duly a story of both innovation and aesthetics. Its engaging pages are peopled with engineers and artisans, as well as the kings, revolutionaries, fraudsters and explorers who helped shape the watch's history.

Its central argument is that the changing nature of the watch has "reflected and developed our relationship with time". In the medieval era, and for a while afterwards, clocks were found almost solely on church towers. Time was public, not private, and delivered from on high. As watches developed, portable timekeeping was initially a privilege of the wealthy. Ever more elaborate designs were the ultimate status signifiers. In his diary of 1665, Samuel Pepys described his new watch with childlike glee: "I cannot forbear carrying my watch in my hand...and seeing what o'clock it is one hundred times."

Having access to time meant being able to control it for other people, a power exploited by the 19th-century industrialists who extended working days beyond allocated hours. Yet technological developments—and forgeries—made watchmaking cheaper, so "democratising time". ►

Back Story The show must go on



What happens when a story loses a main character? Beware: spoilers

LIKE ELVIS, he conked out, bathetically, in a bathroom, only in Logan Roy's case it was on a private plane, en route to haggle with a Swedish billionaire over the sale of his media conglomerate, Waystar Royco. He uttered no last-gasp curse, committed no climactic act of tyranny or deceit. He was just gone.

For three and a bit seasons of scatological insults and sociopathy, backstabbing and joyless luxury, Logan (played by Brian Cox) was the dragon around whom the viperous cast of "Succession" slithered. Then Jesse Armstrong, its creator, bumped him off with seven episodes of the final series to go. Killing a kingpin early in this way is a risky narrative move, but sometimes, if storytellers pull it off, a profound one.

Risky, because of an implicit contract with the audience or reader: that their investment in a main character will earn a return in longevity. Offing them too quickly can feel like a betrayal—even if, like Logan's, their demise is anticipated in the show's title. It can tilt the entire proposition of a story, if rarely as drastically as in "Psycho", which morphed from a heist film to a slasher movie when Alfred Hitchcock sent Janet Leigh to have a shower halfway through.

Terminating a lead is a marketing headache. If they paid to see Drew Barrymore, audiences of "Scream" may have felt short-changed when, though purportedly one of its stars, she was disembowelled after 12 minutes. Mostly stars are too expensive, and too demanding, to be jettisoned early. Perhaps above all, fielding a "false protagonist", as the trope is sometimes known, is an artistic challenge. A truism of creative writing holds that even minor characters should have their own untold stories. Kill the protagonist and you have to tell them.

Nevertheless, it is a challenge that some of the best writers and showrunners take up. Sean Bean's character was too noble for Westeros and lost his head before the end of the first season of "Game of Thrones". "Homeland" hanged Brody (Damian Lewis), one of its heroes, grimly from a crane in Iran, disenchanted fans who expected an 11th-hour rescue.

For his part, Stringer Bell (Idris Elba), the suavest figure in "The Wire", bit the dust with just over two seasons to run, midway through his transformation from gangster to businessman and in the middle of a word: "Well get on with it, motherf..." It is part of that show's illusionless genius that his killer, Omar (Michael K. Williams), another mainstay, met a brutally random end himself, shot by a child as he bought cigarettes. At the start of act five of "Macbeth", Shakespeare makes Lady Macbeth wander offstage madly, never to return. "She should have died hereafter," says her miffed husband.

The value of these premature deaths lies not only in shock—maximised when a gremlin burst out of John Hurt's chest not



long into "Alien". By confounding expectations, they make it clear that the conventional shape of a story, with its finely wrought acts and arcs, does not match the shape of a life. Real lives are precarious and messy; they tend not to end neatly or on an elegant schedule. Logan snuffs it on the day of his eldest son's wedding (he wasn't going anyway).

Death, in other words, is even more of a spoiler than this column. And when a principal character dies and a story continues, the aftermath mimics bereavement in another way. Audiences, like mourners, must figure out what to do with their suddenly surplus affections. Just as an actual death revises relations among the living, a fictional one shakes up the relationships between viewers and characters, as well as among the characters themselves.

Logan's children worry about whether he could hear the words they spluttered through the phone pressed to his ear, about everything left unsaid and how well they ever knew him. They sense the day is momentous, and that they should act with an eye to posterity (the other eye is on Waystar Royco's share price). Their personalities concertina: they are at once adults and quailing children, torn between guessing what Logan would have wanted and realising that "dad maps" can no longer guide them.

Then it is time for the Roy offspring to become the heroes of their stories. With their oily consigliere, they get back to insulting, blackmailing and plotting against each other. They make jokes about their dead father having phone sex and bargain with his estranged wife over his apartment. What happens to them is what happens in real life, even when, amid grief's ambushes, it seems as if it mustn't and can't. It goes on.

► By the turn of the 20th century you could buy a watch for a dollar. Timekeeping was at last within reach of ordinary folk.

The story of watches is closely intertwined with major historical events. Switzerland can partly thank fleeing French Huguenots for its watch industry. Enhancements to maritime watches enabled longitude to be measured accurately, saving countless lives at sea. But such advances in navigation were also a boon to the transatlantic slave trade and empire-builders. Male wristwatches, rather than the pocket kind, became popular during

the first world war, when ready access to the time could be life-saving.

The developments in watch engineering that Ms Struthers describes in her expansive study will be less compelling for non-specialist readers than for aficionados. But lively details compensate for the drier moments. Watchmakers of yore sometimes found an extra use for their dexterity by offering dentistry as a sideline. The world's oldest known watch was sold for £10 (\$16) at a flea market in London in the 1980s; it turned out to be worth tens of millions of pounds. In exploring the

author's own watchmaking work, the book offers a glimpse of the craft through the eyes of a master. It is an ode to a traditional and (in Britain) dwindling industry.

Skilfully moving between the minuscule world of watchmaking and the sweep of history, "Hands of Time" is an enlightening study of "the closest relationship we had with a machine" before the advent of mobile phones. It charts humanity's shifting relationship with time, while showing that watches have always connoted more than time-telling—as President Macron's faux pas proved. ■



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Tender for the Designing, Planning, Constructing,
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TENDER NUMBER
10/2023

RECEIPT OF TENDER DOCUMENTS:

The Tender documents may be perused and downloaded via the Ministry of Tourism's website at: go.gov.il/TenderIsraelPavilion



DATE OF SUPPLIERS ZOOM CONFERENCE:

10/5/2023 at 14:00 Israel Time (GMT+3). You may find the link to conference on our website via the link mentioned above.

CLARIFICATIONS: Apply to Mr. Ami Allon, Head of Marketing Services Department, via email: amia@goisrael.gov.il, no later than 16/5/2023 at 12PM Israel Time (GMT+3). Reply to the questions for clarifications will be published via the Ministry of Tourism's website as mentioned above.

DATE AND PLACE FOR SUBMITTING PROPOSALS: 29/5/2023 at 14:00 Israel Time (GMT+3), via email: intfairs_tender@goisrael.gov.il

TERMS OF AGREEMENT: The Contract Period will be for one year from the Ministry's signing of the contractual agreement. Tender Committee reserves the option to extend the Contract Period for a period or periods of up to five additional years.

The Bidder will attach all documents required by this Tender, as well as any document that supports the Bidder's compliance with the threshold requirements and in his capacity to perform the service that is the subject of this Request.

Economic data

	Gross domestic product			Consumer prices		Unemployment rate	Current-account balance	Budget balance	Interest rates		Currency units		
	% change on year ago latest	quarter*	2023†	% change on year ago latest	2023†	%	% of GDP, 2023†	% of GDP, 2023†	10-yr gov't bonds latest,%	change on year ago, bp	per \$ May 2nd	% change on year ago	
United States	1.6	Q1	1.1	0.7	5.0	Mar	4.2	3.5	Mar	-3.1	-5.2	3.4	41.0
China	4.5	Q1	9.1	5.7	0.7	Mar	1.7	5.3	Mar‡§	1.7	-2.9	2.6	6.93
Japan	0.4	Q4	0.1	1.1	3.3	Mar	2.2	2.8	Mar	3.2	-5.8	nil	136
Britain	0.6	Q4	0.5	-0.2	10.1	Mar	6.0	3.8	Jan††	-2.9	-5.4	3.7	185
Canada	2.1	Q4	nil	0.7	4.3	Mar	3.3	5.0	Mar	-1.0	-1.5	2.8	-20.0
Euro area	1.3	Q1	0.3	0.8	7.0	Apr	5.8	6.5	Mar	1.1	-3.6	2.3	129
Austria	2.6	Q4	-0.1‡	1.0	9.8	Apr	6.9	4.5	Mar	1.4	-2.8	2.9	143
Belgium	1.3	Q1	1.6	0.5	5.6	Apr	5.4	5.9	Mar	-1.8	-4.9	2.9	141
France	0.8	Q1	0.7	0.5	5.9	Apr	5.5	6.9	Mar	-1.9	-5.3	2.9	149
Germany	-0.1	Q1	0.2	-0.1	7.2	Apr	6.2	2.8	Mar	3.5	-2.1	2.3	129
Greece	4.5	Q4	5.6	2.0	4.6	Mar	3.9	10.9	Mar	-8.0	-2.3	4.1	71.0
Italy	1.8	Q1	2.0	0.8	8.3	Apr	6.8	7.8	Mar	-0.6	-5.0	4.1	124
Netherlands	3.2	Q4	2.6	1.2	5.2	Apr	4.8	3.5	Mar	6.9	-2.7	2.6	137
Spain	3.8	Q1	1.9	1.4	4.1	Apr	4.3	12.8	Mar	0.3	-4.7	3.4	149
Czech Republic	0.1	Q4	0.4	-0.2	15.0	Mar	11.4	2.5	Mar‡	-1.7	-4.8	4.6	25.0
Denmark	1.9	Q4	2.3	0.8	6.7	Mar	5.0	2.8	Mar	9.0	0.5	2.5	122
Norway	1.3	Q4	0.8	1.4	6.5	Mar	4.6	3.7	Feb††	20.0	11.4	1.4	76.0
Poland	0.8	Q4	9.3	0.9	14.7	Apr	13.1	5.4	Mar§	-1.3	-4.0	5.8	-61.0
Russia	-2.7	Q4	na	-2.2	3.5	Mar	7.3	3.5	Mar§	6.0	-4.4	10.9	60.0
Sweden	0.3	Q1	0.8	-0.6	10.6	Mar	6.1	7.7	Mar§	3.9	-0.3	2.3	55.0
Switzerland	0.8	Q4	0.1	0.9	2.9	Mar	2.6	1.9	Mar	7.6	-0.7	1.0	14.0
Turkey	3.5	Q4	3.8	2.8	43.7	Apr	42.2	10.7	Feb§	-4.5	-4.2	12.5	-776
Australia	2.7	Q4	1.9	1.6	7.0	Q1	4.6	3.5	Mar	1.7	-2.3	3.4	1.0
Hong Kong	-4.2	Q4	nil	3.4	1.6	Mar	2.4	3.1	Mar††	3.5	-1.4	3.1	28.0
India	4.4	Q4	-3.4	6.1	5.7	Mar	5.6	7.8	Mar	-1.4	-5.7	7.0	-11.0
Indonesia	5.0	Q4	na	4.5	4.3	Apr	4.0	5.9	Q3§	0.7	-2.6	6.5	-47.0
Malaysia	7.0	Q4	na	3.5	3.4	Mar	2.3	3.5	Feb§	2.7	-5.2	3.9	-53.0
Pakistan	6.2	2022**	na	1.5	36.4	Apr	30.3	6.3	2021	-2.9	-5.6	15.1	†††
Philippines	7.1	Q4	10.0	4.8	7.6	Mar	5.7	4.8	Q1§	-3.3	-6.4	6.1	15.0
Singapore	0.1	Q1	-2.7	1.7	5.5	Mar	5.2	1.8	Q1	18.3	-0.1	2.7	19.0
South Korea	0.9	Q1	1.1	1.5	3.7	Apr	2.8	2.9	Mar§	2.6	-2.1	3.3	-8.0
Taiwan	-3.0	Q1	-6.4	1.6	2.4	Mar	1.9	3.6	Mar	11.9	-2.2	1.2	13.0
Thailand	1.4	Q4	-5.9	3.8	2.7	Apr	2.5	1.0	Mar§	2.1	-2.7	2.6	-42.0
Argentina	1.9	Q4	-6.0	-3.6	104	Mar	106.5	6.3	Q4§	-2.4	-4.6	na	225
Brazil	1.9	Q4	-0.9	1.5	4.7	Mar	5.3	8.8	Mar§‡‡	-2.7	-7.6	12.2	-17.0
Chile	-2.3	Q4	0.2	0.3	11.1	Mar	8.1	8.8	Mar§‡‡	-4.9	-2.5	5.5	-126
Colombia	2.9	Q4	2.7	1.6	13.3	Mar	11.9	10.0	Mar§	-4.7	-4.4	11.7	134
Mexico	3.9	Q1	4.5	1.4	6.8	Mar	5.9	2.8	Feb	-1.0	-3.7	8.8	-36.0
Peru	1.7	Q4	-6.0	1.8	8.0	Apr	6.5	6.7	Mar§	-3.6	-1.6	7.5	-31.0
Egypt	3.9	Q4	na	3.0	32.6	Mar	25.0	7.2	Q4§	-3.0	-6.9	na	30.9
Israel	2.7	Q4	5.3	2.9	5.0	Mar	3.8	3.9	Feb	3.9	-2.0	3.7	132
Saudi Arabia	8.7	2022	na	2.8	2.7	Mar	2.2	4.8	Q4	6.6	1.4	na	3.75
South Africa	0.9	Q4	-4.9	0.5	7.3	Mar	5.2	32.7	Q4§	-2.1	-4.7	10.1	21.0

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

Markets

In local currency	Index May 3rd	% change on:			index May 3rd	one week	Dec 30th 2022	% change on:			index May 3rd	one week	Dec 30th 2022
		one week	Dec 30th 2022	Dec 30th 2022				one week	Dec 30th 2022	month			
United States S&P 500	4,090.8	0.9	6.5		Pakistan KSE	42,087.9	2.4	4.1					
United States NAScomp	12,025.3	1.4	14.9		Singapore STI	3,262.0	-1.0	0.3					
China Shanghai Comp	3,323.3	1.8	7.6		South Korea KOSPI	2,501.4	0.7	11.8					
China Shenzhen Comp	2,056.0	1.5	4.1		Taiwan TWI	15,553.4	1.2	10.0					
Japan Nikkei 225	29,158.0	2.6	11.7		Thailand SET	1,533.3	-0.7	-8.1					
Japan Topix	2,075.5	2.6	9.7		Argentina MERV	288,007.9	-5.5	42.5					
Britain FTSE 100	7,788.4	-0.8	4.5		Brazil BVSP*	101,797.1	-0.5	-7.2					
Canada S&P TSX	20,354.7	-0.1	5.0		Mexico IPC	54,947.0	1.7	13.4					
Euro area EURO STOXX 50	4,310.2	-0.9	13.6		Egypt EGX 30	17,295.3	-0.9	18.5					
France CAC 40	7,403.8	-0.8	14.4		Israel TA-125	1,792.1	3.7	-0.5					
Germany DAX*	15,815.1	0.1	13.6		Saudi Arabia Tadawul	11,073.2	-2.1	5.0					
Italy FTSE/MIB	26,835.3	-1.0	13.2		South Africa JSE AS	78,218.6	0.1	7.1					
Netherlands AEX	744.2	-0.7	8.0		World, dev'd MSCI	2,796.3	0.6	7.4					
Spain IBEX 35	9,076.7	-2.3	10.3		Emerging markets MSCI	969.6	0.2	1.4					
Poland WIG	62,839.6	1.4	9.4		US corporate bonds, spread over Treasuries								
Russia RTS, \$ terms	1,008.5	-0.3	3.9										
Switzerland SMI	11,506.2	1.2	7.2										
Turkey BIST	4,486.0	-6.2	-18.6										
Australia All Ord.	7,389.0	-1.5	2.3										
Hong Kong Hang Seng	19,699.2	-0.3	-0.4										
India BSE	61,193.3	1.5	0.6										
Indonesia IDX	6,812.7	-1.4	-0.6										
Malaysia KLSE	1,426.0	0.8	-4.6										

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

Commodities

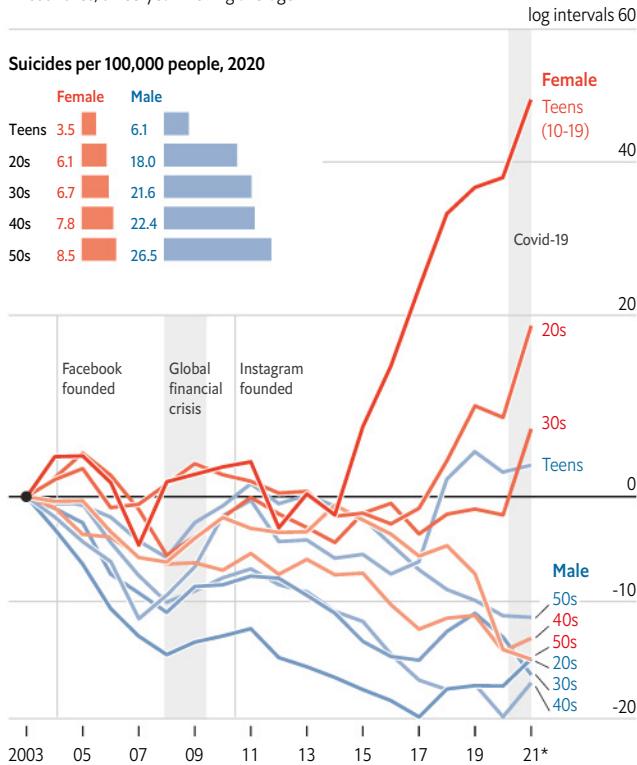
The Economist commodity-price index	2015=100	Apr 25th	May 2nd*	% change on
Dollar Index	All items	148.2	147.2	-5.8
Food		139.3	137.9	-2.5
Industrials	All	156.5	155.9	-8.4
Non-food agriculturals		113.8	109.2	-42.6
Metals		169.1	169.7	-7.8
Sterling Index	All items	182.4	180.3	-5.4
Euro Index	All items	149.7	148.7	-5.9
Gold	\$ per oz	1,987.5	2,012.5	-0.5
Brent	\$ per barrel	80.8	75.4	-11.3
				-28.3

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

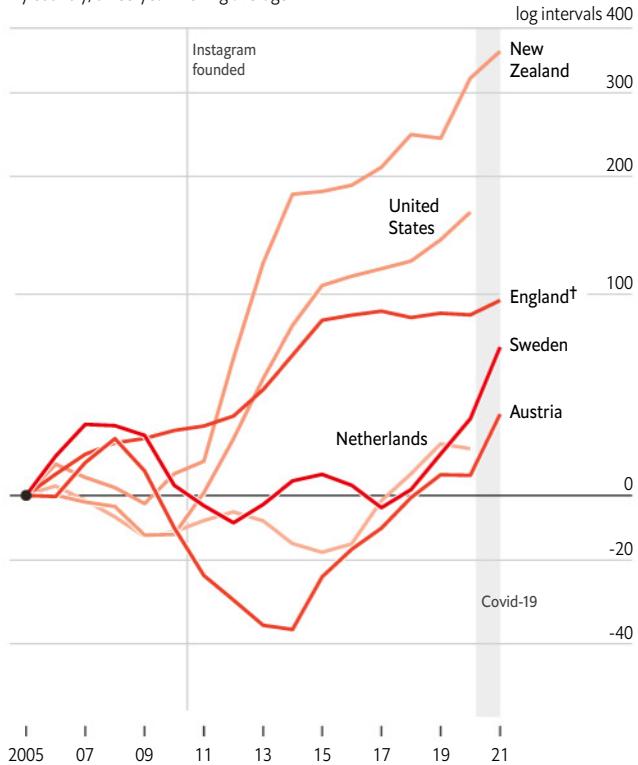
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→ Teenage girls' suicide rate is catching up to boys', and their self-harm rate is rising. The timing varies by country

Suicide rate, % change since 2003, by age and sex
17 countries, three-year moving average



Self-harm hospitalisation rate, % change since 2005, females aged 10-14
By country, three-year moving average



*Data unavailable for five countries

†10- to 19-year-olds Sources: National statistics; UN; The Economist

The jury is still out

Girls' mental health is getting worse. Proving a link to smartphones is hard

IN 2017 JEAN TWENGE, a professor at San Diego State, wrote an essay entitled "Have smartphones destroyed a generation?" Her answer, "yes", was provocative at the time. Now, it is a common refrain.

Spurred by recent data showing a rise in depression among American teenagers, both the British and American press have barraged readers with stories about social media ravaging young peoples' mental health. Jonathan Haidt of New York University has compared social media to waterboarding. The public has noticed: in a recent survey, 53% of Americans said that social media were mostly or fully responsible for increasing teenagers' depression.

Smartphones went global long ago. If they are causing an epidemic of sadness, evidence should appear around the world. Data support the claim that young people, particularly girls, have deteriorating mental health. But they leave room for doubt that mobiles are the main culprit.

Mental health is hard to measure. Ques-

tionnaires are affected by survey design and psychological diagnoses vary between countries and over time. Instead, we focused on suicides and hospitalisations for self-harm among 17 countries.

Both indicators look worrying for girls. Suicide rates have been falling overall, but girls—who kill themselves less often than other groups—are an exception. Among girls aged 10-19, suicide rates rose from an average of 3.0 per 100,000 people in 2003 to 3.5 per 100,000 in 2020. The rate among boys, although higher at 6.1 per 100,000 population, has barely changed.

Girls engage in more non-fatal self-harm, like cutting, than boys do. This measure shows even steeper increases. For teenage girls, rates of hospitalisation for self-harm have climbed since 2010 in all 11 countries with available data, by an average of 143%. Boys' average rise was 49%.

Are smartphones to blame? In America and Britain, rates of suicide and self-reported sadness were steady until roughly 2010, when Instagram launched, and then took off. Although these simultaneous increases do not prove that one trend caused the other, such a correlation would probably arise if phones really were at fault.

Elsewhere, however, the evidence is mixed. Some countries, like Sweden, saw sharp rises in hospitalisations for self-harm in 2006, with a plateau in 2010-18. In

others, such as Italy, this rate was flat until covid-19 arrived. A few countries had no rises at all. Suicides varied similarly.

Because smartphones were adopted at different rates in different countries, the timing of any increases they caused in suicides or self-harm should vary on this basis. Mr Haidt says that smartphones are especially risky for girls, because boys spend more time on video games and less on depression-inducing social media. However, we could not find any statistical link between changes over time in the prevalence of either mobile-internet subscriptions or self-reported social-media use in a country, and changes over time in that country's suicide or self-harm-hospitalisation rates, for either boys or girls. After adjusting for the impact of covid, which raised these rates globally, this was true for all age groups, and for a range of time lags.

Absence of evidence is not evidence of absence. Numerous studies using randomised or natural experiments have implied that social media can cause sadness or anxiety in teenagers. And smartphones could still inflict grave damage without driving people to hurt or kill themselves. But if social media were the sole or main cause of rising levels of suicide or self-harm—rather than just one part of a complex problem—country-level data would probably show signs of their effect. ■



A whistle in the dark

Carolyn Bryant, whose accusation of Emmett Till ignited the civil-rights movement, died on April 25th, aged 88

LEAST SAID, soonest mended. So Carolyn Bryant initially decided when, she claimed, a black teenager was rude to her in her general store in Money, Mississippi. It was August 24th 1955, around 8pm, a slow night, hot, with locusts buzzing and her sister-in-law Juanita cooking dinner and baby-sitting in the back. A few of the boy's cousins, locals, had come in before him; they knew the necessary "Yes Ma'am", "No, Ma'am" and never to crowd a white customer. This black boy, though, had a northern brogue. Allegedly he touched her hand as she served him and made remarks, including "Bye, Baby!" as his friends quickly pulled him out. Then he whistled at her. This astonished her, and naturally she went to get the pistol from the car, but they'd all gone. It lasted only a couple of minutes, and she and Juanita thought it was not worth mentioning to their husbands. They would only take it badly.

It was flattering of course to be considered pretty, as she knew she was. She had won the high-school beauty-queen pageant not once, but twice. But to be thought pretty by a black man was a complete no-no. That very notion made any white Mississippi male madder than anything. Her Roy was an ex-soldier, and his fuse was short. She had to elope at 16 because, in the family's thinking, he was a bad boy, but she'd always gone for that kind. He was rough and drank too much, but by 1955 she had two precious sons with him, so she was happy. They were together for 20 years more before at last she divorced him.

They lived, all four of them, in two small rooms behind the store. Bryant's Grocery and Meat Market was one of only three businesses in Money, not counting the gas station and the cotton gin. Most of the tiny population were black sharecroppers and field workers whose shacks lay along the farm roads. Almost all the goods were sold on credit. A line of heavy farm-workers' gloves was strung across the plate-glass windows, and round a board on the porch her customers liked to play chequers with bottle-caps.

She felt she got on with black people. Of course she and Roy in no way socialised with them. She had grown up on a plantation near Cruger where her father managed the workers with brisk efficiency. They had a hired help, Annie, whose warm hugs could take all pain away, but naturally Annie did not go with them on family outings. Occasionally she played with black children, and even ate their green mush and cornbread with her fingers, like them. Black church services sounded fun, with all that stomping and those Praise the Lords. But she would never dream of setting foot in one. Whites like her went to the Methodists.

When it came to the "insulting" black boy, however, the matter could not be kept quiet for long. Roy and his half-brother, J.W. Milam, found out where he was staying, with his great-uncle Mose Wright, and abducted him at gunpoint in the small hours. His name was Emmett Till, visiting from Chicago where the rules were different. He was taken to Milam's tool house, beaten and pistol-whipped, then shot through the head, with his body dumped in the Tallahatchie river. He was found some days later, bloated, decomposing, and with a 75lb cotton-gin fan fastened with barbed wire round his neck. His mother insisted that the horror was photographed for America and the world to see. From that picture, in large part, the civil-rights movement sprang.

What part did Carolyn play in all this? Perhaps the obvious one of telling Roy, but not necessarily. Several witnesses at the murder trial said she went along to Mose Wright's cabin that night to identify the boy; they heard a woman's voice in the car. It wasn't hers, she said. In fact, according to her, when they brought the boy to the store she said he was not the right one, and begged Roy and J.W. to "take him back where you got him". Roy said he would, but he lied to her. Nothing Emmett Till had done, she said, could possibly justify what followed. A boyfriend had once shown her a "hanging tree", with the old frayed rope half-swallowed by new bark. She thought it looked great for climbing. Only after that did she imagine that the tree was trying to hide the shame of its past.

Her role in the murder trial, which drew global attention, was equally confused. She felt bad about the killing, but she was now kept more or less in purdah by Roy's family and his defence team. In this cocoon she revised her "memories" of that August night in the store. In her evidence on the stand, Emmett Till had not only taken her hand. He had placed his hands on her hips and said, "What's wrong, baby? Can't you take it?" He also told her, in words she wouldn't repeat, that he had been with white women before.

His friends, watching from outside, had seen none of this. But her honour had really been at risk, she insisted, so Roy had to avenge her. In court she played the part, demure in her cotton dresses as she sat with Roy and the boys in their Sunday-best starched shirts, a living tableau of white Mississippi under threat.

In about an hour both Roy and J.W. were acquitted by the all-white jury. The next year, knowing they could not be tried again, they admitted their guilt in a paid article for *Look* magazine. They were ostracised for it, and their businesses, including the store, went bankrupt, but they never recanted. Nor did she, though the case was several times reopened. In 2008 a historian, Tim Tyson, interviewed her for his book, "The Blood of Emmett Till", and said she had admitted that the sexual threats were false. She denied ever saying that. Instead, in a memoir made public in 2022, her story of the incident went on growing. Emmett Till was now tall, large, and looked in his early 20s. She was in the store alone. His grip on her hand was strong, stronger on her hips, and she struggled to shake him off. He told her he had fucked white women. She felt she might explode for fear of what he might do to her.

He had become the stock black menace, she the stock white victim. But the world had moved on. The more she purported to remember, the less could be shown to be true. Truth seemed to shrink to the one thing both she and Emmett's friends remembered: the sound of a cheeky wolf-whistle in the sweat-dripping Mississippi night. ■

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