

The Economist

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NOVEMBER 20TH–26TH 2021

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The world this week

Politics

Nov 20th 2021



Reuters

America's president, Joe Biden, [held talks](#) by video link with his Chinese counterpart, Xi Jinping. It was the closest thing to a meeting between the two men since Mr Biden took office in January. Mr Xi told Mr Biden that he was ready to "take active steps" to improve relations between China and America. Mr Biden called for co-operation "where our interests intersect", including on climate change. America's national security adviser, Jake Sullivan, said the two leaders had agreed to "look to begin to carry forward discussions on strategic stability". He appeared to mean that America and China would explore talks on nuclear-arms control.

A court in Hong Kong sentenced Ma Chun-man to nearly six years in prison for violating the territory's national-security law by chanting slogans calling for the territory's independence. Mr Ma is widely known as Captain America because he held a shield like the superhero's at protest rallies.

Russia conducted an anti-satellite missile test that blew up one of its own satellites. The debris it created forced the crew of the International Space Station to take refuge in safety capsules. Worldwide [condemnation followed](#).

At least 2,000 migrants remained trapped at the Belarus-Poland border. EU countries have managed, however, to persuade several airlines to stop ferrying people from the Middle East to Belarus, where they have been lured by the Belarusian dictator's false promise that they will be given refuge in the West.

Spooked by rising covid-19 hospitalisations, Austria introduced a lockdown for anyone over the age of 12 who has not been fully vaccinated. About 2m people are affected. Austria has one of the lowest vaccination rates in western Europe. Germany is considering new restrictions; in Saxony the unvaccinated have already been barred from non-essential shops and other locations.

After a lengthy investigation, the Manhattan district attorney's office moved to exonerate two of the men convicted of assassinating Malcolm X in 1965. The DA found that prosecutors, the FBI and the police withheld evidence that would have acquitted the two men, who were released in the 1980s (one has since died). A third man confessed to the murder and spent 45 years in prison.

An American journalist was released from jail in Myanmar on "humanitarian grounds", a few days after he had been sentenced to 11 years for unlawful association and other charges. Danny Fenster is one of the lucky ones. Dozens of Burmese journalists have been detained since the military coup in February.

November 30th was set as the date for the verdict in the closed-door trial of Aung San Suu Kyi, Myanmar's deposed leader, on a range of charges including corruption and breaking secrecy laws. The ruling junta has also laid new charges against Ms Suu Kyi of fraud in last year's general election, which her party won.

It's a families affair

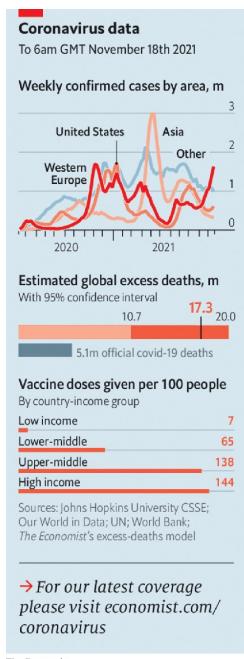
Sara Duterte, the daughter of the president of the Philippines, Rodrigo Duterte, announced her [candidacy for vice-president](#), disappointing her father who had hoped she would run to be his successor. In the election, due in May, she will be allied with Ferdinand Marcos junior, the son of a former

dictator, who is running for president (the vice-president is elected separately). The late Marcos senior was overthrown in 1986 amid huge “People Power” protests.

Saif al-Islam Qaddafi, a son of the Libyan dictator who was toppled and killed in 2011, registered as a candidate for next month’s presidential election. He is wanted on charges of war crimes by the International Criminal Court.

A government panel found that the Nigerian army shot dead at least 11 peaceful protesters in Lagos last year. The victims were taking part in a rally against police brutality. The finding contradicts the government’s claim that no massacre occurred.

At least 53 people were killed when jihadists attacked a security post in Burkina Faso. On the other side of Africa four people were killed and many more wounded by two [suicide-bombings](#) in Kampala, the capital of Uganda; an affiliate of Islamic State claimed responsibility for that attack.



Cuba’s government arrested and threatened dissidents ahead of a planned nationwide “civic march for change” in the communist state, thereby suppressing the protest. Dissidents had hoped to match big demonstrations in July. Hundreds were arrested then.

Argentina's ruling Peronists lost control of the Senate for the first time since 1983. In mid-term elections the opposition won 42% of the national vote compared with 34% for the Peronists. This was seen as a rebuff to the leftist-populist vice-president, Cristina Fernández de Kirchner. The results might help the not-so-populist president, Alberto Fernández, strike a deal with the IMF over a debt of \$43bn.

Sixty-eight inmates were killed amid gang warfare in a prison in Guayaquil, a city in Ecuador. In September 119 convicts were killed in the same jail. The heads of Ecuador's prisons and its armed forces resigned after the latest violence.

Something for everyone

The COP26 conference on climate change came to an end. The final agreement called for further pledges to reduce emissions next year to try to put the world on track to limit warming to 1.5°C. There were side-deals on methane, forestry and cars. Rich countries promised, again, to provide more aid to poor ones to adapt their economies, but a plan to compensate developing countries for the impact of global warming was stalled. India led a push to water down a commitment to end coal power.

Nine members of Insulate Britain, a green protest group, were jailed for three to six months for defying court injunctions not to block busy roads. The group's zealous tactics have made life even more miserable for London's already frustrated drivers. The judge said there was no alternative to prison for the nine, given their intention to keep flouting the injunctions.

The world this week

Business

Nov 18th 2021



Getty Images

Shell [announced a big change](#) to its corporate structure, with plans to move its tax residency from the Netherlands to Britain, dump its dual-share structure and remove the legacy “Royal Dutch” from its legal name. The oil giant is under pressure to increase returns to investors. Relocating its tax base to Britain gives it more freedom on share buy-backs. Shell is keeping several big divisions, such as global upstream, in the Netherlands. Nevertheless the Dutch government said it was “unpleasantly surprised” by the news.

Toshiba laid out formal proposals to split into three publicly listed companies, a move that came soon after General Electric’s similar decision to split. The Japanese conglomerate wants to house its nuclear, infrastructure and engineering businesses in one company, create an asset-management firm that will oversee its tech holdings in another, and start a new company for its chips and small devices. Some shareholders want Toshiba to sell itself to a private-equity buyer instead.

Meanwhile, Johnson & Johnson, another huge conglomerate, said it would spin off its consumer-health division into a separate business, leaving it to focus on pharmaceuticals and medical devices.

Natural-gas prices surged in Europe again, after Germany's energy regulator temporarily suspended its certification of the new Nord Stream 2 pipeline, which is to transport Russian gas to western Europe. More Russian supplies would ease the continent's energy crunch, but the regulator said that the pipeline's operator was not in a "legal shape compliant with German law".

Japan's economy shrank by 0.8% in the third quarter compared with the previous three months, a blow for Kishida Fumio, the new prime minister, ahead of his announcement of a big stimulus package. Business investment plunged in the quarter, as global supply-chain problems hit the country's exporters. Consumer spending also fell amid a resurgence of covid-19.



The Economist

Britain's annual inflation rate jumped to 4.2% in October, the highest level in a decade and up from 3.1% in September. This was mostly because of higher energy costs and supply-chain shortages, but a tightening labour market has added to inflationary pressures. The number of people in employment rose sharply in October, [allaying fears](#) that many of the 1m still on the government's furlough scheme, which ended in September, would

lose their jobs. Record job-vacancy rates persist, which often leads to higher wages to attract staff.

Joe Biden accused oil and gas companies of “anti-consumer behaviour”, alleging they were ramping up petrol prices for profit, and asked the Federal Trade Commission to investigate. The president is under political pressure as a result of surging prices at petrol pumps.

What supply-chain crisis?

Walmart [reported a bumper quarter](#) for sales, and said its shelves would be fully stocked for the Christmas shopping season. The retailer has found that shoppers are gradually returning to pre-pandemic habits, with more of them visiting physical stores than a year ago. Target issued a similar earnings report.

Just a week after its IPO, Rivian, a maker of electric vehicles backed by Amazon, reached \$153bn in market capitalisation, overtaking Volkswagen in value. Its share price then dived by 15%, wiping out its lead over VW. Lucid, which produces luxury electric cars, passed Ford in market value. Rivian and Lucid have yet to make a profit, but investors are betting that the companies’ shares will perform as well as Tesla’s, though they could also be as volatile.

The British government ordered a full investigation into Nvidia’s proposed acquisition of Arm, a British chip-designer, in part on national-security grounds. Nvidia, America’s most valuable semiconductor manufacturer, later revealed that America’s Federal Trade Commission has “expressed concerns” about the deal, which is also being investigated in the European Union.

AstraZeneca is looking to make “modest” profits from new orders of its covid-19 vaccine. The drugmaker produced its vaccine in collaboration with Oxford University, and has been selling it without a profit margin (unlike rival firms). Its doses have been used mostly in Europe, but also in developing countries, where it will still be sold at cost.

The right to be disconnected

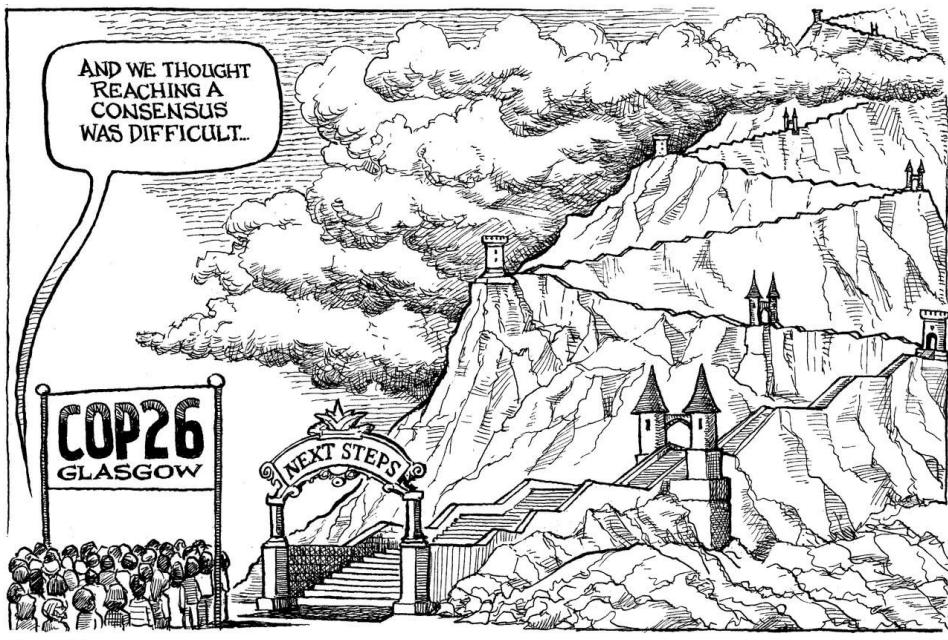
News sites pored over the recent approval of a law in Portugal that bans employers from contacting their staff outside working hours, including by email. Companies will also have to pay some of the cost of remote working, such as an employee's higher energy bills, and cannot monitor home workers in any way. Office workers in Portugal have nothing to lose, it seems, but their email chains.

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The world this week

KAL's cartoon

Nov 20th 2021



Economist.com

Kal

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

- [The Glasgow summit left a huge hole in the world's plans to curb climate change](#) (Current Edition)
- [James Thornton on using lawsuits to save the planet](#) (November 17th 2021)
- [The discreet charm of nuclear power](#) (November 13th 2021)

Kal's cartoon appears weekly in *The Economist*. You can see last week's [here](#).

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Leaders

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Bureaucracy unbound

The world is entering a new era of big government

How should classical liberals respond?

Nov 20th 2021



Álvaro Bernis

“KEEP YOUR eye on one thing and one thing only: how much government is spending,” Milton Friedman once said. Today his eyes would be popping. Governments have spent \$17trn on the pandemic, including loans and guarantees, for a combined total of 16% of global GDP. On current forecasts, government spending will be greater as a share of GDP in 2026 than it was in 2006 in every major advanced economy. America is about to put \$1.8trn into expanding its welfare state; Europe is doling out a €750bn (\$850bn) investment fund; and Japan is promising a “new capitalism”, with even more government largesse.

In the coming decades the state’s economic footprint will expand yet further. Four-fifths of the world economy is now subject to a net-zero emissions target, a goal that in Britain is projected to raise the government-debt-to-GDP ratio by 21 percentage points by 2050 as the state subsidises decarbonisation and growth slows. And many countries have ageing

populations that will demand vastly more spending on health care and pensions.

It would be easy for classical liberals such as this newspaper to despair at government's relentless march. As the state has grown during the pandemic, its failures have been on full display. Early in the crisis America's public-health authorities hindered private labs developing their own tests for the virus; this year they took until October to approve rapid tests that could have been available before the summer. For months Europe's vaccine roll-out was too slow. China once celebrated its response to the virus as a victory for a strong-state model. Now its zero-covid strategy exemplifies the inflexibility of unchecked centralised power. One of the scandals in which British politics is mired is over whether its leaders took advantage of the crisis to award lucrative contracts to their pals.

The long-term threat of a big state is that such bureaucracy, institutional failure and corruption become routine and widespread, making people poorer and limiting individual freedom. But these dangers are mixed with an opportunity. To understand how, consider why government grows.

As our [Briefing](#) this week explains, the state almost always expands relative to GDP over time. Three forces are at work. The first is obviously malign. Inertia and mission creep make government hard to pare back. Voters and lobbyists who benefit from a regulation or item of spending have every reason to work hard at preserving it, whereas the many taxpayers who pay for pork barrels have better things to do than petition politicians to get rid of them. The bureaucrats in charge want to defend their turf and careers. When a programme fails, its supporters say it could still succeed if only it were given more money.

The second force is a fact of life. Prices of the services welfare states provide, such as health care and education, grow faster than the economy because of their high labour intensity and low rates of productivity increase. Though government inefficiency can make things worse, this "cost disease" afflicts the private and public sectors alike. It comes with the territory.

The third force is that governments today have more things to get done. As voters became richer over the 20th century they demanded more education

and more of the expensive health care that takes advantage of the latest science. Today, as they age, they want to keep up spending on the elderly. And, increasingly, they want governments to do something about climate change.

These three forces are plain to see in the true impact of Margaret Thatcher and Ronald Reagan, the anti-government free-marketeers who loom largest in the public imagination. They are often said to have laid the groundwork for the “neoliberal era”. In fact, they did not leave a sustained legacy of smaller government. In 2019 America’s federal government spent a higher share of its GDP than in any of the ten years preceding Reagan’s presidency. Three decades after Thatcher left office—one of those decades being defined by austerity—Britain’s Conservative government will soon preside over the highest sustained spending as a share of the economy since the pre-Thatcher era.

The lasting victory of Reagan and Thatcher—and other reformers in Sweden, New Zealand and elsewhere—was over the first of the forces for big government. They realised that the state is at its worst when it is swollen by the distorted incentives of insiders to seek ever more control. Governments rightly sold off nationalised firms, cut back regulations, simplified some taxes and promoted competition. A consensus emerged about the limited role of government in liberal societies. Its adherents welcomed markets in most of the economy, but permitted redistribution and spending on public services to make the world fairer.

Today this consensus is under threat just when it is needed most. As ageing and climate change irresistibly increase government’s size, it is vital to recognise what the state can and cannot do well—and to avoid Leviathan wielding its might to the benefit of insiders and cronies. The argument for limited government should today be about the nature of the state’s interventions, not whether limiting global warming or providing for the elderly are necessary.

One task is to maximise the role of markets and individual choice. Climate change should be fought with a price for carbon, research-and-development subsidies and highly scrutinised public investments, not by rationing flights, promoting green national champions or enlisting central banks to distort

financial markets. The welfare state should focus on redistributing cash and letting those in need choose what to do with it, not setting up new bureaucracies such as President Joe Biden's proposed federal child-care system. Taxes should be broad-based and friendly to investment.

The supersized state

The state must also seek to be nimble and efficient. Income support for households should be automated where possible as the financial sector becomes more digitised. Much form-filling can be eliminated, as Estonia's war on paperwork has shown. If there were fewer, better-paid bureaucrats, the public sector could attract more talented staff. And politicians should be willing to start afresh when tackling new problems, rather than relying on lacklustre incumbent departments. The biggest successes of governments during the pandemic have come from internal startups like Operation Warp Speed, which helped bring about America's development of vaccines.

The state should strive to be impartial. Narrow interests, whether the unions and anointed victim groups favoured by the left, or the right's chums in business, will always seek to capture it. To resist, bureaucrats do not need relentless cynical, self-serving attacks on their integrity from politicians, but transparency and support for the ethos of public service. Though rising total spending on the old is justified, a full-scale gerontocracy is not. Retirees with deep pockets do not need public handouts. On the contrary, they should bear a heavier burden as taxes shift from wages, towards property, inheritance and consumption.

The prize is enormous. The difference between good government and bad will be measured not just in the rapid transition to net zero and the provision of a sustainable safety-net for the old, but in societies that are fairer and a lot more prosperous. In the 20th century classical liberals ensured that the growth of government accompanied the progress of humanity. The same might yet be true in the 21st. ■

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Barbarians at the garden gate

Hostility towards private equity's push into property is misguided

Big investors are filling a gap in the market

Nov 20th 2021



Alamy

“VULTURES OUT” read one of the many placards young protesters waved at a recent rally in Dublin. The cause of their anger was spiralling rents in the Irish capital, pushed higher as the fastest growth in house prices in years has made renting more attractive. The sentiment is spreading. Private-equity firms, insurance companies, pension funds and other institutional investors that have snapped up residential property during the pandemic are becoming the butt of resentment in rich countries. As their share of the residential-property market has grown, so has the backlash. Some blame big landlords for soaring rents. Others accuse them of exploiting crisis for profit.

Policymakers have been fast to [respond](#). The White House wants to restrict the types of properties that large investors are allowed to buy. New Zealand has scrapped tax breaks for property investors, and Ireland has slapped a 10% tax on the bulk-buying of houses. Canada’s central bank says the role that big investors play in housing requires more scrutiny. In Germany

Berlin's residents voted in September to force their city's biggest landlords to sell more than 200,000 flats to the state, though the referendum was non-binding and the constitutional court is expected to overturn the result if it becomes law. Spain's left-wing government is the latest to unleash measures to deal with big landlords. Under new proposals, they will face rent controls, higher taxes on empty property and a ban on buying social housing.

From this brouhaha, you might think that professional landlords are gobbling up the market. In fact, their share remains modest. In America investors own just 2% of rental homes. Across Europe, publicly listed funds own less than 5%. In Spain the criticism has focused on Blackstone, the country's biggest residential landlord. After entering the market eight years ago, the private-equity giant now owns 30,000 homes. Yet this amounts to just 1% of the total stock.

There is no doubt that big investors have big ambitions. Single-family homes and flats that are built to rent have become a lucrative line of business. Other Wall Street firms such as KKR and Goldman Sachs are also piling in to the market—and they are building as well as buying. By some estimates, they account for more than 6% of new homes in America each year. Across Britain, institutional investors are expected to supply a tenth of the government's housing target in the next few years. Since 2018 they have built nearly a quarter of new homes in Liverpool, and more than 15% in Nottingham, Leicester and Sheffield.

This injection of capital should be welcomed, not scorned. The investors want to make money, naturally, but they see a gap in the market that needs filling and they are doing something about it. Demand for rental housing has never been higher. In Britain less than one in ten homes were rented in the mid-1990s. The share today is closer to one in five. A third of households in America are rented. Falling home ownership rates across the rich world mean that decent quality housing in the private rented market is more sought-after than ever. Yet tenancies are insecure and the supply of rental homes has failed to keep up with demand. A number of countries face chronic shortages. Canada's national rental vacancy rate in 2020 was 3%. In parts of Australia it is below 1%.

The flood of institutional money into the rental market comes at a crucial time. City centres are full of empty buildings, as a result of the pandemic. That has created the chance to expand housing there by converting them. However, this will require not only an overhaul of planning rules but lots of money to pay for the building work. Cities like New York show what is possible. Big investors there have been turning offices into homes for years. As a result, some 60,000 people live in Lower Manhattan today, up from just 14,000 in the mid-1990s. The City of London believes it has room for an extra 1,500 homes by 2030.

The crux of the problem is a lack of supply in the places where economic opportunities are greatest. Some say the answer is higher interest rates or macroprudential tools, such as restrictions on the amounts that banks can lend. These policies would temper demand and price growth, but would not bring the economic benefits of letting successful cities grow. Some favour loan schemes for first-time buyers, but these only inflate house prices—failing both homebuyers and taxpayers. Straightforward solutions such as relaxing planning laws can be politically poisonous. Britain seems to have shelved a proposed planning reform that would have encouraged more house-building.

Rather than rely on gimmicks, countries must build their way out of the crisis. That is why, instead of caricaturing big funds as barbarians at the garden gate, policymakers should lay out the welcome mat. ■

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The next Afghanistan

How not to lose the war on terror in Africa

To prevail against jihadists in the Sahel the West must learn from past mistakes

Nov 20th 2021



Reuters

IN MANY WESTERN countries, politicians, soldiers and veterans gather every November to pay tribute to comrades killed fighting for their country. Among those commemorated this year were more than 3,500 troops from America and its allies who died in Afghanistan before the West's humiliating retreat this summer. And among those paying tribute, far from the Cenotaph in London or the Arc de Triomphe in Paris, were dusty Western soldiers in small garrisons across a swathe of Africa. With the formalities over, they resumed their posts among almost 9,000 European and American troops on the front line of what is now the West's biggest offensive against jihadists, in the Sahel. It is [not going well](#). How it will end depends in no small part on whether the West learns the right lessons from its failures in Afghanistan.

Some may argue that the main lesson is to avoid fighting insurgents in distant lands where no pressing national interests are at stake. But that is not the case in the Sahel, where jihadists aligned to al-Qaeda and Islamic State

have taken aim at Western countries, bombing their embassies and kidnapping or killing their citizens. If the jihadists are given havens and time, they will surely launch attacks on European or American soil, too. “That is their goal and their determination and they’ve been open about it,” says a Western general.

Western governments see other interests at stake as well. The most afflicted countries of the Sahel (Burkina Faso, Mali, Niger) are among the poorest, have the world’s fastest-growing populations and are among those where climate change will do the greatest harm. It would not take much of a push by the insurgents to make some of these fragile states crumble. Millions could be displaced, many of whom would flee the ensuing humanitarian disaster northward, to Europe.

How to ward off calamity? Afghanistan underlines the need for patience. *The Economist* opposed withdrawing from the country when a small force could have kept the Taliban at bay without suffering many casualties. Western governments—and in particular France, whose forces do most of the fighting—should be clear that they are in for a long fight in the Sahel.

To try to build a full democracy against a ticking clock in Afghanistan was a fool’s errand. Doing so in the Sahel would take decades, if it were doable at all. Hence, although the West should offer more than a purely military solution, it should be realistic about what it can achieve. A start would be to respond to local grievances. Niger defeated a rebellion by its Tuareg minority in the 1990s by pairing military action with talks and promises of political representation and a share of state revenues. In Mali more than 40 local peace deals have provided some relief from relentless conflict. Outsiders must water these rare green shoots of peace.

Afghanistan also showed that, even with overwhelming military power, it is hard to defeat an insurgency without also winning over the local people. In the Sahel every demand for a bribe, every massacre by militiamen or soldiers, alienates civilians from Western-backed regimes and drives them towards the black flag of jihad. But governments are loth to disarm militias or prosecute abuses, for fear of provoking more coups. They should look to Niger which has managed to discourage ethnic militias. Though hard hit by a jihadist insurgency, it has thereby largely avoided the spiral of communal

violence that afflicts its neighbours. Farther afield, Uganda showed it is possible to hold troops ruthlessly to account by sentencing two of its peacekeepers to death for killing civilians in Somalia.

Western governments must be honest with their own voters. Unless they build support for a long war, the jihadists may simply wait until the French-led operation grows weary. That would be a recipe for the same ignominious defeat suffered by the West in Afghanistan. It need not happen again. ■

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From role-model to cautionary tale

Chile's voters are on the verge of a terrible mistake

Two extremists are leading in the polls for this week's presidential election

Nov 20th 2021



FOR MOST of this century Chile was a stable and predictable country, with steady economic growth and moderate politics. Outsiders saw it as a success story and a model for Latin America. But that stable Chile disappeared two years ago, in an explosion of massive and sometimes violent protests. Discontent had built up and politicians seemed unable to deal with slower growth and narrowing opportunities, especially for younger people. A plan to hold a convention to write a new constitution calmed the protests and seemed to offer a peaceful solution to the sort of grievances that have afflicted many countries in recent years. But Chile has yet to recover its balance, as a polarised presidential election on November 21st is likely to show.

In a vote for the constitutional convention in May (in which only 43% turned out), support surged for the hard left while drying up for mainstream parties. As a result, the convention has become a theatre of wokeness, with

calls to wage war against pivotal industries such as mining (accounting for over half of exports) and agriculture for export (more than 30%), alongside more justified demands for a bigger role for the state in pensions, health care and green regulation. Optimists say a realistic, modernising constitution can still emerge; pessimists fear a Utopian list of unaffordable rights and anti-capitalism.

Similarly, Gabriel Boric, the candidate of the hard left, has seemed poised to win the presidential election. A former student leader, he is a democrat. But some of his allies, who include the Communist Party, are not. Much of the left has failed to condemn the criminal violence of a hard core of protesters and has opposed the widely popular deployment of the army to quell a low-level insurgency among some Mapuche, an indigenous group in the south.

Mr Boric wants to expand tax revenues by 8% of GDP over six to eight years (impossible, say many economists) and review trade agreements in order to engage in industrial policy. The laudable intention is to diversify the economy, but by means that seem likely to do far more harm than good. Mr Boric might well prove to be more pragmatic than his programme suggests. But plenty of Chileans are alarmed by it and by his allies.

That is why support has grown for [José Antonio Kast](#) of the hard right. He has exploited fears of disorder, violence and uncontrolled immigration, offering *a mano dura* (a firm hand). His promise of big tax cuts just when Chileans want better services is as delusional as Mr Boric's revenue target. Whereas Mr Boric promises the most left-wing government since the chaotic Socialist-Communist administration of Salvador Allende, Mr Kast offers the most right-wing one since the dictatorship of General Augusto Pinochet, whose crimes he sometimes denies. Neither offers the combination of stability, economic growth and reform that the country needs.

The seeming advantage of the extremes owes much to the discrediting of politicians from the two mainstream coalitions—and to their loss of self-belief. Some have embraced populist measures, such as letting workers spend 30% of their retirement savings, guaranteeing a future pensions crisis. None offers a convincing counter-narrative to the radicals. In fact, the past 30 years were far from the disaster they are now painted as.

The boast of Utopia

There are two moderate candidates, Yasna Provoste of the centre-left and Sebastián Sichel of the centre-right. Either, and especially Ms Provoste, would offer hope that Chile can draw back from its dangerous polarisation and find a new consensus. Chileans would be wise to vote for them, not least to provide an incentive to Messrs Boric and Kast to move to the centre if they reach the inevitable run-off next month. It is high time for Chileans to come to their senses, and see the merits of the moderate record that they are on the verge of disavowing. ■

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The future of the internet

Don't mock the metaverse

The metaverse is already here. It's just not evenly distributed

Nov 17th 2021



Roblox

“A REVOLUTIONARY APPROACH on how to connect our world without being super-weird...In the Icelandverse, there’s...skies you can see with your eyeballs, volcanic rocks you can caress, and really big geysers you can observe from a safe distance.” So runs a viral advert designed to lure tourists to Iceland. The target of the parody is Mark Zuckerberg in particular, and Silicon Valley in general, for whom the idea of the “metaverse”—a sort of 3D sequel to today’s two-dimensional internet, in which users work, play, buy and sell inside immersive virtual worlds—has become the latest Next Big Thing.

Iceland’s tourist board is not the only sceptic. When, on October 28th, Mr Zuckerberg rebranded Facebook as Meta Platforms, to signal his commitment to the new idea, many assumed it was a PR stunt to divert attention from the social-media giant’s scandals. When Satya Nadella and Jensen Huang, the bosses of Microsoft and Nvidia, made their own pitches a couple of weeks later, people muttered about bandwagon-jumping.

Mr Zuckerberg may well prefer to think about exciting new products than deal with the downsides of his existing ones. And hype is the water in which techies swim. But to stop the analysis there would be too dismissive. There are good reasons to take the metaverse seriously.

One is historical: as computers have become more capable, the experiences that they generate have become richer. The internet began its life displaying nothing more exciting than white text on a black background. Flat images were added in the 1990s. Video came to dominate in the 2010s. On that reading, a move into three dimensions is a logical consequence of the steady growth in computing power.

That progression is more than merely theoretical. Google Maps already offers a virtual space that contains the real world's stations, shops and streets. The video-game industry—the only type of entertainment fully exposed to the compounding power of Moore's law—has been [selling virtual worlds](#) for years. “EverQuest”, an online game launched in 1999, had half a million subscribers at its peak. (Players quickly co-opted it for socialising, and even weddings, as well as dragon-slaying.) “World of Warcraft”, which arrived five years later, hit 12m. These days 200m people a month hang out on “Roblox”, a video-game-cum-construction-set. Many spend their real money on virtual goods. It is hard to argue that an idea will never catch on when, for millions of people, it already has.

Finally, mockery is an unreliable guide to the future. When YouTube was launched in 2005, commentators wondered why anyone would want to watch spotty teenagers filming themselves in their bedrooms when the delights of cable TV were a button-push away. In two decades, online dating has gone from being furtive and embarrassing to take its place as a perfectly normal way to meet people. Smartphones are some of the bestselling devices ever built. In the 1990s their brick-sized predecessors were mocked as crass status symbols for insecure investment bankers.

This does not mean every Silicon Valley brainwave will automatically succeed. Nor does it mean a fully fledged metaverse will arrive overnight, any more than the world wide web or the mobile internet did. But it does suggest that something metaverse-shaped lying in the relatively near future is an idea worth taking seriously. ■

An early version of this article was published online on November 17th 2021

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Letters

- [Letters to the editor: On vaccine passports, maths, Western Sahara, climate change, Joe Biden, French acronyms](#)

On vaccine passports, maths, Western Sahara, climate change, Joe Biden, French acronyms

Letters to the editor

A selection of correspondence

Nov 20th 2021



Letters are welcome via e-mail to letters@economist.com

Vaccine passports

Your article on vaccine passports mentioned a paper-based “yellow card” that the World Health Organisation has published for 30 years (“[Hard pass](#)”, October 30th). This document contains the International Certificate for Vaccination or Prophylaxis (ICVP), which is recognised by all countries, unlike country-specific covid-19 certificates. The WHO is working on a digital version of this. In the near term the paper-based booklet will be revised to include an extra section on laboratory results aimed at providing a universally accepted tool for international travel.

Currently, the WHO does not recommend that countries require proof of vaccination against covid-19 as a condition of travel, given the limited and uneven access to vaccination worldwide. Nevertheless, travellers can be

provided with an international certificate on the model of the ICVP to document that they were inoculated with any of the vaccines that have received WHO approval for emergency use. Measures such as testing or quarantine could be eased for vaccinated travellers, based on each country's risk assessment and on WHO guidance.

TARIK JASAREVIC
Spokesperson
World Health Organisation
Geneva



A question of numbers

“[The maths wars](#)” (November 6th) correctly highlighted a serious problem with American competitiveness and national security arising from the poor quality of education in mathematics. You discussed at some length the methodology of teaching, but the real problem is the quality of the teaching. Teachers are poorly paid. A graduate with an engineering or science degree can earn twice as much in the private sector.

Substandard teaching in maths, science and technology has far-reaching consequences. I came to America on an H-1B visa because my employer

could not find an American with my skills. Visit any engineering office or laboratory now and you'll find that about half the workers obtained their primary and secondary education in a foreign country. Relying on immigration to make up the shortfall has worked so far, but America is becoming less attractive as a destination for various reasons, making it more difficult to attract these skills.

NIGEL GALE
San Antonio, Texas



Morocco and Western Sahara

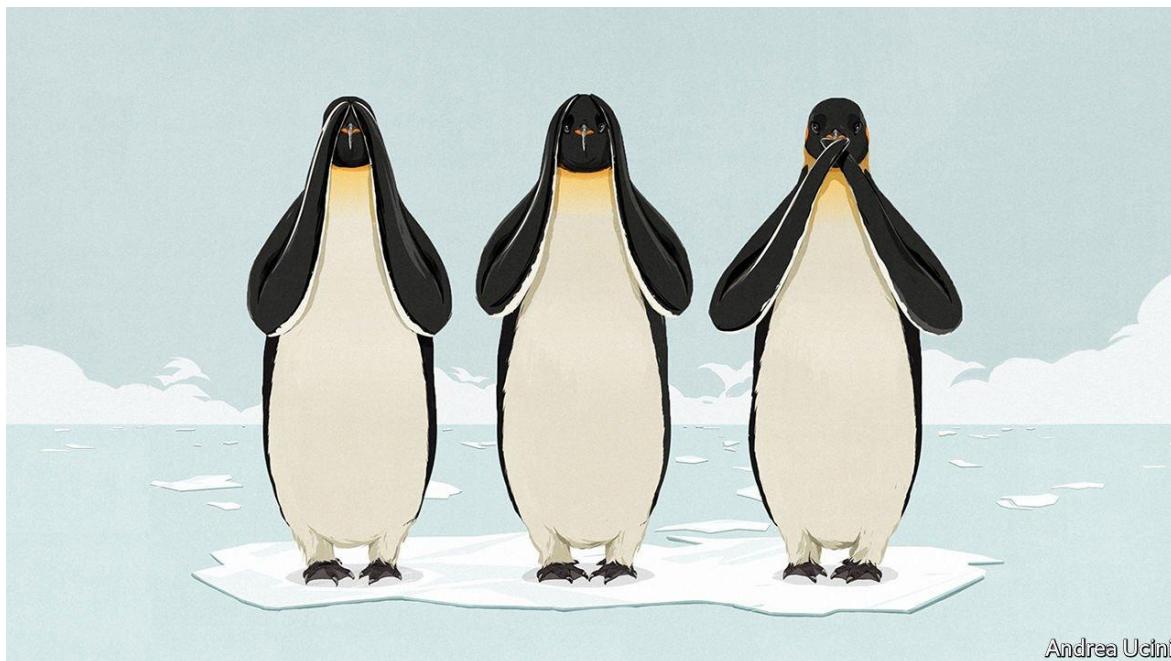
Regarding the conflict in Western Sahara (“[The disputed desert](#)”, November 6th), the claim by the Polisario Front, which is seeking independence, to control 20% of the land is a flagrant violation of the 1991 ceasefire agreement, as the UN has repeatedly noted. Under the agreement, 80% of the territory remains under Moroccan control and 20% is designated as demilitarised buffer zones.

It is true that Western Sahara under Morocco's rule is booming. Subsidies target Sahrawis first and foremost, and not only non-Sahrawis coming from other parts of Morocco. By contrast, Sahrawis in the camps on Algerian soil

are warehoused against their will. They are considered refugees but they have no right to free movement or gainful employment, nor to be counted and identified, as stipulated in the Geneva Convention and demanded by the UN Security Council. The Polisario receives 134,000 daily food rations from the World Food Programme, but aerial pictures and evidence on the ground suggest that those in the camps number less than 90,000. The European Anti-Fraud Office has accused Polisario in the past of embezzling rations and selling them on the black market, with help from Algerian military officers.

War will only make an already dire situation in the camps unbearable and explosive. Morocco has been trying to appeal to Algeria to open channels of dialogue. Rulers in both countries owe it to their populations and next generations to think peace and not war, prosperity instead of belligerence. Those beating the drums of war would drag the region into a conflict where everyone will lose.

LAHCEN HADDAD
Minister in the government of Morocco, 2012-16
Rabat



The elephant not in the room

China pumps almost 30% of the world's carbon-dioxide emissions into the atmosphere, and yet you singled out the prime ministers of India and Australia and a senator from West Virginia as cowards on fossil fuels ("Cop out", October 30th). Xi Jinping didn't even turn up at the COP26 summit in Glasgow. China is still increasing its capacity for coal-fired power stations.

GREG WELSBY
Brisbane, Australia

One widely neglected legal issue associated with global warming is how international bodies, and the UN in particular, should deal with waterlogged states; small islands and low-lying countries that will probably be flooded by 2100 because of rising sea levels. Much has been said about relocating populations from these places for their safety, but no attention has been paid to the legal standing of these states without a sovereign territory to rule. Will they continue to enjoy votes in the UN and other world agencies?

PROFESSOR PETER HAAS
University of Massachusetts Amherst

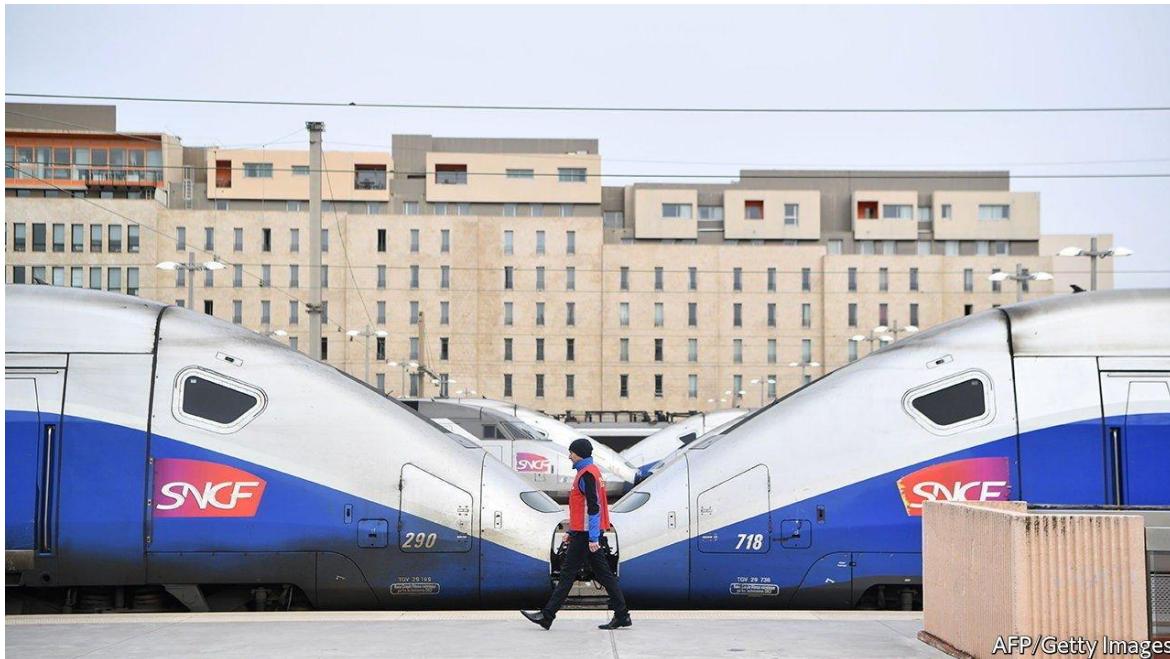


Battling Biden

Your analysis of American politics is bleak (“[One year on](#)”, November 6th). Joe Biden’s widely popular social, infrastructure and climate programmes are apparently no match for the challenges at hand. The party of liberalism, diversity, education and the popular vote is mathematically doomed at elections. All that is left is for Donald Trump to fulfil the prophesies and return in 2024 with a flush Republican majority in Congress. Can a future edition give us details about how to emigrate to Canada? Or better yet, provide a road to redemption?

GREG BUSS

Portland, Oregon



Quintuple-A rating

The French addiction to acronyms does indeed extend to gastronomy (“[PFUE? LOL](#)”, October 30th). The acronym AAAAA on menus marks the provenance of stuffed intestines approved by the Association Amicale des Amateurs d’Andouillette Authentique (Friendly Association Of Authentic Andouillette Amateurs). I like to think that the abbreviation is somewhat tongue in cheek.

CHRIS CLOUGH

Paris

It is the Dutch who top the Euro-abbreviations league. Theirs run the full gamut from political parties (PvdA, D66, PVV, VVD) to football clubs (NEC, NAC, VVV, MVV, AZ). And the Netherlands surely wins the prize for the world's silliest name for a football club: Go Ahead Eagles.

PETER CAIN

Trier, Germany

The essential feature of an acronym is that it can also be pronounced as a word. This was clearly understood by Admiral Ernest King when he was offered the position of commander-in-chief of the US fleet by Franklin Roosevelt soon after Pearl Harbour. He accepted, but asked that the job's acronym, CinCUS ("sink us"), be changed to CominCh.

MICHAEL LAGGAN

Newton of Balcanquhal, Perthshire

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Briefing

- [State spending: The great embiggening](#)

A hard trend to buck

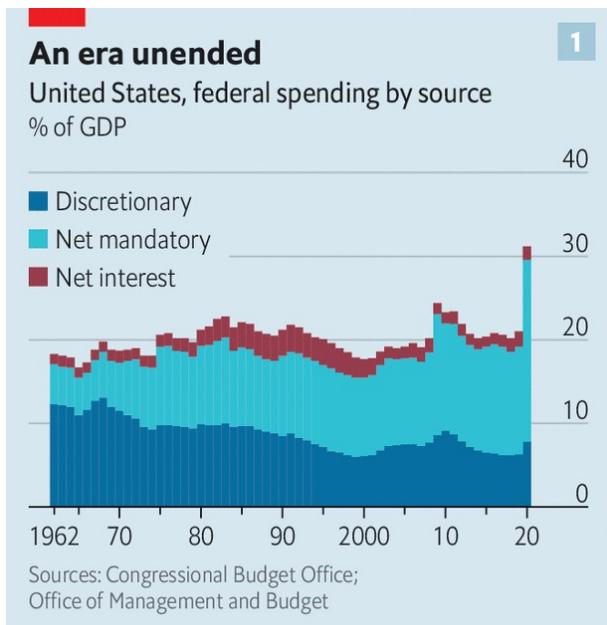
Governments are not going to stop getting bigger

Some factors which drive the process are eternal and some are getting stronger

Nov 20th 2021 | SAN FRANCISCO



WHEN, IN 1996, President Bill Clinton announced that “the era of big government is over”, supporters to his left feared that saying so would only serve to make it so. They were wrong. So was Mr Clinton. Between 1996 and 2019 America’s annual government spending grew by one percentage point of GDP. And when, last year, the economy crashed, it rose by another ten (see chart 1). Now President Joe Biden is building on what started as emergency pandemic-related policy, expanding the child-tax credit, creating a universal federally funded child-care system, subsidising paid family leave and expanding Obamacare.



The Economist

America's government spending remains somewhat below the developed-world average. But this change is not just a matter of catching up; the target is moving. Government spending as a share of GDP in the OECD as a whole has consistently inched higher in the six decades since the club was formed in 1961.

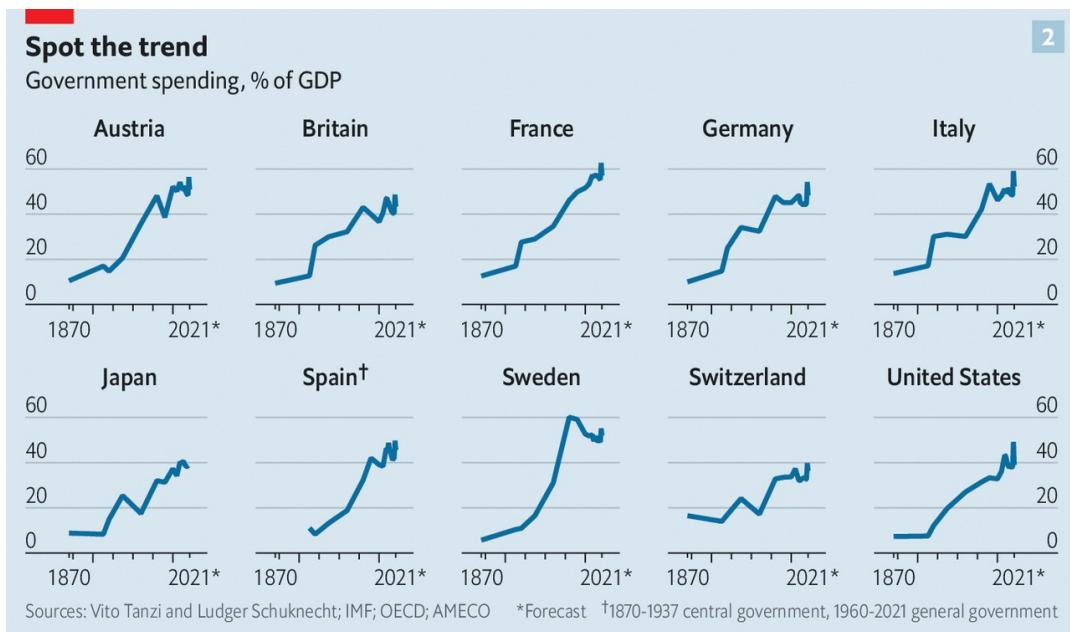
Some countries buck the trend, a bit, for a while. Germany's spending as a share of GDP in 2019 was the same as it was in 2006, Angela Merkel's first full year as chancellor. But the stable level was also a pretty high one. And German attempts to impose frugality elsewhere were short-lived. Spain and Italy both went on courses of strict austerity during the euro-zone crisis of the early 2010s. But in both cases public-sector spending, relative to GDP, was higher in 2019 than in 2006.

Examples of genuine state retrenchment in developed countries are few and far between. Sweden managed it in the 1980s. In the early 1990s Ruth Richardson, then New Zealand's finance minister, cut the size of the state drastically. Wags called her plan "Ruthanasia". The patient did not die. State spending is now six percentage points lower as a share of GDP than it was in 1990. But this is a rare achievement, and perhaps one doomed to pass. Grant Robertson, the current finance minister, pledged to "address the most

inequitable of the changes made 30 years ago” as he promised a large boost to welfare payments.

This is a sorry state of affairs if you believe that low taxes and small government are the right, and possibly the only, conditions for reliable, enduring economic growth. The argument that even the best government cannot know what millions of sovereign individuals need better than they do themselves, an argument made by Friedrich Hayek, an Austrian philosopher, Milton Friedman, an American economist, and others in the mid-20th century, has fallen from favour. The practical argument that governments rarely meet this ideal and, corrupting and ineffective, strangle growth is still made, but to little electoral effect. Yet this hardly constitutes a triumph for the left, which continues to see insufficient government spending as fundamental to a whole raft of problems.

The tendency for government to grow is a hallmark of modernity. From 1274 to 1691 the English government raised less than 2% of GDP in tax. Over the 18th and 19th centuries that changed, with the tax-raising and spending capacities of the government massively expanding, especially at times of war. In the 1870s the governments of rich countries were spending about 10% of GDP. In 1920 it was nearer 20%. It has been growing ever since (see chart 2). It is now much higher in the rich world than either in the past or in developing countries.



The Economist

The growth in what governments spend typically comes with a growth in what they do, and how much they control the doings of others. In America the number of federal regulations has more than doubled since 1970. The total word count of Germany's laws is 60% larger today than it was in the mid-1990s.

Governments have not grown more powerful by all measures. Bureaucrats no longer, as a rule, set wages or prices, nor impose strict currency controls, as many did in the 1960s or 1970s. In recent decades the public sector has raised hundreds of billions of dollars from privatisations of state assets such as mines and telecoms networks. If you find it faintly amusing to hear that, from 1948 to 1984, the British state ran its own chain of hotels, that is because the "neoliberal" outlook on the proper place of government has triumphed.

Yet in other areas today's governments have more power than ever. Building things requires developers to jump through more environmental, conservation and local-opposition hoops than it used to. Health-and-safety laws have proliferated. Occupational licensing has grown dramatically across Europe and North America.

For decades unions in many rich countries successfully argued against government-imposed minimum wages, saying they would do a better job of raising pay themselves. But as they have withered, the government has stepped in to provide wage floors. Rules relating to other workplace matters such as parental leave and gender-pay gaps go in only one direction.

And if direct government control of the economy has weakened, it has been more than replaced by redistribution. The objective correlative of Mr Clinton's claim that the era of big government was over took the form of tax credits; he tripled those for low earners with children, and introduced the universal credit for children that Mr Biden now wishes to expand. In 1979 the bottom fifth of American earners received means-tested transfers worth on average 32% of their pre-tax income, according to the Congressional Budget Office. By 2018 the figure was 68%. Total social-protection spending in the OECD—comprising cash benefits, direct in-kind provision of goods and services, and “tax breaks with social purposes”—grew from 15% of GDP in 1980 to 20% in 2019.

Three forces stand out as driving the trend: the incentives which bureaucrats and politicians face; the rising costs of services provided by the government; and the demands of voters.

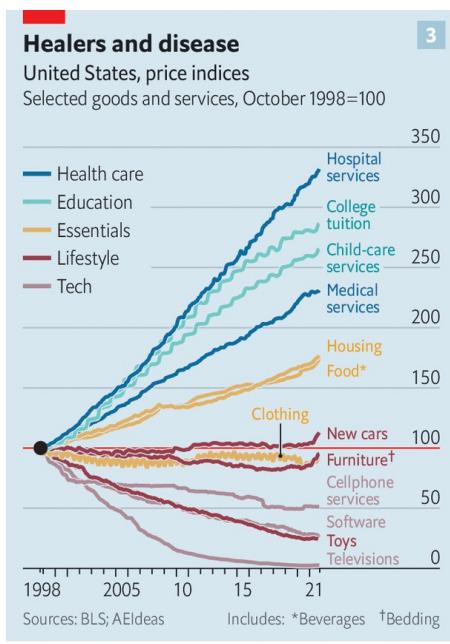
Governments and bureaucrats are at least partly self-interested: “public-choice theory” says that unrestrained bureaucracies will defend their turf and seek to expand it. A good recent example would be central banks. Their mandates typically compel them to control inflation and see off bank runs. Yet in recent years, with a cursory and often unconvincing nod to those mandates, central bankers have taken on fresh responsibilities. America's Federal Reserve seems to believe it has both the obligation and the tools to reduce racial inequality, while many central bankers want to raise the relative cost of capital for fossil-fuel companies via interventions in the corporate-bond market.

Politicians have their own incentives to expand the state. It is generally more rewarding for a politician to introduce a new programme than it is to close an old one down; costs are spread across all taxpayers while benefits tend to be concentrated, thus eliciting gratitude from interest groups and sometimes even voters.

Technology, in particular communications technology, has served to strengthen the bureaucracy's grasp. It is no coincidence that bigger governments emerged at roughly the same point in the 20th century as large corporations, which also required a new communications infrastructure. More rapid economic growth powered by those new arrangements made the growth of government less burdensome than it might have been.

Hardly cromulent

The second broad factor behind the growing power of the state is what William Baumol, an economist, named "cost disease". In the 1960s Baumol noted that productivity in some sectors is greater than in others. But wages must rise in less productive sectors as they rise in more productive sectors to prevent workers quitting. So despite the fact that an orchestra at the Royal Albert Hall contains about the same number of musicians as it did when the venue opened in 1871, each musician is paid a lot more today, given the vastly greater opportunities that are on offer in the economy.



The Economist

A lot of government spending is in areas where labour-productivity growth is slow, most notably the provision of education and health care (see chart 3). As the real wages of doctors, nurses and teachers go up at a rate set by other parts of the economy, so does spending. What is more, education and

health care are also what economists call “superior” goods. As people become richer they spend a higher fraction of their income on them. If it is the government that provides those services, it must spend more. Across the OECD overall health spending has risen from 8% of GDP in 2005 to 10%, and governments are responsible for the bulk of that.

Others have extended Baumol’s ideas, arguing that government intervention inhibits productivity growth. A recent report by Steven Teles, Samuel Hammond and Daniel Takash of the Niskanen Centre, a think-tank in Washington, DC, warns of a vicious cycle in which subsidies for services the supply of which is constrained by regulations, such as housing and education, push up prices, creating demands for further subsidies. One example is student loans: in America 60% of any increase in the maximum subsidised loan is passed through into higher tuition fees, according to a study by the Federal Reserve Bank of New York. American politics is replete with promises of further subsidies for higher education. Pledges to reduce costs are thin on the ground.

The final steroid is the voters’ appetite, which depends on who the voters are. Over the course of the 20th century increasing numbers were working class and increasing numbers were women. Political scientists have linked the expansion of women’s suffrage across the rich world to growth in social spending, especially on health and education.

Twentieth-century voters were also increasingly likely to have fought in or lived through a world war. Both world wars vastly increased spending, and in both cases it never returned back to its pre-war level. Mass-mobilisation in war constituted a compelling claim to the greater peacetime provision of services like unemployment benefits and health care.

And today’s voters are increasingly likely to be old. Old people did well out of government even when this was not the case. “*Making Social Spending Work*”, a recent book by Peter Lindert of the University of California, Davis, shows that in 13 welfare states per-person support for the elderly, as a proportion of income, rose faster than spending on public education per school-age child for most of the 20th century. Spending per person levelled off in the 1980s—but more baby-boomers with longer lifespans means total

spending is still rising. And political pressure to maintain spending on the old is acute.

While other forces behind the growth of government can be taken to be pretty steady, the demographic factors are strengthening. Over the next 40 years the share of the total rich-world population over the age of 65 will rise by half. The share of the very old, who according to British data demand four times as much health care per person per year, will grow far more rapidly. The rise of chronic conditions is likely to affect both health and social care, increasing the services that people consume before their final years of life.

A paper published by the OECD in 2019 said that health spending across the bloc would rise from 8.8% of GDP in 2015 to 10.2% in 2030. This is likely to end up being a significant underestimate, given that it is already most of the way there: the enormous infrastructure set up during the past 18 months to test for covid-19 and vaccinate populations will not be dismantled any time soon.

A new factor is at play, too. Rich-world governments are pledging to transform their economies to eliminate net carbon emissions, and this will require huge investment. If governments struggle, as they have thus far, to deploy market mechanisms such as carbon prices to encourage the transition, the number of regulations and subsidies will proliferate. Even with carbon taxation, the Office for Budget Responsibility, Britain's fiscal watchdog, estimates that the spending needed to get to net zero by 2050 will, by the end of that process, have added 21 percentage points to Britain's debt-to-GDP ratio.

The scene is set, then, for bigger and bigger government. Moved perhaps by this inexorable economic logic, intellectual thought is increasingly statist, not only on the part of the political left, some of whom will never be satisfied with the scale of redistribution, but, more surprisingly, also on the political right. This provides a fourth factor in favour of an ever-larger state: an absence of opposition.

In 2019 *American Affairs*, a conservative journal launched two years earlier, published an article titled “Toward a Party of the State”. Acknowledging that

“the state now occupies a much greater role than it has heretofore in post-war and modern conservative thought”, Gladden Pappin, the author, advised giving “aid and comfort” to, for example, “nation-state-oriented forces in Europe”—think of Hungary offering cash incentives to encourage families to have more children, for instance.

Others on the populist right are happy to preserve spending on the elderly, to intervene in markets in order to help certain interest groups, and at least notionally to favour massive infrastructure investments. Britain’s Conservative Party proclaims its small-state credentials louder than most, but Rishi Sunak, the chancellor, is presiding over historically high levels of spending and taxation. There is harrumphing on the backbenches, but little by way of a concrete argument for cuts.

Johan Norberg, a Swedish free-market thinker, says he is politically homeless: “No major political force is listening.” In France Gaspard Koenig, a philosopher who runs a think-tank which focuses on economic freedom, is seeking to shift the terms of the debate. But the consensus in France remains clearly in favour of big government and high public spending. The Belgian region of Flanders, where some of those seeking independence see lower taxes and a smaller state as a possible result, is a curiosity, not the start of a movement.

People such as Mr Norberg might seem to have little alternative but to hope for a turn in the intellectual tide like that which saw the ideas of Friedman and Hayek flood the corridors of power in the late 1970s—a turn driven by the increasingly apparent failures of over-regulated, state-dominated capitalism. But in the meantime they still have policies to advocate.

One option might loosely be called “pave the swamp”: find ways to improve the structure of bureaucracies such that, while they might remain large, it would at least be easier to move things through them. John Cochrane, a free-market economist at the Hoover Institution, at Stanford University, suggests adding “shot clocks” and sunset clauses to regulations. The former would mean that America’s Food and Drug Administration, say, would have a prespecified time in which to assess a new drug or food; no defensible verdict in the time allowed would mean automatic approval. Other sorts of regulation would lapse unless deliberately reinstated.

Another palliative option favoured by some is to argue that the government needs to play a more activist role in making sure that existing markets work well—say by scrutinising mergers more closely so as to prevent the emergence of monopolies. Efficient markets will provide growth that goes at least some way to offsetting the increase in the government share, as it did in the 1950s and 1960s.

More dramatic options involve not just improving markets but expanding their reach in ways that might, ultimately, shrink the role of the state. One example, touted in “Radical Markets” by Eric A. Posner and E. Glen Weyl, would be to transfer the right to admit immigrants from the government to individual sponsoring households, who could in effect sell their visa quota to would-be migrants.

Dare to dream small

Or, instead of eating away at the state, let people opt out of it. Mark Littlewood of the Institute of Economic Affairs, a Thatcherite think-tank, suggests allowing people to pay less in tax in return for abjuring some state services. If the tax cut is attractive but still less than the cost of supplying the service, that saves money. But because the people keenest to step out from under the umbrella of the state will always be those who already rely least on its protection, the state’s tax revenue would probably decline by a lot more than demand for its services.

Margaret Thatcher supposedly once produced her copy of Hayek’s “The Constitution of Liberty”, slammed it on a table, and pronounced “this is what we believe” to her fellow Conservatives. Today’s believers in small government lack the same sense of conviction. But they also face far more challenging circumstances, because stopping further growth of government over the coming decades will be close to impossible. The most important debates to come will be about the state’s nature, not its size. ■

Asia

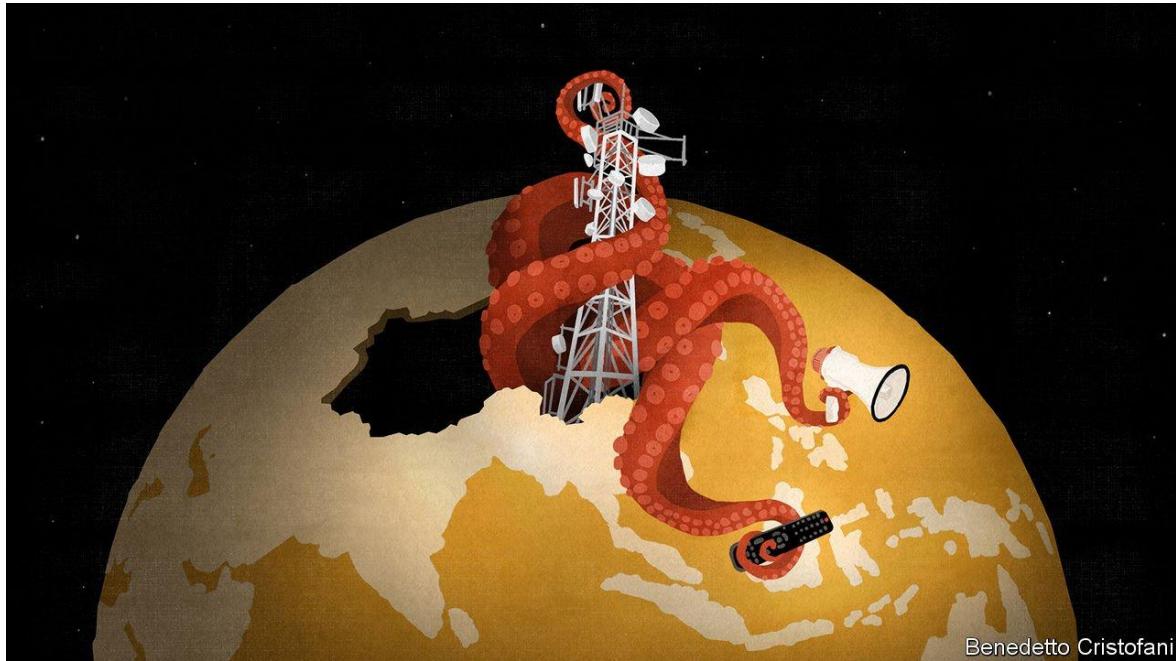
- [South-East Asia's info-wars: The embrace of the motherland](#)
- [Philippine politics: Succession](#)
- [LGBT in Japan: A matter of some pride](#)
- [Indian government subsidies: A dangerous addiction](#)
- [Banyan: Bear with them](#)

The embrace of the motherland

Chinese propagandists court South-East Asia's Chinese diaspora

They are winning converts for China's worldview

Nov 20th 2021 | Singapore



Benedetto Cristofani

EVERY NIGHT Lee Ah Huat (not his real name) turns on the news. The 60-something engineer lives in Malaysia's capital, Kuala Lumpur, but he does not bother with local channels. He goes straight to CCTV, China's state broadcaster, and usually watches its international broadcast in Chinese. Mr Lee's family left China and settled in Malaysia decades ago. He maintains few direct connections to his ancestral home and has complicated feelings about it.

Yet when it comes to current affairs, his views are straightforward. The protests in Hong Kong and the oppression of the Uyghurs, an ethnic minority, are "China's domestic issues". American politicians who bang on about the Chinese state's human-rights abuses are, in this view, hypocrites. Just look at "how America treats African-Americans or Native Americans. They murdered them, stole their land. America is just causing trouble."

Mr Lee's remarks would delight the Chinese Communist Party (CCP). At least 30m members of the Chinese diaspora, 60-70% of the total, live in South-East Asia. They are the targets of increasingly sophisticated Chinese state-sponsored influence operations. Though few members of the diaspora are Chinese citizens, the state expects them to have strong sympathies with their ancestral homeland. They have an important role to play in what the party calls China's "great rejuvenation".

In 2018 the United Front Work Department, the main organ responsible for influence operations among people who are not party members, absorbed the Overseas Chinese Affairs Office, responsible for tending to those abroad. Jacob Wallis of the Australian Strategic Policy Institute, a think-tank, thinks that "the CCP sees the diaspora as a powerful vector of influence" and is trying to recruit its members.

The South-East Asian diaspora is of particular interest to China's info-warriors because China thinks it has a "natural right" to primacy in the region, says Kenton Thibaut of the Atlantic Council, an American think-tank. "China sees it as an easy proving ground," she adds, where it can "start to express itself as a global power".

How to recruit these potential partisans? "Wherever the readers are, wherever the viewers are, that is where propaganda reports must extend their tentacles," said Xi Jinping, China's president, in 2015. Their grip can be felt almost everywhere. "Over the past decade, top CCP officials have overseen a dramatic expansion in efforts to shape media content and narratives around the world," according to a report in 2020 by Freedom House, a watchdog.

"This push feels particularly strong in South-East Asia because there are more outlets that are willing to rebroadcast some of these claims," says Ja Ian Chong of the National University of Singapore. Prominent state media like CCTV are broadcast in every South-East Asian country. Some, including Xinhua, a government news agency, have struck attractive content-sharing deals with cash-strapped local newspapers, wire services and television broadcasters in Vietnam, Laos and Thailand. In 2017 a Chinese firm and the Cambodian interior ministry launched a TV station which carries content from China's official media.

The complexion of some local media is increasingly red. Cambodian media now carry “journalism with Chinese characteristics”, according to Reporters without Borders, another watchdog. Chinese-language outlets in Malaysia are muzzling journalists who do not toe the CCP line. In April *Lianhe Zaobao*, a Chinese-language Singaporean newspaper, renamed its “Greater China” section (covering China, Hong Kong and Taiwan) simply “China”, reflecting China’s claim that Taiwan is its territory. It is one of the few foreign newspapers which are allowed to circulate in China.

China also spreads disinformation. A recent investigation by Malaysiakini, a news website, found that during the mass unrest in Hong Kong in 2019, mainstream Chinese-language media in Malaysia regurgitated false reports from Chinese state media claiming that protesters threw Molotov cocktails at school buses. China manipulates digital outlets, too. Its lies often pop up on social-media platforms in Taiwan, which is a “testing ground for [the] PRC’s worldwide propaganda”, according to DoubleThink Lab, a local outfit that tracks digital-information operations. From there it spreads to South-East Asia, piggybacking on the Twitter, Facebook and WeChat accounts of South-East Asian migrants in Taiwan or ethnic Chinese in South-East Asia.

Chinese propagandists have a few favourite themes. They include China’s benevolence, as illustrated by its donations of vaccines to South-East Asian countries (true) and the invention of the first covid-19 vaccine by a Chinese general (false). Democracy is portrayed as a messy, chaotic form of government and America as a racist country. A video purporting to depict black and white Americans beating a Chinese man with sticks was shared widely on South-East Asian chat groups earlier this year. The caption was false: the video actually depicted a prison riot in Ecuador.

There is also evidence that the Chinese propaganda apparatus, which has become “much more sophisticated, multi-layered and international facing” in the past two years, is conducting digital operations intended to manipulate public opinion in South-East Asia about domestic politics, says Mr Wallis.

It is hard to establish whether China is winning hearts and minds with such tactics. A Pew poll conducted this year found that in Singapore, which is about three-quarters Chinese, nearly two-thirds of respondents did have favourable views of China. Older Singaporeans were more likely than

youngsters to hold such views. Last year, a Singaporean woman posted on Reddit, an online forum, about her father who was “self-radicalising every night with extreme pro-China videos”. Scores of Singaporean users recounted similar experiences with their own parents.

Sometimes influence operations backfire, however. In 2015, the perception that China was interfering in Malaysia’s affairs led tens of thousands of Malays to march through Chinatown in Kuala Lumpur, stirring memories of past race riots.

And if Mr Lee, the Malaysian engineer, is anything to go by, the party still has work to do. Lofty rhetoric about the Chinese diaspora belonging to a “community of common destiny” is all well and good. But his mainland-Chinese colleagues “look down on us...They think we come from a small, poor and weak country.” He adds: “[They] don’t see us as one of them”. Nor does Mr Lee. He identifies not as a Chinese national but as Chinese Malaysian. ■

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Succession

Philippine President Duterte's daughter spurns him and his job

But she still has her eyes on a powerful role

Nov 20th 2021 | Manila



AP

SARA DUTERTE had seemed destined to be swept to power on a wave of inherited popularity. But then she shunned her clear-cut opportunity to win the election next May and succeed her death-dealing father, Rodrigo Duterte, as president. Instead, Ms Duterte registered to run for vice-president, a position that has no power. In doing so, she appears to have messed up the Duterte dynasty's chances of prolonging its grip on national government. So the president hastily made arrangements to preserve a measure of political influence once he completes the single six-year term in office the constitution allows him. He registered to run for a seat in the senate.

Father and daughter both put their names down just before the deadline of November 15th set by the election authority for the myriad political parties to rearrange their slates by substituting new candidates. Ms Duterte began by withdrawing her bid for re-election as mayor of the southern city of Davao,

the Duterte dynasty's bailiwick, and changing parties. But, dashing her father's hopes, she registered as a substitute candidate not for president but vice-president. In remarks directed at supporters clamouring for her to run for the presidency, in the hope she would rule in the same manner as her father, Ms Duterte told them this was "an opportunity to meet you halfway". President and vice-president are elected separately. Sometimes they are political rivals. Unless appointed to a government job by a sympathetic president, the deputy has nothing to do but wait to take over if the boss becomes unable or unwilling to carry on.

"I was puzzled," her father said. "She was number one in the surveys, so why did she consent to running only for the vice-presidency?...I didn't know what was going through her head. We don't talk." Within hours of Ms Duterte's registering, her father had dispatched his right-hand man, Senator Christopher "Bong" Go, to register as a presidential candidate. Two days after that Mr Duterte himself registered to run for the Senate. Their purpose is clearly to reverse the present arrangement whereby Mr Go serves as Mr Duterte's alter ego in the legislature.

For this to work, Mr Go must win the presidential election. But the latest opinion survey, taken in October, does not give him much chance. The front-runner is Ferdinand "Bongbong" Marcos, son of the late tyrant, Ferdinand Marcos, far ahead of the leader of the opposition, Vice-President Leni Robredo, and the mayor of Manila, Isko Moreno. The day after the substitution deadline, Ms Duterte and Mr Marcos acknowledged publicly that they had formed an alliance and each would support the other's election campaign.

Ms Duterte may have sharper political acumen than her father. The survey put her second in the vice-presidential race, behind only Senator Vicente "Tito" Sotto, a former comedian. If Ms Duterte can win the vice-presidency, a similarly victorious Mr Marcos may include her in his government. This would put Ms Duterte closer to the seat of power than her father, even if he succeeds in reaching the Senate. But comfortingly for her father, of all the presidential candidates, Mr Marcos is the least equivocal about his intention to prevent the International Criminal Court from investigating Mr Duterte on suspicion that his campaign against illegal drugs, which has killed thousands of Filipinos, is a crime against humanity. ■

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Some cause for pride

Support for gay rights in Japan is gaining momentum

But conservative politicians in the ruling party are blocking progress

Nov 18th 2021 | SAPPORO and TOKYO



Getty Images

WHEN AIKO (not her real name) was at school nearly 20 years ago, her parents found a love letter another girl had written to her. “They cried a great deal,” she recalls. They told Aiko it was a phase and forbade her from going out at night. When she moved away to college, they told her not to come home if she was going to talk about her feelings. She feared a lonely life.

Japan has yet to legalise gay marriage, leaving it out of step with all other G7 countries and even a former colony, Taiwan, which did so in 2019. The OECD, a club mostly of rich countries, ranks Japan ahead only of Turkey among its 38 members for legal protections for LGBT rights. Activists looked to the Tokyo Olympics to spur change—the Olympic charter, after all, forbids discrimination of any kind.

Yet a relatively tame bill declaring discrimination against LGBT individuals “unacceptable” faltered in the spring. Over the summer conservatives in the

ruling Liberal Democratic Party (LDP) blocked even a watered-down version which pledged to “promote understanding of LGBT people”. One LDP legislator reportedly said that gay and transgender people “go against the preservation of the species”. Two candidates in the race this autumn to lead the LDP (and become prime minister) expressed openness to same-sex marriage, but the party chose Kishida Fumio, who opposes it.

For all the LDP’s backwardness, attitudes have shifted drastically in recent years: today some 65% of Japanese approve of same-sex marriage, up from around 40% in 2015. Even a majority of LDP supporters are now in favour. Pride parades in Japan once struggled to draw crowds; now they have corporate sponsors. Since 2015 some 130 municipalities representing over 40% of the population have introduced systems to recognise same-sex partnerships. This March, in an important symbolic victory for Aiko and her partner of 14 years, a district court in Sapporo declared the prohibition on gay marriage unconstitutional. Judgments in similar cases in four other cities are due this year or next.

For much of Japanese history, sexual and gender mores were more fluid. Samurai were known to take younger male lovers. Traditional Japanese theatre, from *noh* to *kabuki*, features cross-dressing performers; *shunga*, a genre of erotic woodblock prints, teems with all manner of sexuality. Anti-gay sentiment is in contrast a relatively modern import from the West.

But it has become a strong social convention, making life hard for those who do not conform. In workplaces, colleagues make demeaning jokes. Like many gay and transgender Japanese, Aiko's partner has not come out to her colleagues. In schools, gay children are often bullied. When Aiko and her partner bought an apartment last year, they could not find a bank to issue a mortgage to same-sex partners.

Yet several forces favour change. Support for same-sex marriage is very strong among Japanese in their 20s and 30s; more than 80% back it. Kawaguchi Kazuya of Hiroshima Shudo University says that portrayals of gay life on Japanese television and film have shifted from erotic, seedy dramas in the early 1990s to more “wholesome” images, as epitomised by a hit comedy series about a gay couple, “*Kino nani tabeta?*” (“What did you eat yesterday?”). More Japanese firms now see protecting LGBT rights as a

step that will “enhance, not reduce economic power”, says Yanagisawa Masa of Goldman Sachs in Japan.

Finally, progress elsewhere—especially in Taiwan—is expanding the boundaries of the possible. Taiwanese activists’ use of courts to put pressure on legislators inspired the lawyers of Japan’s “Marriage for All” movement, says Takeharu Kato, who represented Aiko in Sapporo.

Although local courts cannot force a change in national laws, “we hope the local verdicts will push the Diet,” says Mr Takeharu. If it does not act, the lawyers plan to appeal up to the Supreme Court, which could eventually force the Diet to legislate. In the meantime, the verdicts offer symbolic succour. Hearing the court declare the prohibition on gay marriage unconstitutional was “almost like a dream for me”, Aiko says. The case even helped sway her parents. Now, she says, “they want me to be able to be happy and to die happy”. ■

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Hooked on handouts

The Indian government's addiction to subsidies has dire effects

Delhi's poisonous air is just one of them

Nov 18th 2021 | Delhi



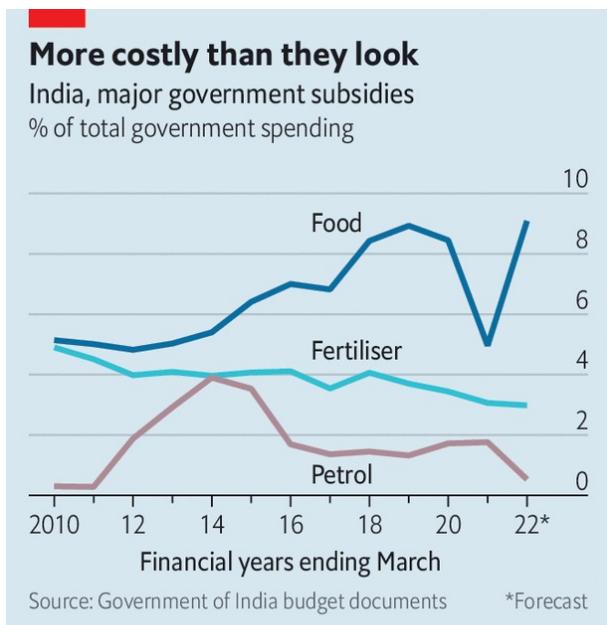
EPA

BACK AT SCHOOL this month for the first time since early last year, Delhi's children are locked out again, but not by covid-19. Delhi's air is so filthy that on November 13th the government decreed an indefinite closure. One rarely mentioned reason for the pollution also plays a part in a host of other troubles: subsidies. Despite endless warnings about moral hazard and distorted markets, politicians and bureaucrats keep creating them.

Delhi's bad air in November is one result. Farmers hurry to clear the rice harvest before planting spring wheat, burning off stubble in a vast pall of acrid smoke. Rice uses a lot of water, and the region around Delhi is fairly dry, but decades ago the government began paying fat prices to push rice-growing. It also subsidised wheat, fertiliser and diesel to fuel water pumps.

So farmers pumped ever more water to grow ever more wheat and rice. With some 9m pumps, parched India now uses more groundwater than America

and China combined, and holds far bigger grain stocks than it needs. Diesel's low price also encouraged carmakers to switch to the fuel and drivers to buy it, adding yet more carcinogenic soot to Delhi's toxic air.



The Economist

Farm subsidies—amounting to some \$48bn a year if government waivers on bank loans are included—skew spending away from such things as education and public health. They have also created dangerous dependence. Last year tens of thousands of farmers besieged Delhi for months, angered by reforms they thought might lead to a reduction in handouts.

Other subsidies, too, show how good intentions pave dangerous roads. Those for electricity make power more affordable, but leave the distribution network underfunded. Only 77% of electricity is paid for, piling up debts reckoned in 2019 at around \$57bn. To compensate, commercial consumers pay up to four times more for power, helping make Indian manufacturers uncompetitive. Similarly, Indian Railways can afford government-imposed low passenger fares only by raising the cost of freight. It relies on shunting coal from forest-devouring strip mines to smoke-belching power plants.

Subsidies can also bring international obloquy. A World Trade Organisation (WTO) agreement required India to phase out varied export-promotion subsidies by 2016. Instead the country ramped up several programmes,

earning in 2019 a sharp reprimand from the WTO. It was chastised again this year, this time for concealing subsidies for agricultural exports.

The WTO might be more sympathetic if it were to study a typical Indian election campaign, where parties vie to offer ever-higher handouts. The current government started off in 2014 insisting it would slash subsidies, and compressed a multiplicity of government schemes into just 40 main ones (not counting various hidden handouts and cross-subsidies). But it still spends more on subsidies than on defence, and has added new beneficiaries. During the worst of the covid slump, many economists counselled boosting demand by giving cash to the hardest hit. The government's biggest initiative instead propped up manufacturers, encouraging them to invest where bureaucrats think they should by offering "production-linked incentives" to make things like solar panels. In other words, it offered subsidies. ■

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Banyan

Russia moves with a new swagger in South-East Asia

But its regional influence remains limited

Nov 20th 2021



MIN AUNG HLAING can cut a lonely figure on the international stage. Since seizing power in a coup in February, the commander-in-chief of Myanmar's armed forces has been persona non grata in many places. But one country at least has remained steadfast: Russia. Its friendship with Myanmar grows "stronger and stronger", boasted the general on a visit to Moscow in June. Nor is Myanmar the only South-East Asian country Russia is buddying up with. In July President Vladimir Putin gave Hun Sen, Cambodia's prime minister, a "friendship" medal, and sent his foreign minister on official visits to Laos and Indonesia. Seven of the ten member-states of ASEAN, a club of South-East Asian countries, have bought or plan to buy the Russian government's Sputnik V vaccine. Vietnam, Malaysia and Indonesia have even signed deals to manufacture it.

Russia's Asian charm offensive is not new. Since Mr Putin first took office two decades ago, Moscow has assiduously cultivated ties there, eager to sell

commodities to its booming markets and to develop the anaemic economy of its far-eastern territories. But some analysts argue that this “pivot to Asia”, as Moscow calls it, is really a pivot to China, which is thirsty for Russian hydrocarbons and with which Russia shares a rival, America. And as fears have grown that Russia’s economy is becoming too dependent on China, so the benefits of sharing the love with the rest of Asia have seemed more apparent. So over the past decade, Moscow has stressed the importance of stronger bonds with ASEAN.

The most obvious evidence of this burgeoning friendship is on the parade ground. Russia is the region’s biggest arms supplier. Between 2000 and 2019 it sold \$10.7bn-worth of tanks, warships, fighter jets and other weapons to South-East Asia, surpassing America, the region’s second-biggest supplier, by nearly a third. Over the past decade, Russia’s navy has made more frequent port calls in the region. Its armed forces occasionally conduct joint exercises with its South-East Asian counterparts. Over the past five years these ties have been affirmed by a flurry of defence agreements—with Indonesia and Myanmar, but also with Thailand and the Philippines, both formally allies of America.

Moscow supplements military ties with camaraderie. Mr Putin has for years made a point of attending ASEAN summits, and in 2016 began to play host to an annual Russia-ASEAN shindig. Years of glad-handing have borne fruit. When in 2014 the UN voted on a resolution condemning Russia’s annexation of Crimea, Vietnam, Brunei and Cambodia abstained, while Laos apparently forgot to vote. Russia reciprocated this year, torpedoing moves by other members of the UN Security Council to condemn the military coup in Myanmar.

South-East Asian governments welcome Russia’s courtship. Its weaponry is more reliable than China’s, and cheaper and less tangled in red tape than America’s. Moreover, as the rivalry between America and China ratchets up, many South-East Asian countries feel under pressure to choose sides. So they are keen on ties with other powerful countries like Russia, says Elizabeth Buchanan of Deakin University in Australia.

The problem is that, aside from arms and hydrocarbons, Russia does not have much to sell to the region. In 2019 ASEAN’s bilateral trade with

America was worth \$292bn and with Japan \$116bn. With Russia it amounted to a piddling \$18bn. Little has changed since 2010, when Russia's foreign minister lamented that economic ties with ASEAN were "mostly skin-deep".

Russia's approach to foreign policy is "short-termist", says Alexander Gabuev of the Carnegie Moscow Centre, a think-tank. Strategists know that the country ought to focus on the rest of Asia, yet "every year we see Russia doubling down on China" because it remains preoccupied by the commercial potential there. But when democracy takes a beating in South-East Asia, Russia does seize the opportunity to reward its assailants, notes Zachary Abuza of the National War College in Washington. When coup-makers in Myanmar and Thailand took power and when the Philippines' irascible president seemed inclined to rip up its alliance with America (he later relented), it swooped in to sell arms and promise lasting friendship. Unable to add substance to those overtures, however, Russia contents itself with thumbing its nose at America and patting authoritarians on the back. It is not so much a great power as a great mischief-maker.

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China

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Soaking it up

To prevent floods, China is building “sponge cities”

After decades of ill-planned growth, urban areas are being retrofitted to prevent disasters

Nov 18th 2021 | LESHAN



Reuters

LOCALS HAVE a saying: “When the Buddha’s feet are washed, Leshan cannot sleep.” The city in the south-western province of Sichuan has reason to be fearful. Leshan lies at the confluence of three tributaries of the Yangzi river. Centuries ago its residents carved a stone statue of the Buddha into a cliff face. It towers 70 metres high, overlooking the swift currents. In August 2020 its giant toes were bathed in river water for the first time since the Communist Party seized power in 1949. Thousands of residents suffered in the flood.

But it is not only the ancient threat of rivers in spate that unnerves Leshan. It is also the way the city itself has grown. By the time of last year’s disaster, its built-up area, including satellite towns, was more than half as big again as it was in 2000. City planners had failed to make due provision for floodwater runoff.

After four decades of frantic expansion, many other cities are in similar difficulty. They are poorly prepared for extreme downpours, which are likely to become more common as a result of global warming. One such storm in July over Zhengzhou, the capital of the central province of Henan, drenched the city in a year's worth of rain in three days (see picture). Cars were swept away or trapped in flooded tunnels, where six motorists died. Another 14 people drowned in the subway system. In all, nearly 300 were killed. According to Chinese researchers, average annual losses from floods in China doubled from around 100bn yuan (\$15.6bn) in the decade after 2000 to over 200bn yuan in the early 2010s.

About one in ten Chinese people lived in cities in 1950. Now six in ten do. About 70% of those cities are in floodplains. "We overbuilt, and we built it wrong," says Yu Kongjian, a landscape architect at Peking University. Mr Yu was among the first to urge that urban areas become "sponge cities", meaning they must be capable of absorbing rain without creating floods. He drew inspiration from old Chinese irrigation systems, such as "mulberry fish ponds" that act as natural reservoirs. He estimates that urbanisation has resulted in a third of farmers' ponds and half of all wetlands disappearing.

The government has embraced the idea, and has adopted the term sponge city. In 2015 it released a series of guidelines for building them. The aim is for 80% of cities to collect and recycle 70% of rainwater by 2030. Local authorities have set their own targets. In 2018 Zhengzhou announced a plan to ensure that nearly nine-tenths of its core urban area would be "spongified" by 2030. This year Leshan said 40% of its urban area would meet the government's sponge-city standards by 2025.

Cities have long tried to prevent flooding with hard engineering involving the "grey infrastructure" of dams, dykes and barriers. But urban surfaces of tarmac and concrete cause floodwater to rush into often inadequate drains. Producing a sponge effect requires measures such as creating artificial wetlands, planting roadside shrubs and using permeable materials to build pavements and plazas.

The flooding in Zhengzhou shocked the country. It left many Chinese wondering whether sponge cities were all they were cracked up to be. After all, a lot of money has been flowing into spongification. Experts reckon that

implementing the government's sponge-city guidelines will cost at least \$1trn nationwide. Generous subsidies have been dolloped out to localities. Netizens were up in arms when they discovered that Zhengzhou had planned to invest close to 55bn yuan in sponge-related projects in the two years preceding the floods. How much was actually spent has not been made public. But the work had clearly failed to avert disaster (and had not reversed the extensive building-over of Zhengzhou's wetlands that had occurred in recent decades). Officials insisted that the downpour was a "once in a millennium" event that even the best-built sponge city could not have coped with perfectly.

Experts agree that Zhengzhou has not disproved the effectiveness of the sponge-city programme. They point out that the government had required sponge projects to cover only 20% of the city's urban area by 2020. So it may be difficult to evaluate Zhengzhou's efforts at least until 2030. Kong Feng of the China Agricultural University in Beijing says that more subterranean spaces need to be used to collect floodwater. For example, he suggests, the lowest levels of underground car parks could be adapted to serve as emergency reservoirs. Such a backup "may not be needed for ten years. But use it just once and it will be life-saving for the city," says Mr Kong. He has been involved in China's first nationwide survey of risk from natural disasters, which was launched last year.

It is the case that local governments sometimes misspend the money they are given for sponge-city building. They are often reluctant to use expensive land to create natural drainage systems such as parks and ponds. For a sponge city to work, many government units must collaborate, from water-conservation and weather bureaus to education and emergency departments. For two days before the worst of the flooding, Zhengzhou's meteorological office issued its highest level of alert for a rainstorm. But few officials appeared to pay much attention.

There is evidence from other places that spongifying can make a difference. Like Zhengzhou, the flood-prone city of Wuhan, on the banks of the Yangzi, was chosen as a pilot sponge-city in 2015. From July 5th to 6th last year, a cloudburst caused record rainfall over the city. Yet flood waters began to recede within hours. The following day centres for taking the *gaokao*, China's university-entrance exam, stayed open despite heavy rain.

Many critics overlook the fact that in Zhengzhou, too, water levels fell more swiftly than they would otherwise have done, says Mr Kong (it may have helped that Zhengzhou's flood-prevention efforts had also included the building or refurbishing of over 5,000 kilometres of drains). City officials recently called on Mr Yu and his team to help them make Zhengzhou more absorbent.

Tourists are flocking once again to Leshan's Buddha, some to seek peace and protection at its feet. The statue conceals other strengths. Inside its body a drainage system, carved into the rock when it was built, helps to flush out rainwater and reduce erosion. Some say that the rocks gouged out of the cliff were dropped into the river, helping to calm it—and that the statue's divine presence, where the rivers meet, also helps slow the water's flow. For sponge-city enthusiasts it is nature, not the supernatural, that offers salvation. ■

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The grey walls of China

Chinese officials help to cultivate a local graffiti scene

Street art has a devoted following, but is not as edgy as graffiti in Western cities

Nov 18th 2021



IN THE MID-1990s outlines of bulbous heads, spray-painted with a single swipe, began to appear on Beijing's walls. Next to them was written “AK-47”. This tag, as graffitied signatures are known, belonged to Zhang Dali, an art student who had spent time in Italy and discovered graffiti culture there. On his return to China, swathes of its cities were being razed to make way for development. Workers were daubing the character *chai*, meaning “demolish”, on buildings due to be torn down. Mr Zhang took his cans to the same walls in protest at this often brutal upheaval.

Mr Zhang is widely regarded as China's first modern graffiti artist. More recent ones are influenced by skateboarding culture or rap music. The art form is still in its infancy in China—it is far less commonly seen than in the West. But Liu Yuansheng, co-author of “Beijing Graffiti”, published in

2020, reckons the number of practitioners in the capital has at times swelled to 200.

Cities are riddled with CCTV cameras and teeming with law-enforcement officers. But it is not the threat of punishment that deters people from becoming graffiti artists. Doodlers rarely face more than a fine of 500 yuan (\$80) and a day in police custody. Those caught tagging often get away with a promise to paint over their work. Sometimes the public defends such art. Residents in the central city of Wuhan called on officers to remove advertisements that had been pasted over a work by Rui Huang, a local artist. They felt that the ads had defaced his graffiti.

It may simply be that few people even consider spraying walls without permission. There is no tradition of guerrilla art used by criminal gangs to mark their territory or by protesters to attack the government. Mr Zhang's poke at developers was a rare kind of dissent. The ruins gave him cover—officials turned a blind eye, knowing his works would soon be bulldozed.

China does have a history of using walls to express dissent in written form, however. A famous example occurred during the Democracy Wall movement of 1978-79 when people flocked to the brick wall of a bus station in Beijing to put up “big-character posters” demanding greater political freedom. A constitutional right to put up such posters was scrapped in 1980. These days mural self-expression rarely goes beyond unauthorised “throwies”, or two-tone tags in bubble-like writing, which can be seen on walls in Beijing.

Local governments sometimes even sponsor street art, regarding it as a sign of modernisation. In the run-up to the Olympic games that were held in Beijing in 2008, officials in the capital encouraged artists to paint a 300-metre-long “graffiti wall”. Designs were vetted first. A street in the south-western city of Chongqing is home to one of the world’s largest graffiti projects (pictured). It was created, with official approval, by 800 painters. This year Wuhan paid local crews to draw graffiti on a tram and several public buses.

There are others, however, who barely qualify as artists who scribble on walls. A Chinese citizen in Sydney, who goes by the name Lil Quacky,

collects graffiti in an Instagram account called “chinesegraffitihub” (the app is blocked in China). Quacky began the project last year after noticing that someone had rewritten a roadside slogan in China that had urged people to carry away their rubbish. It had been changed to “Carry away your love.” Most graffiti submitted to Quacky consists of untidy spray-painted sentences. “Are they enough to shock passers-by, to make them think, to make them stay for a while?” are Quacky’s criteria for posting them online. Hundreds of examples have passed the test. ■

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Chaguan

Talks between Xi Jinping and Joe Biden do not herald a thaw

The two presidents spoke about managing dangerous tensions, but an ice age looms

Nov 18th 2021



BEIJING BASKED in golden sunshine on November 16th as President Xi Jinping spent more than three hours on a video call with his American counterpart, Joe Biden. After months of tensions, the virtual meeting was supposed to show that their countries could manage disputes and avoid a spiral of confrontation.

The two leaders' remarks matched the burst of mild weather. Mr Xi called Mr Biden an “old friend”, nodding to hours that the two men had spent travelling and talking together in 2011, when each held the rank of vice-president. “I stand ready to work with you, Mr President, to build consensus, take active steps and move China-US relations forward in a positive direction,” Mr Xi said.

China's state media announced, approvingly, that Mr Biden had offered reassurances on the most neuralgic points in the bilateral relationship. Notably, he had restated [America's long-standing position](#) that it does not support independence for the island of Taiwan, which China claims as its own. According to the Chinese readout, Mr Biden also hailed China's 5,000 years of history, declared that his administration does not seek to change China's system of government and stressed that as America strengthens its global alliances, the aim is not to oppose China. After months in which Chinese censors have tolerated online mockery of Mr Biden as a doddery *shui wang*, or "sleep king", prone to napping during meetings, official outlets carried side-by-side images of Mr Biden and Mr Xi beaming and waving at one another online.

The White House, for its part, described a businesslike meeting. It quoted Mr Biden as telling his counterpart: "Our responsibility as leaders of China and the United States is to ensure that the competition between our countries does not veer into conflict, whether intended or unintended." American officials are conscious that political opponents at home are eager to accuse Mr Biden of appeasement or of entering endless talks that go nowhere. The national security adviser, Jake Sullivan, duly described Mr Biden confronting Mr Xi over human rights, unfair trade practices and bullying of Taiwan. Mr Biden urged Mr Xi to send "senior and empowered" officials to meetings to make progress on pressing issues, rather than pursue "dialogue for dialogue's sake", Mr Sullivan told a post-meeting briefing at the Brookings Institution in Washington. Suitable topics include Afghanistan, trade, climate change, energy security, public health and the nuclear programmes of North Korea and Iran, Mr Biden suggested.

The video call was a far cry from a traditional summit between American and Chinese leaders. Such events are preceded by months of wrangling by officials over concessions, promises and deals so sensitive that only the top leaders can make them. It says much about the dire state of relations that this conclusion-free meeting—held online because Mr Xi has not left China or met a foreign leader since the covid-19 pandemic began—counts as a modest breakthrough.

In early September Mr Xi was shockingly testy at the start of a telephone call with Mr Biden, say people briefed on its contents. In that conversation,

Mr Xi essentially rehearsed, in private, the same argument levelled by officials in public, namely that America is bent on containing China's rise and is to blame for all present-day tensions. The argument's second part is that President Donald Trump was a bad leader, but that Mr Biden is the same or worse because—as a more rational politician—he should know better. More emollient signals were sent by China on October 6th when Mr Sullivan met Mr Xi's most senior foreign-policy aide, Yang Jiechi, in Switzerland. Western and Chinese sources describe Mr Yang explaining that China seeks a calm external environment in 2022, to avoid disrupting events including the Beijing Winter Olympics in February and a year-end Communist Party congress at which Mr Xi is expected to launch a third term as party chief.

In this low-trust moment, Mr Biden and Mr Xi are arguably the only American and Chinese officials able to have substantive discussions. Their video chat was better than nothing, but worryingly limited. When it comes to co-existing sustainably, [the two sides are far apart](#). Mr Biden says that America and China are locked in an intense competition, which must be managed responsibly. Chinese officials call that framing too negative. They prefer talk of relations based on mutual respect and mutual interests: code for a realist America realising it has no choice but to accommodate China's autocratic, statist ways.

China's plan for world peace: America stops defying China

Mr Biden is presented in China as a more pragmatic president than his predecessor. Alas, scholars and state media frame his willingness to talk as an admission of American failure. In China's telling, American inflation is linked to Trump-imposed trade tariffs (though inflation is recent and tariffs have been in place for three years). Chinese analysts blame another complex problem, supply-chain chaos, on a simple cause: Trump-era attempts to block exports of semiconductors and other advanced technology to China, while urging firms to move factories out of China. With the American economy now in “bleak” shape, the Biden administration “needs to ease relations with China in order to improve its political standing at home”, says Wang Yong, director of Peking University's American studies centre. Professor Wang adds that America is losing the hearts and minds of younger

Chinese, who have “given up their illusions” that the West is sincere when it expresses concerns about Muslims in Xinjiang or democrats in Hong Kong.

China’s leaders still want investment and technology from the West, but they think it is in decadent decline and are decoupling from Western norms and ideas. One video call cannot begin to fix a relationship in crisis. Mid-November often brings spells of sunshine to Beijing, which do not last. In China’s ancient, 12-season calendar, the freezing periods called “small snow” and “big snow” are next. Relations with America face a similar ice age. ■

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United States

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Scott free

MacKenzie Scott is giving away more money, faster, than anyone has before

But America's champion philanthropist operates like a middle-class donor

Nov 18th 2021



IN JUNE 2020, Jorge Valencia of the Point Foundation started receiving calls and emails from consultants doing due diligence on his organisation, which helps lesbian, gay, bisexual, transgender and queer (LGBTQ) students into higher education. They wanted financial statements and asked questions about how the group was responding to the pandemic. For a non-profit organisation that relies on donations, it was nothing out of the ordinary.

What came next, however, was. Just a few weeks later they received another call, this time with news that MacKenzie Scott, the former wife of Jeff Bezos, who founded Amazon, wanted to make a large gift. There were no restrictions on how the money was to be spent or plans to monitor the group's work beyond a short annual report—just a request to keep quiet about the source of the donation for a few weeks. Mr Valencia will not disclose how much money Ms Scott gave. But, in the midst of a pandemic, as many non-profit groups are worried about funds drying up, it has allowed

the Point Foundation to more than double the number of young people it helps this year. “It was a godsend,” Mr Valencia says.

Ms Scott is an unusual billionaire. A novelist by trade, she came into a vast fortune when her 25-year marriage to Mr Bezos came to an end in 2019. As a result of the blockbuster divorce settlement she has become the 22nd-richest person in the world, with a net worth of around \$60bn. Yet she is, by all accounts, an understated sort. She has married a science teacher at the school her children attend in Seattle and signed the Giving Pledge, promising to devote most of her wealth to giving back. Her only comments on her philanthropy so far are contained in three short blog posts sprinkled with references to poetry by Rumi and Emily Dickinson.

That discretion masks immense power. Over the course of the pandemic Ms Scott has become one of the most generous philanthropists in history, announcing \$8.6bn in gifts in the 12 months to June. That is widely thought to be the largest sum anyone has ever given to operating charitable groups in such a short period. Other wealthy people tend to give to foundations, which then disburse grants over time. [The Bill and Melinda Gates Foundation](#), the largest private development foundation in America, for example, dished out \$5.8bn in 2020.

Ms Scott is also exceptional for the way she donates. Most “mega donors” today take a technocratic approach. They set up a foundation, put potential grantees through a gruelling application process, fund specific projects and monitor them closely. Ms Scott is giving the way middle-class people do: donating to a bunch of organisations and leaving them to get on with their work. As Benjamin Soskis at the Centre on Non-profit and Philanthropy at the Urban Institute, a think-tank, puts it: “Her fundamental priority is getting money out the door.”



The Economist

The first big decision rich people make when they decide to give money away is who to give it to. Here Ms Scott has relied on outside advisers, including The Bridgespan Group, a non-profit consultancy spun out of Bain and Company, rather than setting up a permanent bureaucracy of her own. The approach she has settled for involves spraying funds across relatively small organisations working on a wide range of concerns, including [racial and gender equality](#).

A good chunk of Ms Scott's gifts have gone to local groups in America, such as food banks and YMCAs. Bloomberg News sent a survey to the recipients of all 786 gifts and got responses from 270. They found that half, excluding colleges and universities, have fewer than 50 employees. For nearly 90% of them, Ms Scott's donation is the largest they have ever received. Contrast that with the Gates Foundation, which has handed about 30% of its total funding over the past two decades to ten big international groups, including the World Health Organisation; Gavi, the vaccine alliance; and the Global Fund to Fight AIDS, Tuberculosis and Malaria.

The second step is deciding how to dish out money. Here, Ms Scott's decision to make unrestricted grants is particularly popular with beneficiaries. The leaders of non-profit organisations grumble that donors too often tie money to specific projects, leaving them struggling to finance

day-to-day operations. One-third of groups that received funds from Ms Scott are using the money to hire more people and over a fifth plan to invest in technology, according to the Bloomberg poll.

Ms Scott likes to fund people with personal experience of the problems they are trying to solve. The Interfaith Youth Core, for example, which received a \$6m gift, was founded by Eboo Patel, an Indian-American Ismaili Muslim. The Chicago-based non-profit has decided to use some of the money to launch an online magazine that writes about subjects such as Jewish baseball players and voodoo festivals in Haiti. Implicit in Ms Scott's unfenced giving, Mr Patel says, is a recognition that the person with the money doesn't necessarily know best. "It makes the recipient feel honoured and dignified," he says.

The third step is how to evaluate what organisations do with the money. Ms Scott has said little about this, but here too, grantees say, she takes a light-touch approach. One, the National Centre for Family Philanthropy, has been asked to submit a "simple and brief" report every year for the next three years that lays out what the organisation is up to. There is no template for that report and no effort to advise the organisation along the way. Ms Scott has coined a term for this approach: "seeding by ceding".

Whether it was her intention or not, Ms Scott has issued a challenge to the bureaucratic, top-down model that has dominated American philanthropy for decades. It already seems to be influencing other rich people. Ms Scott's ex-husband, for example, is chided for refusing to sign the Giving Pledge and being slow to make donations. But when Mr Bezos landed back on Earth after his first trip into space earlier this year, he announced a £200m gift that was a surprise to the recipients and came in the form of unrestricted grants. "No bureaucracy," he said.

None of this is to say that Ms Scott has found some magic formula. In pursuit of discretion, she forgoes transparency. She has kept her advisers secret, so non-profit leaders eager to get on her radar have no way to contact her, aside from commenting on her blog. There are so many con artists pretending to dole out cash on her behalf that Ms Scott's Twitter bio directs victims to a Federal Bureau of Investigation complaints page. And because she is giving as an individual, she doesn't face the same reporting

requirements as a foundation. Rob Reich at Stanford University points out that this opacity is rare among big donors. “It is insulting to democratic citizens because of the kind of power she wields,” he thinks.

Of course, Ms Scott’s strategy could change. She is just getting started with her philanthropy. Even as she announced her first round of grants last year, she vowed “to keep at it until the safe is empty”.

That could be more difficult than it sounds. The source of her fortune is a 4% stake in Amazon she received as part of the divorce settlement in April 2019. Shares in the e-commerce giant have rallied some 95% since then. Ms Scott’s safe is fuller now than it was when she began shovelling money out of the door.■

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Provoking questions

The trial of Kyle Rittenhouse shows America's divide over guns

This will not be the last tense trial on the topic of self-defence

Nov 20th 2021 | KENOSHA



THE TRIAL of Kyle Rittenhouse, an 18-year-old from Illinois who killed two people after a Black Lives Matter protest in Kenosha, a small city in Wisconsin, last August, ended much as it began: with people pointing guns. In the concluding arguments, both Thomas Binger, the lead prosecutor, and Mark Richards, the lead defence lawyer, took Mr Rittenhouse's rifle out of its evidence box to make their points. "He raises his left hand, to the gun, and points", explained Mr Binger, aiming the firearm (which he had checked was unloaded) at the courtroom. "That is what provokes this entire incident." Later, Mr Richards also took the gun out to show how, in his view, Mr Rittenhouse did not shoot Joseph Rosenbaum, the first victim, in the way the state contended.

Such were the details on which jurors had to decide in the case of Mr Rittenhouse. On November 18th, as *The Economist* was published, jurors were still deliberating on the charges against him, which include intentional

homicide. The lawyers were arguing over video evidence, with the defence having requested a mistrial. The trial, which has taken over two weeks, highlights deep divisions among Americans over gun ownership and what constitutes acceptable self-defence.

Most of the facts of the case were well known long before any witness took the stand. After a night of rioting that followed the shooting by police of a black man, Jacob Blake, Mr Rittenhouse, who was 17 at the time, travelled to Kenosha to volunteer to defend businesses from looters. He took with him an AR-15 style semi-automatic rifle he had paid a friend, Dominick Black, to purchase for him (he was too young to buy it himself). A little before midnight, he became separated from the group he had joined and ended up being chased by Joseph Rosenbaum, a troubled 36-year-old, who he shot four times. He then tried to flee and, having fallen over, shot two more people who ran after him, killing one, Anthony Huber, who had been hitting him with a skateboard, and injuring another, Gaige Grosskreutz, who had been approaching him with a gun in hand.

Almost all of it was recorded on video tape, by security cameras, witnesses' mobile phones, and, crucially to the prosecution's case, an FBI drone. What the jurors had been asked to decide was how to interpret that evidence. Was Mr Rittenhouse, as alleged by the prosecution, a naive "chaos tourist" who went to Kenosha to play at being a vigilante and then shot his way out of a scary but not actually life-threatening confrontation? Or was he, as the defence argued, a well-meaning young man who set out to help and was ambushed by unhinged, criminal rioters, who he was forced to shoot? "If I would have let Mr Rosenbaum take my firearm from me, he would have used it and killed me with it and probably killed more people", claimed Mr Rittenhouse on the stand. Mr Binger argued that Mr Rosenbaum was in fact the one threatened, by the rifle.

Earlier in the trial, Bruce Schroeder, the judge, had stressed that the decision was "not a political trial". Yet in his jury instructions, he also specifically told them to "pay no heed to the opinions of anyone—even the president of the United States or the president before him". During last year's election campaign, Joe Biden posted a video that implied that Mr Rittenhouse was a white supremacist (others called him a "domestic terrorist"). Donald Trump by contrast suggested he was only defending himself.

Ultimately, politics is hard to avoid in cases like this, because the law asks a jury to decide what is a “reasonable” use of a gun, says Samuel Buell of Duke University. That is not something most Americans agree on. In the past decade or so, the “open carry” of weapons, particularly to sensitive events such as protests, has burgeoned, led by right-wing pro-gun activists. Generally it is legal. And yet in most states, pointing a gun at somebody also constitutes an assault. The rules on what is acceptable conduct and what is dangerous are deeply unclear. America finds itself “looking to specific high profile trials as a way of trying to settle contestable social issues that the political system has failed to grapple with”, says Mr Buell.

Sadly, such trials seem sure to proliferate. Even as the jury weighed Mr Rittenhouse’s fate, lawyers in Georgia were busy fighting another case, of three white men accused of killing a black man, Ahmaud Arbery, in February last year. Like Mr Rittenhouse’s victims, Mr Arbery was also shot at close range during a physical struggle. As in Kenosha, it was filmed. And like Mr Rittenhouse, his killers also claimed that their guns could have been used against them. Whatever the verdict, no single court case will provide a good answer to the question of when shooting a person is acceptable. That is something more than 12 Americans at a time must answer. ■

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Answered prayers

America's Catholic schools are seeing a surprising rise in enrolment

Despite empty pews and sexual-abuse scandals, Catholic education is increasing in popularity

Nov 20th 2021 | QUEENS, NEW YORK



"I NEVER ENVISIONED sending my children to a Catholic school. I have a good public school down the block from my house," says Laura Camisa, mother of two girls aged five and seven. She and her family live in an expensive Brooklyn neighbourhood in a high-performing school district. Ms Camisa's older daughter was in kindergarten when schools shut down in 2020 because of the pandemic. Remote learning was difficult for her daughter. Once happy and outgoing, she became withdrawn. "This is not working", Ms Camisa remembers saying to herself. After hearing good things about St Joseph the Worker, a nearby Catholic school, she decided to send her children there.

The Camisas are one of thousands of families newly enrolled in Catholic schools. Falls in pupil numbers of a couple of percentage points a year had been the norm for years. The number had fallen from a peak in the early

1960s, when Catholic schools had 5.2m pupils, to around 1.6m last year, which meant a lot of empty desks. But this autumn dioceses all over the country are seeing increases in enrolments. The National Catholic Educational Association is still collecting and analysing the latest pupil data, but its preliminary numbers show increases in most dioceses.

The Brooklyn-Queens diocese in New York, one of the biggest in the country, saw increases for the first time in a decade or more. Nearly 60% of its schools are growing, with many increasing by 10%. Partnership Schools, a network of Catholic schools in New York City and in Cleveland, saw a 16% increase. The diocese of Springfield, in Massachusetts, is up by 13%. Arlington's diocese, which takes in the suburbs of Washington, DC, increased by 6%. The Archdiocese of Baltimore, the county's oldest, saw a similar increase. Chicago's archdiocese, which includes some suburbs, saw a 5% increase. Enrolment increased by nearly 4% in Catholic elementary schools in Philadelphia's archdiocese.

Why are Catholic schools suddenly growing? Last autumn many public-school systems [delayed reopening](#) and did not offer full-time in-class learning. When Catholic schools reopened, most provided in-person learning. This appealed to families who struggled with remote learning—many of the new pupils are children whose parents cannot work from home. Most Catholic schools had plenty of space to socially distance: those empty classrooms came in very handy.

Families took note, including non-Catholics. In 1970 only 2.7% of the pupil population was non-Catholic. Last year it was one in five. In some dioceses it neared two in five. Kathleen Porter-Magee, superintendent of Partnership Schools, says the children in her Cleveland schools are nearly all non-Catholic: “We like to quote the late Cardinal Hickey of the Archdiocese of Washington who said, ‘We educate our communities, not because they are Catholic, but because we are’.”

Catholic superintendents and enrolment directors are giddy about the increase. Mary Pat Donoghue of America’s Conference of Catholic Bishops hopes it will stabilise the pupil population. Father Joe Corpora of the University of Notre Dame warns: “We’ll never get another chance like this

again.” Some dioceses and schools are working on retention and marketing plans, a first for many.

Catholic schools are not cheap. Tuition averages \$4,800 a year for elementary schools and high school costs more than \$11,000. Historically, parishioners helped offset tuition costs with what they put in the offertory basket. But as fewer people went to church, that funding stream decreased. The many sexual-abuse scandals have also hurt enrolment. Charter schools, which share some of the attributes of Catholic ones (uniforms, discipline, community values) also drew prospective pupils away from Catholic schools. It is hard to compete with free.

Even so, many families are willing to pay. Ms Camisa and her husband have had to rejig their finances to afford tuition. “We moved [schools] because of the pandemic, but we stayed because of what we saw at St Joe’s.” When public schools restored in-person learning, she did not return. “We’ll probably stay Catholic the whole way to high school.” ■

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Where did it all go so right?

Puerto Rico, success story

How an impoverished, battered island handled covid-19 better than the us

Nov 18th 2021 | SAN JUAN



Getty Images

HURRICANE MARIA killed about 3,000 people and left parts of Puerto Rico without electricity for 11 months after it made landfall in September 2017. For the past four years its inhabitants have endured frequent electricity blackouts. Then earthquakes then hit the island in late 2019-early 2020. So when the first covid case was documented two months later, Puerto Rico was still reeling from previous disasters. The hospital system was in disarray: about 15% of medical personnel fled for the mainland after Hurricane Maria, and the earthquakes forced many clinics to close. Some Puerto Ricans were living in tent shelters, where infectious diseases could spread easily. Many feared that covid would devastate the weakened island.

In fact Puerto Rico, an American territory of 3.3m people about 1,000 miles (1,600km) south-east of Florida, has fared much better than most of America. The island experienced lower infection rates per person than all American states (5,843 cases per 100,000 since January 21, 2020). Of course, low case rates could be the result of infrequent testing. The positivity

rate (the percentage of covid tests that are positive) is used as an indicator of how widespread infection is and whether enough testing is being done. As of November 15th, Puerto Rico's positivity rate was 5-7.9% for the entire pandemic, just slightly above the share at which the World Health Organisation thinks the virus is under control.

Since January 2020, Puerto Rico saw 3,258 deaths from covid-19 (102 deaths per 100,000 people). Of the American states, only Vermont (60), Hawaii (68) and Maine (92) had fewer deaths per person. This is despite the fact that the island's demography does not work in its favour. Over one-fifth of Puerto Ricans are 65 or older, compared with 16% of Americans overall. Those with pre-existing conditions are also at greater risk of severe covid infection, and Puerto Rico is over-represented among these diseases. It is also four times poorer than the rest of America: 44% live in poverty.

Why has Puerto Rico done so well? Unlike much of America, the island enacted strict rules early. The government brought in a lockdown in March 2020, two days after its first confirmed covid case. Non-essential businesses were ordered to close, and a curfew was enforced from 9pm until 5am. Anyone who broke it faced a \$5,000 fine or a six-month jail term. "Puerto Rico...enact[ed] some very intense and very stringent protocols when covid first came out," explains Brice Acosta, formerly of the Federal Emergency Management Agency. "I think that really helped them control things in the beginning." Variations of this lockdown continued for over a year. When all American states (except Hawaii) reopened over the summer, Puerto Rico did not and kept many restrictions in place.

Detachment from the mainland also allowed Puerto Rico to limit travel into the territory. Cruise-ship passengers were prohibited during the pandemic, and even fully vaccinated ones were not allowed to enter Puerto Rico until August this year. In March 2020 the Federal Aviation Administration granted Puerto Rico permission to require all commercial flights to land at the international airport in San Juan for health screening before heading to other destinations. Today, all passengers landing in Puerto Rico must show proof of vaccination or a recent negative covid-19 test.

Other American jurisdictions detached from the mainland also benefited from the distance. Alaska experienced relatively few deaths per person

compared with the rest of America (109 per 100,000), as did the US Virgin Islands (79) and Hawaii (68). All three limited domestic and international travel. Hawaii's rules were particularly stringent: some tourists were arrested for breaking quarantine rules, and domestic travellers must still present a negative covid test or vaccination card to avoid having to quarantine for a stretch before paddling out on the North Shore. But despite these restrictions, each of these jurisdictions has experienced covid surges over the past few months that have overwhelmed hospitals and caused patients to be turned away. Puerto Rico did not.

Widespread vaccination is the likeliest reason for this difference. Puerto Rico is the most vaccinated jurisdiction in America. As of November 16th, 74% of the island's population was fully vaccinated (America's average is 59%). Hawaii, Alaska and the Virgin Islands have struggled to vaccinate their populations, with 60%, 54%, and 47% of residents vaccinated respectively. Victor Ramos, a doctor who is president of Puerto Rico's association of physicians and surgeons, credits a strong childhood-immunisation system for the successful covid-19 campaign. He is confident that Puerto Rico will also successfully vaccinate eligible children over the coming months. For America, it is a glimpse of what might have been. ■

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Spending and voting

Will Democrats be rewarded for spending lots of money?

The precedents suggest not

Nov 18th 2021 | WASHINGTON, DC



AMERICA'S PROGRESSIVES reckon they would win more elections if only Congress would pass their left-leaning economic agenda. The presidential campaigns of Bernie Sanders and Elizabeth Warren in 2020 were animated by the idea that raising taxes on the wealthiest Americans to pay for much more spending would turn out younger and less engaged voters. A watered-down version of the same theory is being applied by some Democrats to Joe Biden's bipartisan infrastructure bill, which allocates \$550bn in new spending over the next ten years for various public-works projects and was signed into law this week. The total price-tag of \$1trn is higher than the Democrats' most recent infrastructure-focused stimulus package, Barack Obama's 2009 American Recovery and Reinvestment Act (ARRA). Will voters be madly grateful?

Probably not. "Economic populism," as Democratic Party staffers and strategists call the tactic, may be more white whale than silver bullet. Our

analysis of US House election results in 2008 and 2012 reveals that the party did not do any better in counties that saw higher per-person ARRA funds than in those that saw less.

We looked at the change in the Democrats' share of votes cast in competitive House races, weighing ARRA funding per person in each county against the Democrats' share of the vote in that county in 2008, the percentage of white, non-college-educated voters living there, the number of people per square mile, the unemployment rate in 2008 and a few other factors. After adjusting for these, ARRA funding had no effect on the party's performance. Our model found the Democrats lost 7.7 percentage points of the vote in the average county in the bottom 10% for ARRA funding, versus 7.9 points for counties in the top 10%. That difference was not statistically significant.

The findings are controversial. Past studies about the effects of the ARRA have found small positive effects for the Democrats' vote share—with an interesting twist. The leading study was done by Katherine Levine Einstein, a Boston University political scientist, in conjunction with Kris-Stella Trump, now a political science professor at the University of Memphis, and Vanessa Williamson, a researcher at Brookings. *The Economist*'s model was nearly identical to theirs, but they found that funding went with a higher Democratic vote-share if that county already had very high levels of support for Democratic House candidates. But in very Republican places, they found the Recovery and Reinvestment Act funds actually hurt Democrats by up to 5 percentage points.

The difference comes down to which counties and which variables are included in the analysis. Because of the way ARRA funds were doled out, state capitals were often used as receptacles for money that would be distributed to counties later. This created an artificially high reading of per-person ARRA funds. Then, some of these counties just so happened to move less towards Republicans between 2008 and 2012, perhaps because they were large cities that tended to vote Democratic. This in turn produced an inflated estimate of the precise amount by which stimulus funds helped Democrats.

The academic model also did not adjust for population density in counties; or the share of white voters without degrees (both of which were linked to

Republican gains during Barack Obama's first term in office); or the possibility that all counties represented by Democratic legislators would have seen more backlash because Democrats held the White House. In our model, counties that elected Democratic House members in 2008 saw the party's vote-share drop by five points more than those with Republican members. That effect was larger than for the ARRA—no matter what other variables we controlled for.

Progressive Democrats have for decades believed that their popular policy proposals and economic redistribution would win them more voters over time. But the biggest infrastructure spending plan of the past 50 years did not confer any such benefits on them. Perhaps this time will be different. But it seems unlikely.■

For more coverage of Joe Biden's presidency, visit our dedicated [hub](#) and follow along as we track shifts in his [approval rating](#). For exclusive insight and reading recommendations from our correspondents in America, [sign up to Checks and Balance](#), our weekly newsletter.

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Drug deals

Democrats have a plan to lower drug costs without hurting innovation

The party's latest legislative proposal would bring the cost of medication more in line with the rest of the world

Nov 20th 2021

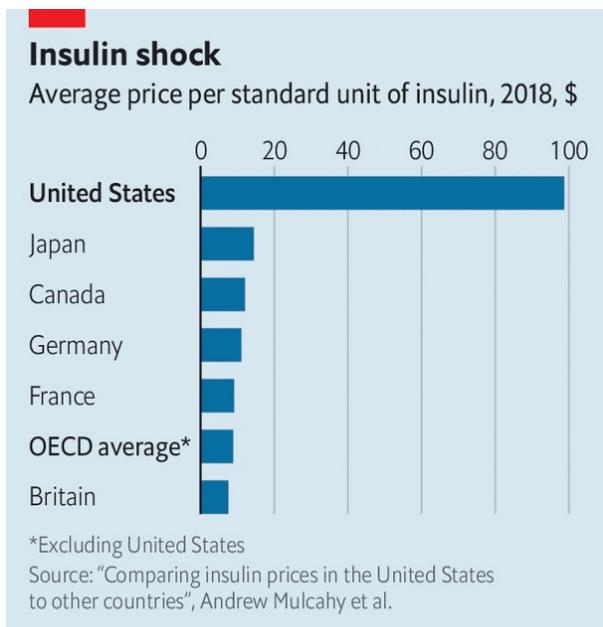


Getty Images

MOST DIABETICS need at least one shot of insulin a day to regulate their blood-sugar levels. Some need four, and in America, drug companies charge about \$100 a vial—nearly seven times more than in any other OECD country. Older Americans, a third of whom live with diabetes, could soon pay as little as \$35 a month thanks to a bill that the Democrats are trying to fast-track through Congress, much to the dismay of the pharmaceutical industry, which argues that the cost caps will damage innovation.

Prescription drugs in America cost two and a half times more on average than in other developed countries. At the moment the federal government cannot negotiate with pharma firms over the prices of the drugs they sell, as other countries do. In Britain, for example, the NHS negotiates discounted prices with pharmaceutical companies, and only after another public body has determined if a drug is beneficial enough to justify the price. In

America, pharmaceutical companies are, in effect, the price makers. If passed, this bill would allow the government to have some say in drug prices for the first time.



The Economist

On behalf of Medicare patients (those aged 65 or older and the disabled), the bill could empower the health secretary to negotiate lower prices for ten of the costliest drugs by 2025 and 20 by 2028. This includes treatments typically given in hospitals, such as cancer drugs which can cost payers \$20,000 a dose, and also prescription drugs taken at home. The plan would also ensure that these patients don't spend more than \$2,000 of their own money on medicine each year, a desirable development since an estimated 18m Americans can't afford the drugs that they need.

This is, unsurprisingly, not popular with the pharmaceutical industry. Many new drugs developed today rely on venture-capital investments in small biotech firms to carry out risky research. Investors are incentivised by the promise of substantial returns, since America's pharmaceutical behemoths eventually sell these drugs at high prices. The plan before Congress also curbs pharmaceuticals from increasing some of their drug prices more than the rate of inflation each year. This sounds good for consumers, but PhRMA, the industry's lobbying group, maintains that this bill will up-end America's "global leadership in biomedical innovation". Will it?

Although high prices can subsidise research, the bill has been tweaked to reduce the impact on new drugs. The Democrats' previous proposal would have introduced price negotiations and inflation caps for 250 drugs, for everyone. Had this been made law, the non-partisan Congressional Budget Office estimated that eight fewer drugs would have been brought to market over a decade (which is either a little or a lot, depending on your medical prognosis). But in the current plan, only ten of the costliest drugs will be affected at first by inflation caps. What is more, these caps will apply only after the drugs have been on the market for a while: nine years for cheaper small-molecule drugs and 12 years for the more complex biologics.

Pharmaceuticals and their investors often make their money back, and then some, much faster than this. Take Gilead Sciences, for example, which bought the biotech Pharmasset—and their Hepatitis C drug, Sovaldi—for \$11.2bn in 2011. Gilead recouped almost all of that in 2014 alone. In short, the bill strikes a balance that minimises innovation risks while still granting the government some much-needed negotiating power. Even the representatives most critical of drug-pricing reforms, such as Senator Kyrsten Sinema, seem to have come around.■

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Lexington

Pete Buttigieg's impossible job

The secretary of transportation is a Democratic star. But fixing the roads won't make Joe Biden popular

Nov 18th 2021



THIS WEEK'S signing of a trillion-dollar bipartisan infrastructure bill brought a glimpse of the politics Joe Biden promised to restore. Leaders from both parties gathered on the White House's south lawn to praise the bulging spending package for roads and bridges. "I ran for president because the only way to move this country forward, in my view, was through compromise and consensus," said Mr Biden. Conservative talking-heads were meanwhile rowing with his secretary of transportation over whether the concrete structures earmarked for attention were racist.

Pete Buttigieg suggested last week that some were. "If a highway was built for the purpose of dividing a white and a black neighbourhood, or if an underpass was constructed [too low to allow a] bus carrying mostly black and Puerto Rican kids to a beach...that obviously reflects racism." Tucker Carlson—who claimed the infrastructure bill was not about infrastructure

but is a “weird climate scheme/power grab/race-based redistribution plan”—called Mr Buttigieg one of “the dumbest people in the world”.

The 39-year-old, who used the mayoralty of Indiana’s fourth-biggest city to launch an improbable and impressive presidential run, is cerebral. An alumnus of Harvard and Oxford, he was interviewed on the trail in half a dozen languages (including Norwegian, which he learned to read a favourite novelist in the original). He is also right about infrastructural racism. Non-white communities were often bulldozed to make way for the national highway system. It is one of the reasons a typical white family is eight times wealthier than a typical black one—a staggering disparity.

The disdain on the right reflected not only unconcern about racial injustice, but how much the Biden administration has riding on the spending bill. Even if the Democrats pass a \$1.85trn companion bill, covering social and climate policy, the infrastructure package will represent much of the legislative record Mr Biden will take into the mid-terms. Mr Buttigieg’s appointment to the Department of Transportation, whose budget has just been increased by over half, was made with that prospect in mind. A large but unglamorous agency, known inside the beltway for geekish efficiency and outside it hardly at all, the department has never before been run by such a rising star. And the similarly geekish Indianan’s task of selling the infrastructure splurge as a presidency-defining triumph has become even more important as Mr Biden’s ratings have slumped. Rarely has the workaday business of fixing bridges and potholes been invested with such desperate hopes.

Alas for the Democrats, even the sexiest lawmaking does not predict mid-term success. Voters responded to the arrival of Medicare in 1965, the Reagan tax cuts of 1981 and Obamacare in 2010 by punishing the president’s party. And they will feel the benefit of better roads far more slowly than they enjoyed those measures. Yet it should be acknowledged that generating wild enthusiasm for humdrum ideas and governing is Mr Buttigieg’s speciality.

A new film about his campaign, “Mayor Pete”, highlights the incongruity between his ordinariness and the passions he stirred. It shows his supporters joyously celebrating as he appeared—dressed like a dapper science teacher, in crisp shirt and tie, no jacket—and thronging to him. He won Iowa, came

second in New Hampshire and stirred more excitement than any other candidate except Bernie Sanders. Some of the enthusiasm concerned the historic nature of his candidacy, as an openly gay man. But it was also testament to his ability to spin his thin résumé, as South Bend's chief rubbish-collector, and unremarkable centrism into a compelling message of moral force and generational change.

Mr Biden, whose own campaign was less memorable, has his best talker where he needs him most. Mr Buttigieg has already visited a dozen states to cheerlead for the impending spending. This has sparked gossip about his future. Vice-president Kamala Harris, whose presidential campaign was even less inspiring than Mr Biden's, is looking like an increasingly outside bet to succeed him. Some Democrats want to sideline her, whenever Mr Biden bows out, for the more talented Mr Buttigieg. It is crushing for the Democrats that such talk is afoot. (Less than a year into Mr Biden's first term, they seem less sure of the identity of their next presidential nominee than the Republicans are.) It is also premature; not least because Mr Buttigieg's increased exposure carries risks.

One concerns the management of the impending splurge. He understands that policy and messaging are only loosely related (with characteristic precocity, he corresponded with the linguist George Lakoff on the subject while still at Harvard). But few messages can survive a failed policy, and his department's limited control over its resources makes embarrassments inevitable when so much money is sloshing around. Its main responsibilities are to pass safety regulations and funnel cash—mostly under tight congressional guidelines—to state and city governments. How well they spend it will be largely out of Mr Buttigieg's hands. At the same time, a massive increase in the amount of discretionary spending he will have at his disposal—it will amount to roughly \$42bn next year—will both consume him and make him appear more responsible for the entire spending package than he is. Mr Buttigieg used to argue that managing South Bend's little budget was ideal training for federal leadership. He'd better hope it was.

A bridge to nowhere

Another vulnerability is the administration's determination to justify all it does in terms of racial justice—as Mr Buttigieg's recent remarks illustrated.

However well-intended, they raised a question of redress for racist planning that he has no answer to. The bulldozed communities cannot be reassembled. He is not planning to favour poor minorities in his spending. Righting historic wrongs does not seem to be part of his remit; so it would be better if he did not raise expectations on the left and blood pressure on the right by suggesting it is. He already has enough on his plate.■

For more coverage of Joe Biden's presidency, visit our dedicated [hub](#) and follow along as we track shifts in his [approval rating](#). For exclusive insight and reading recommendations from our correspondents in America, [sign up to Checks and Balance](#), our weekly newsletter.

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The Americas

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Pole positions

Chile's presidential election is a contest between extremes

Do voters worry more about crime and immigration, or about inequality and poor public services?

Nov 18th 2021 | SANTIAGO



IN OCTOBER 2019 more than a million Chileans took to the streets to demand greater equality and better public services. At least 30 people died in protests that lasted for weeks. To restore calm, Chile's leaders increased social spending and agreed to a process to rewrite the constitution adopted under Augusto Pinochet, a dictator who ruled from 1973 to 1990. Members of a constitutional convention elected in May this year, many of them leftists and political neophytes, have begun drafting a charter that could transform the country.

Until recently it looked likely that Chile would elect a new president who shares the protesters' goals. For months Gabriel Boric, a 35-year old former student leader allied with the Communist Party, was the front-runner in a presidential election whose first round takes place on November 21st. (Legislative and regional elections are also scheduled for that day.) Now it

seems that the presidential race will be a hard-fought contest between him and a candidate of the far right, José Antonio Kast, who has surged in the polls. A champion of “liberty, the rule of law and the family”, Mr Kast would preserve Pinochet’s low-tax economic model and restore his social conservatism. “Boric represents the demands that gave rise to the protests. But Kast represents what happened two years after, which is that people want peace, order and security,” says Roberto Izikson, the head of Cadem, a polling company.

The summoning of the constitutional convention did not end the upheaval, as Chileans had hoped. On October 18th protesters marked the second anniversary of the demonstrations with more violence. Two people died and hundreds were arrested. Last month the government also declared a state of emergency in southern Chile in response to arson attacks, mostly against logging companies, by some Mapuches, an indigenous group seeking greater autonomy in its ancestral lands. This allows the government to send in the army. On November 9th it extended the emergency after a video appeared on social media that showed heavily armed, hooded men threatening to boot the army out. To many, a rise in immigration looks hardly [less menacing](#).



The Economist

Having demanded a new constitution, some Chileans have misgivings. They worry that it will enshrine obligations that the state cannot afford, fuelling

inflation, which has recently risen sharply. The constitution may declare Chile to be a “plurinational” state, giving indigenous groups more influence. Trust in the convention fell after the revelation that a far-left member had lied about having cancer, which was a central theme of his campaign. One poll shows that its approval rating has dropped by almost 15 percentage points since July (though it remains more popular than other political institutions).

Mr Boric would put the presidential palace on the side of the protesters and their allies in the constitutional convention. He would scrap the model for public services introduced by the Pinochet regime, which gives private providers a large role. He would forgive all student debt, abolish private pension funds and make public transport free and green. Children as young as 14 would be able to change their gender on documents; schools would be equipped with condom dispensers; “at least” 1% of jobs in the public sector would be reserved for trans people. Mr Boric would raise taxes by a massive eight percentage points of GDP in as few as six years.

There are more moderate candidates among the seven running for the presidency, notably Sebastián Sichel on the centre-right and Yasna Provoste on the centre-left. But they have so far failed to prosper. Slammed for left-wing looniness, Mr Boric himself has become more moderate. He no longer favours an amnesty for illegal immigrants or a requirement that half the members of corporate boards must be workers. But his Communist allies will impede his move to the centre. Although Mr Boric criticised violence on the anniversary of the protests, some of his coalition partners joined the rally.

This gives an opening to Mr Kast, whose remedy for Chile’s woes mixes nationalism, law and order and proposals to slash taxes and regulation. A lawyer who broke with an established party to found his own Republican Party (echoing the name of Donald Trump’s), he proposes to dig ditches on Chile’s northern border to deter undocumented migrants and establish an agency modelled on the United States’ Immigration and Customs Enforcement. Mr Kast denounces the protesters of 2019 as vandals. He wants to beef up the government’s powers during states of emergency. This month he provoked a furore by comparing Pinochet favourably with

Nicaragua's left-wing strongman, Daniel Ortega. (He says his comments were taken out of context.)

A devout Catholic and father of nine children, Mr Kast opposes legalising same-sex marriage and wants to ban abortion (which is legal only in very few cases). Most of all, he opposes the unsettling changes that the protests threaten to bring about. "We're not going to transform anything radically," his manifesto declares. If he wins, he may clash with the architects of the new constitution.

There is much in Mr Kast's conservatism to put voters off. Elderly and low-income voters, who make up his base, like his line on law and order but may be less enthusiastic than he is to restrict the state's role in providing public services. But he has been deft in persuading hesitant voters that he is not such a scary guy. He puts out self-deprecating TikTok videos. In an interview with a gay leftist YouTuber he jovially rolled a condom onto a banana.

"These elections are the hardest to predict since the return to democracy," says Carmen Le Foulon, the head of polling at the Centre of Public Studies, a think-tank. After trouncing his opponents in the first two debates Mr Kast faltered in the third, on November 15th. His rivals laid into him for downplaying Pinochet's crimes, for opposing gay marriage and for sending mixed signals on whether his government would build coal-fired power plants. Mr Kast's charm deserted him.

That gives new hope to Mr Boric, and perhaps to one of the more moderate candidates. A lot depends on young voters, who were an important factor in the referendum last year that endorsed the rewriting of the constitution. They are likely to favour Mr Boric and Ms Provoste. If those two go to the second round in December, the protesters' agenda will have survived the backlash they provoked. ■

Chilly reception

Chile makes life harder for immigrants

Venezuelans are having a tough time. Haitians have it worse

Nov 18th 2021 | IQUIQUE



Getty Images

FOUR YEARS ago Ana Rodríguez, a chemical engineer, fled repression and economic collapse in Venezuela, like millions of her compatriots. At first she settled in neighbouring Colombia. But when she became pregnant she headed to Chile, South America's most successful economy. In late August this year she and her husband trekked across Bolivia, braved a freezing Andean pass into the country, then hitchhiked across the Atacama desert.

Today they live, without papers, in a tent in Iquique on Chile's northern coast. It is not what they hoped for. Ms Rodríguez (not her real name) and her husband help café-goers park their cars along the sea wall in exchange for coins. "If you stand still for a moment in Iquique, they humiliate you and call you a murderer, thief or drug-dealer," says Ms Rodríguez. In September locals marched through the town centre and tossed migrants' belongings, including toys and nappies, into a fire.

In 2009, 200,000 immigrants lived in Chile. Now nearly 1.5m of its 19m inhabitants are migrants. The largest groups of recent arrivals are

Venezuelans and Peruvians. Nearly a half million Venezuelans have arrived over the past five years. Haitians, the third-biggest group, came after an earthquake in 2010. This has caused a backlash, which could affect the outcome of Chile's presidential [election](#). In a small survey of Chileans conducted this year, 60% of respondents said immigration was bad for the country. In 2019 44% thought that.

The official response to Venezuelan migrants has been "schizophrenic", says Tamara Taraciuk Broner of Human Rights Watch, a pressure group. In 2019 Sebastián Piñera, Chile's president, travelled to Cúcuta, a Colombian town near the border with Venezuela, to invite that country's citizens to seek refuge in Chile. He touted a "democratic responsibility visa", which allows Venezuelans to work and gain access to public services initially for a year, as well as to apply for longer-term residency. Around 90% of Venezuelan children in Chile attend school, a much higher share than in other Latin American countries where their compatriots take refuge.

But requirements for democratic responsibility visas are strict. Venezuelans must submit extensive paperwork, including results of background checks. Chile has issued about 60,000 of these. Four months after Mr Piñera's trip Chile's government tightened requirements for issuing tourist visas to Venezuelans. Earlier it had applied the same measure to keep out Haitians. Now citizens of both countries must apply for visas at the Chilean consulate in the country from which they set off. Venezuelans must show that they can spend at least \$50 a day. With legal routes to entry nearly closed, partly because of covid, illegal immigration is rising.

Chile has increased deportations of migrants, often without reviewing their cases. Chile's Supreme Court says the expulsions deny migrants due process and the United Nations has denounced them. Colombia has been far more welcoming to Venezuelans, giving temporary protected status to nearly 2m.

The pandemic, visa restrictions and racism have made it especially hard for Haitians to find work and regularise their status. Since 2019 more have left Chile than have arrived. Some are heading overland to the United States, straining border-security forces throughout the region. In a survey of Haitians crossing into Colombia, carried out by the International Organisation for Migration, 43% of respondents said they had come from

Chile. Nearly 100,000 migrants, mostly Haitians, have tried this year to cross the dangerous Darien Gap between Colombia and Panama. Some who made it to the United States in September were promptly deported to Haiti.

As Venezuelans, Ms Rodríguez and her family face less discrimination. But life in Iquique has become intolerable. The family plan to move to Santiago, Chile's capital. "We have friends there who can help us find jobs," says Ms Rodríguez. Unless, that is, the government deports them. ■

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A rose, but no uprising

Cuba's government squelches a planned nationwide protest

A pro-democracy movement hopes to fight another day

Nov 18th 2021



YUNIOR GARCÍA AGUILERA, a leader of Cuba's pro-democracy movement, had hoped to join a protest against the government on November 15th. It was planned as a follow-up to demonstrations in July. This time security forces detained activists in advance and blocked the street along which Mr García had planned to walk holding a white rose, the movement's symbol. The protest was small. Mr García later turned up in Spain.

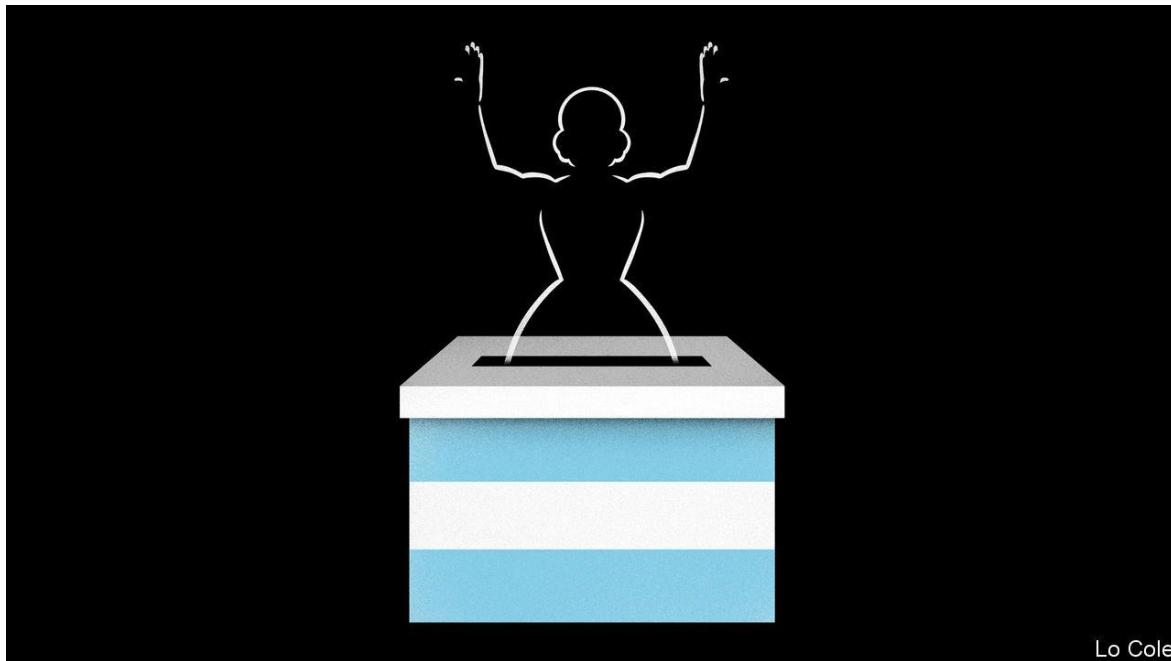
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Bello

Will electoral defeat favour moderation in Argentina?

The ambiguities of Peronism

Nov 18th 2021



ON THE NIGHT of a mid-term legislative election on November 14th the mood in the opposition's campaign headquarters was oddly flat. Across Buenos Aires the governing Peronists were euphoric. President Alberto Fernández called for a rally this week in the Plaza de Mayo, scene of the movement's past triumphs, "to celebrate victory". In fact, the opposition won 42% of the national vote against only 34% for the Peronists. The celebration was because they had expected worse. That was not the only oddity: while defeat heralds two difficult years for Mr Fernández's government, it may also make it easier for him to take some tough decisions, such as coming to terms with the IMF.

Mr Fernández, who calls himself a social democrat, governs in a loveless political marriage with his vice-president, Cristina Fernández de Kirchner (no relation). She is a leftist populist who offered him the top place on the Peronist slate for the presidential election in 2019. In some ways it was she

who was the big loser this time. The Peronists lost their majority in the Senate for the first time since democracy was restored in Argentina in 1983. Although they remain the largest party, Ms Fernández, who as vice-president chairs the upper chamber, can no longer dictate its agenda. Humiliatingly, the Peronists came third in Santa Cruz, her adopted home province in Patagonia, long a family fief.

The election may mark the beginning of the end of *kirchnerismo*, the politically ductile but economically intransigent grouping that Ms Fernández, who was president for eight years after succeeding her husband in 2007, turned into the dominant force within the Peronist movement. She has thwarted Mr Fernández's inclination to deal with the IMF, to which Argentina owes \$43bn. Her response to Peronism's crushing defeat in primary elections in September—in Argentina these function as a dress rehearsal, since all parties must hold them on the same day—was to order more government spending on subsidies and handouts.

“They copied the worst practices in Argentine politics,” says Sergio Berensztein, a political analyst. The government funnelled money into the *conurbano* of Buenos Aires province, the mainly poor suburbs that are home to one in four Argentines and are Ms Fernández’s political heartland. This went not just on handouts but also on paving roads in muddy settlements that still lack sewers and piped water. One poll found that those who received government aid were more likely to have voted for the Peronists. The result was that they gained 460,000 more votes in the province than in September. But that was still 2m fewer than in 2019, and the opposition won, albeit narrowly.

This relationship with poorer voters has been Peronist practice ever since Eva Perón held court in the 1950s, handing out public-sector jobs. The scope for it is narrowing. Some 17m people (four out of ten) depend on the state for their income, through benefits, pensions or public employment. The result is persistent fiscal deficits. Since the IMF suspended disbursements to Argentina in 2019 these are financed mainly by printing money, stoking inflation.

Unless it negotiates a new loan, the government must repay \$21bn to the IMF over the next 13 months. The Central Bank’s reserves do not come

close to that. So the government faces a stark choice: default, triggering yet another flight from the peso, or make a deal. “It’s time to resolve the problem,” Mr Fernández said in a pre-recorded announcement on election night, adding that he would send an economic programme to the new Congress in early December, something he had previously claimed was unnecessary. He said the government would seek the opposition’s support.

The IMF is likely to accept a less-than-rigorous programme, but it will have to include some reduction of the deficit. That has hitherto been anathema to Ms Fernández. The proposed programme is “a political decision that has the full backing” of his whole coalition, the president said pointedly. He can probably count on the support of Peronist provincial governors and the main trade-union confederation. But Ms Fernández still has “influence and veto power”, according to Mr Berensztein.

In 2001 a non-Peronist government was toppled by rioting after it imposed austerity and lost a mid-term election. The Peronists still control the streets, and can probably muddle through until the next election in 2023. But they have no project for the future. That is Argentina’s biggest problem.

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Middle East & Africa

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Sahel in a handbasket

Why the war against jihadists in Mali is going badly

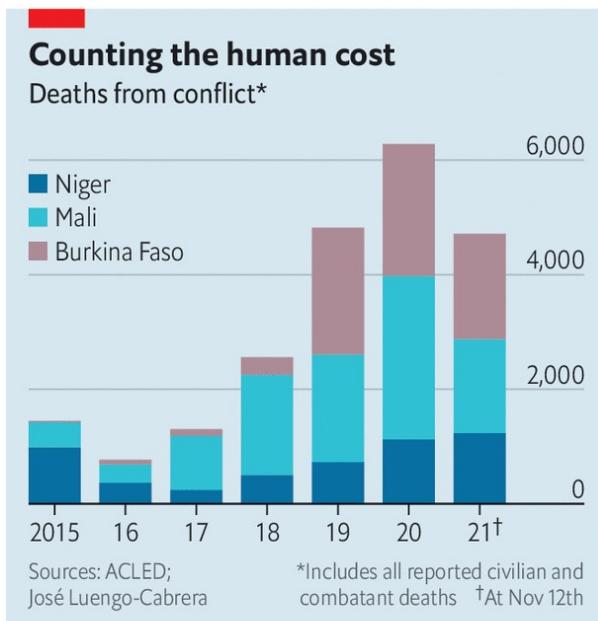
Dysfunctional politics is exacerbating poor security

Nov 18th 2021 | Bamako and Gao



WHEN UN PEACEKEEPERS roll out into the sand and scrub beyond their bases in Gao in northern Mali, locals loosen veils and light cigarettes. When British peacekeepers camped near one village, people held a joyous wedding with dancing and singing, both of which had waned under the influence of the jihadists battling for control of the area. Outgunned by the British detachment, the insurgents “try to be where we are not”, says Major Gavin Hudson, one of its officers.

In much of northern Mali the state and its security forces are completely absent. So when the blue helmets move on, safety goes with them. At dusk one evening in August jihadists swept into the town of Outtagouna, about 170km (106 miles) from Gao. They gunned down at least 54 young men. Peacekeepers arrived the next morning but, laments Major Hudson, they were too late to be of much use.



The Economist

The biggest Western fight against jihadists is now in Mali, Niger and Burkina Faso. France has about 5,000 soldiers fighting in the region, backed by about 1,000 American troops. Hundreds of European commandos help them and train the Malian army. The UN has almost 15,000 peacekeepers. Yet even with these forces arrayed against them, the insurgents have spread relentlessly across Mali and deep into neighbouring Niger and Burkina Faso. More than 2m people have been forced from their homes and more than 10,000 killed in the past two years (see chart).

In short, the region's governments and their Western backers are slowly losing the war. Many of the reasons can be seen in Mali, where the insurgency first took root under a corrupt government focused on the capital, Bamako, at the expense of the rest of the country. Across much of Mali there are no police, judges, teachers or nurses. UN peacekeepers recently flew a regional governor to a village in the north-east to meet his people. For one 61-year-old villager it was the first time in his life he had ever seen anyone representing the state. In 2018 fully 75% of civil servants (including teachers and nurses) were in the capital, on which the government showered 80% of its spending even though it is home to roughly 13% of the population. The authorities have, in effect, outsourced the war to France and the UN, withdrawing their forces from large parts of the country. In areas where there

is no state and criminality is rife, jihadists are able to win support by offering justice, even if it is brutal.

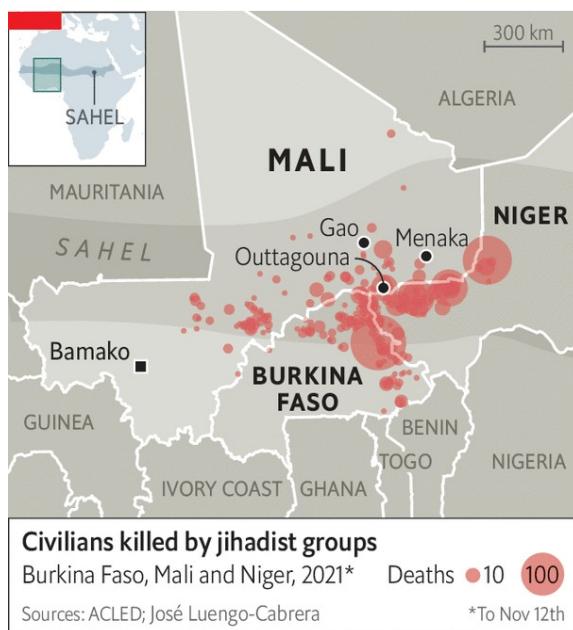
In Burkina Faso and Niger, too, jihadists flourish in places where the state is absent or where they have been able to force it out. Since 2018 insurgents in the borderlands between the three countries have assassinated or abducted 300 officials, community leaders and their family members.

Most analysts argue that the jihadists will not be beaten by force alone, and that improved governance and economic development are essential to win the state legitimacy. But where to start with a state that has done so much to delegitimise itself? In 2020, after the government claimed victory in a dodgy legislative election, thousands of people took to the streets in protest. They were angry not just about the election but also about corruption and deteriorating security. Many cheered a coup led by Colonel Assimi Goïta in August of that year. Although he promised to hold elections within 18 months and appointed a civilian as interim president, he soon changed his mind and used a second coup in May this year to install himself in the top job.

Choguel Maïga, his civilian prime minister, recently said that elections promised for February could be delayed by “a few months”. It will probably be much longer. “Elections have given us what for 30 years? Endemic corruption, lethargy and nepotism,” says Oumarou Diarra, a former imam who is now in the government. The putschists claim they need more time to “refound” the state after years of corruption and bad government. Many Malians believe them. A poll of Bamako residents in September found that 75% wanted the elections postponed.

General Marc Conruyt, who recently commanded French forces in the region, argues that “the political upheaval and political difficulties in Bamako had a very, very limited impact” on military operations. But that may not last. To rally support for a much longer transition, Mali’s interim government has repeatedly blamed France for the country’s woes. Mr Maïga recently claimed, absurdly, that France is training jihadists. Yet he also complained about France closing some bases and about its plans to withdraw almost half of its troops.

Complicating matters further are Mali's plans to hire Wagner Group, a Russian mercenary outfit. "When you call a doctor [because]...your fingers hurt but now your whole arm is missing," says Mr Diarra, "you should change doctor." Yet this is a dangerous game, especially as Mr Goïta would probably prefer France to stay despite his government's taunts. Florence Parly, the French defence minister, warns that her country "will not be able to cohabit with mercenaries" if Wagner deploys.



The Economist

Politics is tangled up with security—and violence—in the provinces, too (see map). Many jihadists are political figures with a following. Iyad Ag Ghali, the leader of Jama'at Nasr al-Islam wal Muslimin, which is linked to al-Qaeda, was not always a jihadist. He first came to prominence as a Tuareg rebel leader. Many jihadists in northern Mali remain linked to Tuareg separatist groups. A peace agreement signed in 2015, which could reduce some of the anger that drives people towards violence, has not been fully implemented.

In central Mali, where violence is now worse than in the north, jihadists have exploited rifts between communities and posed as defenders of the Fulani ethnic group. Militias such as Dan Na Ambassagou ("Hunters who trust in God") claim to defend other ethnic groups. The result is tit-for-tat massacres. A similar dynamic is tearing at the social fabric in Burkina Faso

and Niger. Peace requires not just schools and clinics but also ideas about how best to share power in multi-ethnic communities.

Many Malians believe that talks with jihadists could provide some ideas. France, which has lost over 50 soldiers in the Sahel since 2013, opposes that idea. Still, there have been more than 40 local peace deals in Mali and plenty in Burkina Faso, too. Some are between clashing ethnic groups, but others include the jihadists.

High-level political negotiations between the Malian government and senior jihadist leaders would require a bigger leap. The Malian government recently announced that such talks would begin and then, days later, denied it. Many suspect French pressure was behind the flip-flop, but there are also tensions between Mr Goïta, who is thought to favour negotiations, and Mr Maïga, who is more sceptical.

The trouble is that the Malian government will not be entering into any negotiations from a position of strength. “The stability of the Sahel”, intones Mr Diarra gravely, “depends on the stability of Mali.” He is quite right about that. But it is hardly a reason for optimism. ■

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Whodunnit

A string of bombings is rattling Uganda

Is the Islamic State responsible?

Nov 18th 2021 | KAMPALA



PLUMES OF SMOKE rose above Kampala, Uganda's capital, after a bomb blew up near the central police station on November 16th, followed minutes later by a blast on a road that runs past the parliament. Counter-terrorism police then shot dead a man who they said was carrying a device intended to set off a third explosion.

Police said that seven people, including three suicide-bombers, died in the blasts, which injured another 36 people. They were quick to blame “radicalised groups” linked to the Allied Democratic Forces (ADF), a rebel outfit based in the neighbouring Democratic Republic of Congo. Islamic State (IS), which counts the ADF among its affiliates, later said that it was behind the attacks.

The bombings did not come out of the blue. Last month a waitress was killed by a blast in a Kampala bar, for which IS also claimed responsibility. Two days later a man detonated a bomb on a bus, killing only himself. More tenuously, the government has blamed the ADF for a string of attacks on

public figures, including an assassination attempt in June on a government minister and former army commander. Those shootings, carried out by men on motorcycles, followed a different pattern from the recent bombings. The evidence linking them to the ADF seems shaky.

The ADF was born in the 1990s in a marriage of convenience between Islamist rebels and ethnic separatists from the Rwenzori mountains straddling the border with Congo. It mounted several bomb attacks in Uganda before decamping to lawless eastern Congo, pursued by Uganda's army. It found a niche there among a patchwork of rival militias, looting villages and smuggling timber. At one point it had shrunk to just a few dozen fighters.

The ADF is plainly making a comeback. Last year it killed at least 800 Congolese civilians and forced thousands to flee their homes. In one attack this month it massacred 38 people in the Congolese town of Beni, slitting their throats or burning them alive. It has been reinvigorated by a growing network of recruits across east Africa, who share bomb-making skills and may be inspired by wider Islamist influences. Last year Musa Seka Baluku, leader of one ADF faction, declared that his group was now the "Central Africa Province of Islamic State". In March the American government designated it a foreign terrorist organisation and an IS affiliate.

It is not yet certain whether the ADF has operational links to IS. A report by UN experts in June found no conclusive evidence that IS had command over it, or provided "financial, human or material" support. But jihadist propaganda that links the two groups has raised the ADF's profile and lets IS boast of an ever-wider global reach.

Uganda's president, Yoweri Museveni, also has an interest in playing up the threat. He has long positioned himself as an ally in the global war on terror, securing financial and military support from Western governments which has helped him prolong his authoritarian rule.

"The ADF originally grew out of a feeling of marginalisation among the Muslim community of Uganda," says Kristof Titeca of the University of Antwerp, noting that the government has sometimes made that problem worse. A notorious anti-terrorism police unit has a record of abducting and

torturing Muslims, some of whom have died in custody. After this week's bombings Mr Museveni boasted of the recent extrajudicial killings of seven men who he says were linked to the ADF. Tellingly, he signed off with the nickname his supporters gave him in the civil war that brought him to power: Ssabawanyi, meaning "Greatest of fighters". ■

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Spies against crime

The murder rate rises among Arab-Israelis

The government is sending in more police, who are not always welcome

Nov 18th 2021 | JERUSALEM



Flash90

AUGUST 11TH WAS a red-letter day for the Israeli police. A new division, headed by Israel's first Muslim deputy commissioner, was inaugurated with the mission "to thwart crime in Arab-Israeli communities and to restore security to the streets". In the Middle East, where no ceremony is complete without guns, weapons seized in raids on Arab neighbourhoods were put on display. Naftali Bennett, Israel's prime minister, promised enough funding to triple the number of Arab officers in the force in the next few years.

In the months since, however, violence has soared. At least 109 Arab-Israelis have been murdered this year, mostly by gangs. To emphasise their control of the streets, criminals shot at the new commander's home in Kafr Kanna in Galilee.

Israeli and foreign attention is often focused on the violent clashes between Israelis and Palestinians in the West Bank and Gaza. Overlooked is a growing crime wave afflicting Israeli-Arabs. In 2020 a record 96 Israeli-Arabs were killed in criminal incidents. That figure has already been

surpassed this year, with 98 deaths in its first nine months. Israeli-Arabs are 21% of Israel's population but three-quarters of the country's murder victims. Police think that 80% of the country's gun-related crimes between 2015 and 2019 took place in Arab neighbourhoods, where tens of thousands of illegal weapons are stashed away. On November 9th, 65 Arab-Israelis were arrested and dozens of weapons seized in what the police described as the biggest ever operation of its kind in Israel.

This year the police have solved 71% of murder cases where the victim was Jewish. But this success rate tumbles to just 22% when the victims are Arab (almost all non-political murders are Jew-on-Jew or Arab-on-Arab). One of the main problems is, indeed, a lack of policing. Despite promises by previous governments to devote more resources to such work in Arab neighbourhoods, only 13% of police officers are Arab, and a third of police stations planned for Arab towns have never been built.

The shortfall is not just in numbers, but in operational targets as well. Over the previous two decades, police waged a successful campaign against the main Jewish organised crime groups, leaving space for Arab syndicates to take over their rackets.

Neglected by the police, some Arab local authorities have taken to hiring their own security firms. But some of these have brokered side deals with the crime families and are now trying to block the police from making arrests.

The question of how best to deal with the crime wave goes to the heart of the Arab-Israeli predicament. As Israeli citizens, most Arabs want to be treated equally with Jews. But many also see themselves primarily as Palestinian and feel that co-operating with or working for the Israeli police would betray this identity.

Efforts to curtail Arab criminals present their own dilemmas. In the hope of achieving swift results, the government also plans to enlist Israel's internal security agency, the secretive Shin Bet, to make use of its electronic snooping kit and intelligence-gathering skills. These have been honed during decades of trying to catch Palestinian bomb-makers.

Not everyone is happy to see the spy agency turn its eyes to gang crime. Many Arab-Israelis see Shin Bet as an agency of political oppression and fear that its officers see Arab-Israelis as potential fifth-columnists. Shin Bet also makes itself unpopular by shielding Arab criminals who double up as informants.

Mansour Abbas, the leader of Ra'am, a conservative-Islamist party that is part of the governing coalition, approves of the government using “all the tools it has, all the agencies it has” to fight crime. By joining the government, Ra'am has secured \$16bn in funding for Arab areas, part of which will go to policing. His rival Ayman Odeh, leader of the Joint List, an Arab opposition alliance, retorted angrily, “After decades in which the government and police treated us as the backyard, the last thing we need is more of the same: police for Jews and Shin Bet for Arabs.”

“The problem goes far beyond a lack of police officers,” says Thabet Abu Rass of the Abraham Initiatives, a pro-tolerance charity. A lack of building permits in Arab areas provokes family feuds over the tiny parcels of land that can be built on. A lack of bank lending leaves many Arab citizens reliant on loan sharks. Widespread joblessness makes it easy for gangs to recruit lookouts and gunmen. Mr Abu Rass blames “Arab leaders who know who the crime bosses are and won’t call them out, and the Jewish leaders who won’t address the core problems of equality”. Just adding more cops, he says, “won’t change that”. ■

This article was downloaded by [calibre](#) from <https://www.economist.com/middle-east-and-africa/2021/11/18/the-murder-rate-rises-among-arab-israelis>

Bad smells everywhere

Tunisia gets violent over landfills

Corruption over rubbish collection is undermining the government

Nov 20th 2021 | AGAREB



Getty Images

IT WAS DIFFICULT to tell the smells apart. For months the town of Agareb, near Tunisia's coast, had reeked of rubbish because of an overflowing landfill. In September the authorities closed the site, which residents were calling a danger to public health. But this month, after trash had piled up in the streets, it was reopened. Protesters cried foul and on November 10th clashed with security forces. Along with the stench of tear-gas and garbage, a new smell filled the air: burning tyres.

One person was killed and a police station was ransacked. It was the worst violence in Tunisia since President Kais Saied suspended parliament and grabbed power in July. Critics called his actions a coup. But many in Agareb applauded him. The town of 40,000 has long been neglected. Its poor residents have grown disillusioned with the country's decade-old democracy. They say they voted overwhelmingly for Mr Saied in 2019, hoping he would clean up corruption. If he had to act like an authoritarian to do it, so be it.

That was how most of them felt in July. Now they have changed their minds. The people of Agareb are calling Mr Saied a dictator. For it was he who overruled the local authorities and reopened the landfill, in part to provide relief for nearby Sfax. Tunisia's second city and industrial powerhouse had been suffering under even bigger mountains of uncollected garbage.

Residents of Agareb say the landfill, opened in 2008, was meant to be in use for only five years. A judge ordered it closed in 2019, to no avail. Now it is not only overflowing, but full of dangerous industrial and medical waste, including amputated body parts and fetuses, say activists. They claim the dump has spread disease including respiratory ailments and cancer.

Tunisia collects around 2.5m tonnes of waste every year. Little of it is recycled. Much of it ends up in one of 13 official landfills without being properly treated. A lot of it just piles up in the streets. Even in Tunis, the capital, less than two-thirds of the waste is collected, says the World Bank. In Sfax province the local government refused to collect rubbish after the Agareb landfill was closed.

Collecting trash can be profitable. But the big contracts offered to waste-management companies have been controversial. Elyes Fakhfakh resigned last year as prime minister after he was accused of concealing a conflict of interest in awarding such deals (he denies wrongdoing). His opponents also have links to businessmen with fingers in the waste-management pie.

Last summer an Italian company sent nearly 300 containers of “plastic trash” to Tunisia. A Tunisian firm had agreed to recycle it for a fee. But the trash was mostly household waste, of the sort now piling up on Tunisian streets. The deal violated international treaties, as well as Tunisian law. Twenty-six people, including a former environment minister, were arrested.

The waste-management scandal typifies Tunisia's corruption and mismanagement, with the burden falling mostly on the poor. It was hoped that Mr Saied's government would do better. But cleaning up Tunisia is proving to be as hard as ever. Many of the country's landfills are in poorer areas like Agareb. Any of such places could be the next to erupt. ■

Pitch darkness

Even football has become mired in Lebanon's political and economic crises

The country is struggling to hold World Cup qualifiers amid power cuts and ruined stadiums

Nov 20th 2021 | DUBAI



Getty Images

IT SHOULD HAVE been a moment for national excitement. Lebanon has never reached the final stages of the World Cup before, but its national squad has made it to the third round of qualifiers for next year's tournament in Qatar. Last month they netted a crucial win against Syria. Going into two matches this month, against Iran and the United Arab Emirates (UAE), the Cedars seemed to have a fighting chance of making the play-offs. Instead of revelry, though, the contests offered a reminder of how much has gone wrong in a country mired in political and economic crises.

Start with the timing. The fixtures could not be at prime time in the evening, because enough electricity could not be guaranteed to keep the stadium lit. Then FIFA, football's global governing body, barred fans from the stands, citing security. Some would have struggled to make the trip anyway, since petrol prices have risen tenfold in the past two years.

Then there was the venue. The national stadium in Beirut was damaged in a huge explosion at the city's port last year. Instead the qualifiers were played in Sidon, 40km (25 miles) south, at an arena sometimes called Martyr Rafik Hariri Stadium. So Lebanon played Iran (and lost) on a pitch named for a prime minister whose murder is widely blamed on Hizbulah, a militia backed by Iran.

Football is often politics by other means, but Lebanon's matches took that maxim to an extreme. Some Lebanese accused Hizbulah supporters of cheering for the other side. Others posted photos of Iran's team lugging bulky suitcases through Beirut's airport, musing that the bags might be stuffed with military gear rather than football kit.

Five days later, the stands were empty again for Lebanon's 1-0 loss to the UAE. Last month Saudi Arabia recalled its ambassador from Beirut after Lebanon's information minister criticised the Saudi-led war in Yemen. The UAE, loyal to the Saudis, told its citizens not to travel to Lebanon.

Lebanon's collapsing economy has prompted many citizens to leave. Athletes are no exception. With salaries fast becoming worthless, several star footballers have decamped for Jordan.

Even watching their favourite teams is now a challenge for Lebanese fans, many of whom like to follow Europe's Champions League on TV. This summer, though, far fewer could afford a \$75 subscription package, twice the monthly minimum wage. Others found themselves sitting in darkness at kick-off.

Few expect things to improve soon. The cabinet, formed in September after a year of deadlock, has not met in over a month owing to political disputes. Elections scheduled for spring portend more paralysis. As for the Cedars, they trail the UAE in the race for a spot in the play-offs. At least their next qualifier, in January, will be played against a far less contentious rival: South Korea.

Europe

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Bleak is chic

France is doing well, but feeling miserable

Blame a looming election, the structure of the state and an innate Gallic gloom

Nov 18th 2021 | PARIS

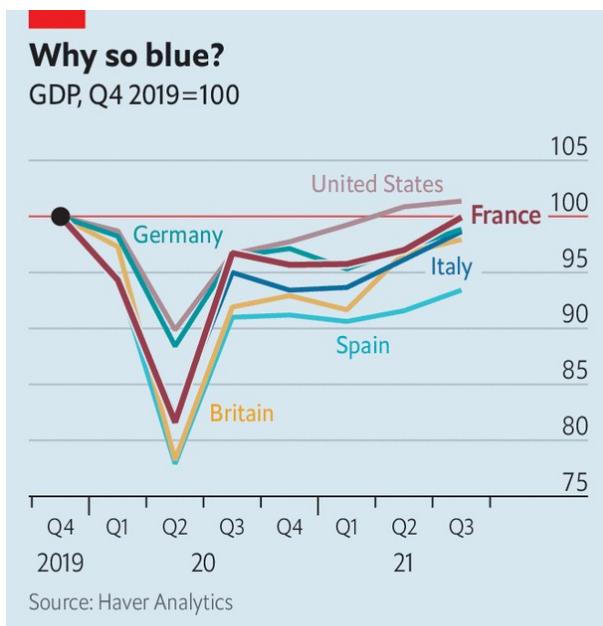


Getty Images

TUNE IN TO any French prime-time talk show this autumn and discussion rages over the country's wretched decline. France is losing its factories and jobs, squeezing incomes and small businesses, destroying its landscapes and language, neglecting its borders and squandering its global stature. Its people are fractious and divided, if not on the verge of a civil war, as a public letter from retired army officers suggested earlier this year. At the second presidential primary debate for the centre-right Republicans party, on November 14th, the five candidates competed with each other to chronicle French disaster. Listen to the hard right and it is “the death of France as we know it”.

The anxiety is widespread. In a recent poll 75% agreed that France is “in decline”. When asked to sum up their mood in another survey, the French favoured three words: uncertainty, worry and fatigue.

Like others, the French have some good reasons for apprehension. Lockdowns have been wearing. Rising gas and petrol prices, supply-chain delays, a new wave of covid-19 cases and restrictions: all are genuine causes of uncertainty. Moreover, the French hold a presidential election in April and the campaign is already divisive. The line-up is likely to feature not just one but two strong candidates from the hard right: Marine Le Pen of the National Rally (formerly the National Front), and [Eric Zemmour](#), a reactionary former TV pundit. A sobering 47% of the French told a poll they will vote in the first round for a candidate from one or other political extreme. Some 60% say they have no confidence in President Emmanuel Macron.



The Economist

Yet there is a paradox at the heart of France's current malaise: the country is doing fairly well, and in some respects better than its neighbours. Covid cases are rising again in France, but nothing like as fast as in Germany. In July Mr Macron introduced covid passes; France now has a greater share of fully vaccinated people than Germany or Britain. Like most of Europe, the French economy is enjoying a bounce after a deep drop in GDP last year and is expected to expand by 6% this year. Third-quarter growth, of 3% on the previous one, was particularly strong, and higher than in Germany, Italy and Spain. French GDP is now back at its pre-pandemic level (see chart).

France's unemployment rate, at 7.6%, has fallen below its pre-pandemic level. This is not primarily thanks to government wage-support schemes, generous though they were at the height of the pandemic. In September the number of workers on such schemes dropped to 520,000, down from 8.4m in April 2020. "We are seeing net employment creation in France in sectors like manufacturing that we haven't seen for a while," says Ludovic Subran, chief economist at Allianz, an insurer. Firms report difficulties recruiting; salaries are expected to rise. Under the government's "Made in France" strategy, new factories—making batteries in northern France and insulation panels in the south-west—are in the works. The CAC 40 stockmarket index is at a record high.

So why are the French so convinced that things are falling apart? There is no single explanation. In a country that boasts four anti-capitalist presidential candidates, one reason could be a lingering French suspicion of the financial gains that economic recovery brings. The government has spent heavily to keep jobs and businesses going during the pandemic, in order to avoid layoffs and bankruptcies, and to protect incomes. Living standards rose in 2020 and will do so again in 2021. But this policy is now also helping those with investments in such firms. The saved jobs are taken for granted whereas the rewarded shareholders are regarded in some quarters as undeserving beneficiaries. Mr Macron still struggles to shrug off his label of *président des riches*.

It could also be that the structure of government builds in disappointment. A strong central state, which the French dignify with a capital letter (*État*), headed by a powerful presidency, encourages excessive expectations of both. The conflict and compromise that characterises the reality of government is a source of particular dissatisfaction, as is the complexity of the globalised world. The difficulties that France has experienced securing microchips for its car-components industry, say, or halting migrant flows, are sometimes seen as not merely the result of global supply-chain jams or international-migration pressures, but a form of emasculation and wounded national pride.

A further answer may be that, as Claudia Senik, an economist at the Paris School of Economics, puts it: "The French have an ambivalent relationship to happiness." A poll this week suggested that 78% feel happy about their

own lives, but 60% are convinced that their country is going downhill. Being idealists, the French find that the real world always disappoints. Taught from a young age to adopt *un esprit critique*, they delight in disapproval. Last year, as covid first spread, a poll suggested that only 39% of the French thought that their government was managing the crisis well, compared with 74% in Germany and 69% in Britain. Bleak is chic.

Perhaps most important, ahead of any French presidential election the stirring of indignation and the promise of salvation is a practised political art. François Mitterrand campaigned as “the tranquil force” in his successful bid for the presidency in 1981, hinting at the chaos he would calm. Jacques Chirac promised in 1995 to mend the “social fracture” that he claimed threatened French unity. Mr Macron was unusual by campaigning in 2017 in tones of optimism. As covid cases rise, supply chains clog up and punitive winter heating bills arrive in the letterbox, there is still plenty that could go wrong. But even if it doesn’t, it will suit his opponents of all stripes to lay the doom on thick. ■

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Borderline case

The EU's stand-off with Belarus is complicating its row with Poland

The EU wants to help Poland with a migrant crisis while punishing it for judicial abuses

Nov 18th 2021 | WARSAW



Getty Images

THE MIGRANTS had nowhere to go. Behind them stood Belarus's brutal security officers, before them rows of Polish soldiers. Mostly Iraqi Kurds, they had been lured to Minsk, Belarus's capital, with promises of passage to Germany, then dumped in the forests, told to breach the border fence and beaten if they did not. On November 16th the Belarusians moved hundreds of them to a border crossing. Alexander Lukashenko, Belarus's dictator, hoped that by provoking violence he could embarrass Poland and divide the EU, which imposed sanctions after he stole an election. When migrants threw stones, the Poles sprayed them with water cannon.

Mr Lukashenko's use of helpless migrants as propaganda tools is a problem for the EU, but mostly not in the way he hopes. Rather, his border crisis complicates the European Commission's conflict with Poland over the rule of law. Since coming to office in 2015, Poland's ruling Law and Justice

(PiS) party has passed laws that give the government power over the courts. The European Court of Justice (ECJ) has ruled that these laws violate EU rules about judicial independence and must be rolled back. After years of dithering, the commission has begun to enforce those judgments. Now it must balance supporting Poland on border security with keeping up the pressure on judicial matters.

Poland's takeover of its judiciary is modelled on that of Hungary, Europe's pioneer of illiberal democracy. PiS changed the rules governing its National Judicial Council, which picks judges, so that its members are named by parliament and the minister of justice, with no input from judges themselves. The ECJ has ruled that since the council is no longer independent, judges appointed under the new rules are not judges under EU law.

Many of them are poorly qualified PiS loyalists. PiS has packed the constitutional court and set up a disciplinary chamber of the supreme court that can punish judges for rulings it dislikes. The ECJ ordered Poland to disband the disciplinary chamber. The government says it will, but has yet to present a plan to that end.

This rule-of-law conflict threatens the very structure of the EU. In October, trying to wriggle out of the ECJ's judgments, Poland's constitutional court ruled that the articles of the union's founding treaty dealing with judicial independence violate the Polish constitution. That challenged the principle that European law supersedes national law, without which the union would have little power. "We would be like the UN," says an EU official.

The commission has some new tools of persuasion. Until it scraps the disciplinary chamber, Poland is accruing fines of €1m (\$1.1m) a day. PiS is counting on €36bn from the EU's new covid-19 recovery fund to bankroll its ambitious infrastructure and social-welfare plans. But that fund has a clause that blocks the money until the commission certifies that recipient countries comply with the rule of law. The commission could attach a list of specific conditions to Poland's grants.

On November 15th Iustitia, an organisation of independent Polish judges, put out a proposal to restore the rule of law, including implementing all the ECJ rulings and giving judges back their voice on the National Council of

the Judiciary. Some EU countries will press for such conditions, notably the Netherlands, which insisted on the rule-of-law clause. But Germany is more reluctant. Meanwhile Zbigniew Ziobro, Poland's unrepentant justice minister, is trying to use the disbanding of the disciplinary chamber as an excuse for more changes, including a review of the credentials of every judge in the country. State-run television portrays the conflict as "an offensive of the ECJ against Poland".

The migrant crisis is just as thorny. The EU and America have persuaded nearly all the airlines and transit countries that Mr Lukashenko used to bring in migrants to stop co-operating. The EU approved new sanctions this week on Belarusian individuals and firms, and could block trade entirely to deter Mr Lukashenko. That could limit the problem to the estimated 12,000-15,000 migrants already in Belarus—a fraction of the number who enter Italy across the Mediterranean each year.

EU and international law obliges countries to let people in to request asylum, so Poland's pushbacks are illegal; some migrants have already died of exposure. The Poles have refused help from Frontex, the EU's border agency, which can evaluate asylum claims fast. Marcin Przydacz, a deputy foreign minister, notes that few migrants apply for asylum in Poland; they want to get to Germany. Western officials hope to press Belarus to let UN agencies and NGOs offer humanitarian aid to the migrants there. Letting them cross might encourage more to come and reward the propaganda strategy of Mr Lukashenko and his sponsor, Vladimir Putin.

The commission may now postpone action on the rule of law in Poland until the border calms down. Failing to show solidarity could turn Poles against the EU and weaken their prime minister, Mateusz Morawiecki, a relative moderate and rival of Mr Ziobro. But a complete rollback of the government's control over the judiciary is likely only if PiS loses the next election in 2023, says Stanislaw Biernat, a former judge on the constitutional court.

As for the migrants, they are losing hope that anyone will help them. As one put it, "The Poles will never have mercy on us, nor will the Belarusians have mercy on us. We are stuck between them." ■

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Caucasian degeneration

Near death in jail, Georgia's former president defies its current one

Mikheil Saakashvili has been on hunger strike for six weeks

Nov 18th 2021 | TBILISI



Getty Images

EIGHTEEN YEARS ago this month, the 35-year-old Mikheil Saakashvili, an American-educated Georgian politician, led the first “colour revolution” in the countries of the former Soviet Union. When he subsequently became president he turned around the corrupt and failing republic, although he was also much criticised for hogging and abusing power. Now he is in prison fighting for his life after seven weeks on hunger-strike.

Mr Saakashvili stepped down in 2013 after his party lost an election, surrendering power to Bidzina Ivanishvili, a reclusive billionaire who founded and still controls the ruling Georgian Dream party. Mr Ivanishvili chased him out of the country and stripped him of his citizenship. Hated by the Kremlin, which fought a short war with Georgia in 2008, Mr Saakashvili spent the next eight years in Ukraine, where he became prominent.

Last month he returned to Georgia, only to be promptly arrested. In a video released by the government, he was shown being dragged, half naked, into a prison hospital. Mr Saakashvili has been denied the right to attend his own trial. A member of the European Parliament hoping to see him was turned away at the border.

Mass protests over Mr Saakashvili's treatment are growing by the day. Ten members of parliament are also on hunger strike and his doctor says the former president could suffer a heart attack at any moment. His supporters say he has been denied access to proper medical care, increasing the risk to his life. If he dies, Mr Saakashvili will become a martyr. If he lives, it will be a rare example of successful resistance to Mr Ivanishvili.

This is the latest of many signs that Georgia is moving backwards. This year alone the government has arrested the head of the opposition, hacked the phones of human-rights activists and foreign ambassadors, and turned down an EU loan after backtracking on an agreement promising judicial and electoral reform. It has handled the covid-19 crisis badly. But its treatment of an admired, if flawed, former president could be its worst blunder yet.

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Atomic jitters

Allies fear Germany's incoming government will go soft on nukes

What will happen to the nuclear bombs deployed there?

Nov 20th 2021 | BERLIN



GERMANY'S COALITION talks have done little to dispel its reputation for political dullness. After winning a majority in September's election, the Social Democrats (SPD), Free Democrats and Greens aim to wrap up negotiations next week on their "traffic-light" coalition (named after the parties' colours) before taking office in early December. Bar the odd wobble the talks seem to have been largely straightforward. But Germany's closest allies have been watching one issue with mounting alarm.

The "P3"—America, Britain and France, the three nuclear-armed NATO allies that hold permanent seats on the UN Security Council—have two related concerns. First, that Germany may go soft on its involvement in NATO's "nuclear sharing" arrangements, under which America stations up to 20 atomic bombs at Büchel Air Base in western Germany, while Germany maintains a fleet of dual-capable aircraft (DCAs), from which they can be launched. Second, that the incoming government may flirt with the Treaty

on the Prohibition of Nuclear Weapons (TPNW), an international disarmament effort.

The first issue is familiar. Nuclear sharing, also practised by Italy, Belgium, the Netherlands and Turkey, gives countries without their own nuclear weapons an important stake in NATO's nuclear planning. But Germans have long been uneasy about the presence of American nukes on their soil; in the early 1980s over 1m marched against the deployment of Pershing II missiles. Successive governments have vowed to seek the removal of nuclear bombs, only to yield to pressure from allies.

Yet several new elements are at play, including the fissures in the international arms-control regime, Russia's growing unpredictability and the ascent to government of the Greens, who retain a strong pacifist streak. The most urgent issue is a pending decision on replacing Germany's decrepit Tornado DCAs. These planes' lifespan can be spun out to 2030 at the latest. To ensure operational continuity beyond that date, decisions for a replacement must be made by 2023, says Christian Mölling at the German Council on Foreign Relations.

The TPNW is a newer concern. Driven by non-nuclear countries and pressure groups, and in force since January, the treaty obliges ratifying countries (56 so far) to renounce the development, production and ownership of nuclear weapons. Supporters say this turns the screws on nuclear powers who have done little to meet their disarmament obligations under the Non-Proliferation Treaty (NPT) of 1970. Opponents say it weakens the NPT, undermines NATO's deterrent and helps adversaries like Russia and China who face no pressure from civil society to sign up.

The P3, individually and together, have lobbied Germany's government and the incoming coalition on both issues. Joe Biden's and Emmanuel Macron's joint call last month for allies to "continue close consultations on nuclear and arms-control matters" appeared to be aimed squarely at Germany. Olaf Scholz, the SPD's taciturn chancellor-presumptive, has also been pressed but has given little away. "We have no idea what he thinks," says one anxious P3 diplomat. His party's left is strongly, and vocally, opposed to nuclear sharing.

Few expect the traffic-light coalition either to end nuclear sharing unilaterally or to join the TPNW outright. More likely is a pledge to stay in nuclear sharing without a clear proposal on how to implement it, despite the Tornado issue. A nervous government, says Claudia Major at the German Institute for International and Security Affairs, may simply drop out of the arrangement by kicking the can for as long as possible until the road runs out.

The TPNW is the allies' bigger worry. Despite diplomats' entreaties, Mr Scholz's government is expected to say it will attend the treaty's first meeting in Vienna in March, albeit not as a signatory. (Norway, another NATO member, will do the same.) Even that, reckon the P3, will damage NATO's cohesion. Yet it may be the best that can be expected from a country destined to veer endlessly between America's nuclear protection and the deep atomic queasiness of its voters. ■

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Permanent partition?

Putting Cyprus together may be impossible

Hopes fade for a solution to Europe's longest frozen conflict

Nov 18th 2021 | VAROSHA



Alamy

APOSTOLIS, A RETIRED Greek-Cypriot dentist aged 78, tours his former clinic in Varosha, now a derelict shell of a building, for the first time in nearly half a century. His friend Despo wipes away tears in front of her grandfather's old shop, where she would park her bike after school. Varosha was once home to some 39,000 Greek-Cypriots and swarms of tourists. Elizabeth Taylor and Richard Burton strolled on its beaches. Four young Swedes, later known as ABBA, gave one of their first concerts here. Now it is a ghost town, overgrown by bushes and trees. Opposite Apostolis's clinic, painted over the façade of what was once a Greek high school, are a pair of flags, one Turkish, the other belonging to the Turkish Republic of North Cyprus (TRNC), set up after the island was split by a Turkish invasion in 1974 into Greek and Turkish portions.

Fenced off since the invasion, when its Greek-Cypriot residents fled the advancing Turkish troops, Varosha was partially reopened earlier this year. Turkey's president, Recep Tayyip Erdogan, ordered the army to hand the

town over to the TRNC. This has allowed visits by Greek-Cypriots living in the southern part of the island, in the Republic of Cyprus, which the outside world considers the legitimate government of the whole place. But it also bolsters the TRNC, which no country but Turkey recognises, and paves the way for the development of property still claimed by displaced Greeks. That, in turn, further complicates the Herculean task of reuniting the island. That was the point: Mr Erdogan and Ersin Tatar, the Turkish-Cypriot leader, have insisted for the past year that a united Cyprus is no longer possible. In New York in September Mr Tatar and Nicos Anastasiades, president of the Republic of Cyprus, seemed to agree that they had nothing to discuss.

Northern Cyprus, home to 450,000 people, has never stood on its own feet. Turkey stations tens of thousands of soldiers in the enclave, props up its economy, and is the main conduit for its foreign trade. Though Turkey has always meddled in the north's affairs, it has never done so as much as now. "Ankara treats us like one of its districts," says Ozdil Nami, a former TRNC foreign minister. A new low came last year, when officials and goons dispatched by Turkey endorsed Mr Tatar, an Erdogan loyalist, ahead of presidential elections and threatened his opponents, including Mustafa Akinci, the incumbent. Mr Tatar won the vote by a sliver. "Those people", he says at his residence, referring to the politicians and journalists who accused Turkey of interfering in the elections, "are traitors."

Echoing Mr Erdogan, Mr Tatar says he has no faith in a proposed federal model, which would bring north and south under one roof, and that the only way forward is to keep the island divided. Yet analysts and diplomats say a two-state solution is a pipedream. Not even Turkey's closest allies would want to jeopardise relations with the EU, of which Cyprus is a member, by recognising the north.

The risk is that a botched campaign for sovereignty would put Northern Cyprus on a slippery slope to full annexation by Turkey. That is not an outcome Turkish-Cypriots want. The vast majority of them welcomed the Turkish invasion in 1974, which foiled an attempt by a Greek junta to unite the island with Greece. They feel close to Turkey. But they also have a separate identity. Many are alarmed by Turkey's authoritarian turn. Settlers from Turkey, who began arriving after the invasion and are now about a third of the north's population, are a lot keener on Mr Erdogan.

Greek-Cypriots are also alarmed. “If we don’t find a solution, we’ll end up having a border with Turkey, which for us is a worst-case scenario,” says a senior Cypriot official. But they also have themselves to blame for the stalemate. It was Mr Anastasiades and his team who reportedly got cold feet during the most recent reunification talks, in 2017. And it was Greek-Cypriot voters who rejected a settlement in a referendum back in 2004, on the eve of the country’s accession to the EU.

There is room for hope. A big offshore energy find could breathe new life into the talks, though it could also trigger a standoff between Turkey, Cyprus, Greece and the EU. Turkey’s push for a two-state solution could be a ploy intended to rattle the Greek-Cypriots. But facts on the ground will be hard to undo. “We might have reached a point where it’s no longer possible to put the island back together again,” says Fiona Mullen of Sapienta Economics, a consultancy in Nicosia, the capital. “Varosha may be the final nail in the coffin.” ■

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Charlemagne

Last of the commies

Local politics, force of habit and canny strategy help Europe's communists clinging on

Nov 18th 2021



A PERK OF being locked up by a fascist dictator is that it leaves you with a lot of time on your hands. Altiero Spinelli, an Italian communist, spent the bulk of his youth imprisoned by Benito Mussolini. During one stint of internment in 1941, Spinelli used his spare time to come up with the Ventotene Manifesto, named after the island off Naples to which he was banished. Pieced together on cigarette papers, it provided a socialist blueprint for a federal Europe, earning the communist thinker a legacy as one of the more obscure founding fathers of the EU.

Aside from the European Parliament building in Brussels, which bears Spinelli's name, communists left little mark on the club. Across western Europe, moderate Christian and Social Democrats ran the show. The Eurocommunists, who looked to Brussels rather than Moscow, were briefly in vogue in the 1970s and 1980s. Wily socialists, such as François Mitterrand, soon put them out of business. In Italy, where communists once

won 34% of the vote, the party fell apart after communism collapsed in eastern Europe. And countries that had lived under communism were desperate to join the EU, in part so the ideology could not return.

The spectre of communism no longer haunts Europe. But it does occasionally jump from behind the curtain and shout “boo”. Sometimes the surprise comes from the least likely spots. Austria is probably the most bourgeois country in Europe: rich, cosy and more than a little smug about it. Yet its second city, Graz, is now run by the Austrian Communist Party, which came first in local elections with 29% of the vote. Wags soon renamed it Leningraz.

It was a revolution decades in the making. A low threshold for winning seats on the city’s council meant that communists could scrape a few even in dry years, and busy themselves with running the city’s housing policy. Popular measures helped, such as communist councillors donating two-thirds of their salaries to the needy. “What we are doing now would have been ordinary social democrat policy in the 1970s,” says Max Zirngast, a councillor who spent three months in a Turkish jail for criticising Recep Tayyip Erdogan’s autocratic regime before entering the world of Austrian municipal politics. A world without capitalism is still the aim. But a city with more social housing will do for now.

Tradition rather than grassroots fervour keeps the red flag flying in Cyprus. The island’s communist party, AKEL, is one of the country’s two main parties. It prospers thanks to an almost Anglican attitude to communism: just as one does not have to believe in God to go to church every Sunday, so Cypriots can vote for communists without wishing to seize the means of production. Card-carrying communists in shiny Mercedeses are a common sight. Force of habit rather than belief explains the party’s persistence, argues James Ker-Lindsay of the London School of Economics. As one of the biggest parties, AKEL is helped by being able to dish out the patronage that still dominates Cypriot politics.

In Europe, parties can be tiny but still influential. Christian Democrats found themselves supporting decidedly unChristian ideals due to panic about those to their right. Crackdowns on asylum-seekers and cuts to welfare budgets were triggered by parties that mustered barely a tenth of the vote. The same

logic works for the far left. In an age of fragmentation, any party that can win even 5% of the vote becomes relevant. Take Portugal. Antonio Costa, the Socialist but still centre-left prime minister, relied on both the Portuguese Communist Party and the Left Bloc to remain in office.

Parties do not always use this power well. The communists voted against Mr Costa's budget, leaving elections likely early next year. It was an odd decision. The budget was stuffed with lefty spending pledges, such as increased pensions and free child care. Now the leftist parties face losses in an election, the polls suggest. Such cock-ups are common. In the Czech Republic, the Communist Party of Bohemia and Moravia opted to support Andrej Babis, a billionaire, as prime minister. Three years later, the party was kicked out of parliament for the first time since 1948.

It is little surprise that the most successful far-left parties of recent years have eschewed outright communism. Some of Syriza's leaders spent time in the Greek communist youth movement, but the party which ran Greece from 2015-19 bristled at mention of the c-word. (Hardcore lefties repay the favour by seeing Syriza and its eventual compromise with the EU as an example of what not to do in power.) Podemos, a far-left Spanish party, is part of the governing coalition, but its brand of anti-austerity populism comes from a different tradition to Europe's remaining reds.

That country of single blessedness

Yet some traditional Marxist parties are savvy. The Workers' Party of Belgium (PTB), which began life as a home for Marxists who found Belgium's Communist Party a bit soft, is now a mainstream party. Pressure from the PTB led to Belgium gumming up a free-trade deal between the EU and Canada, which sent diplomats on a crash course on the rules of Belgian federalism. Popular campaigns to slash taxes on energy put left-wing rivals in government in an awkward spot. In the Flemish parliament, it mischievously complained that a pay cut for MPs had not actually gone through, two years after its approval. If polls are borne out, the far-left party is set to become the third-largest in the national parliament.

Wallonia, the French-speaking region of Belgium, provides the base of the PTB's support. The region was the centre of continental Europe's Industrial

Revolution; now it is the apogee of deindustrialisation. Disaffected voters in depressed regions have been fodder for the radical right across Europe. Canny politics from the far left in Belgium has flipped that trend, dragging voters to the other side. In 1869 Karl Marx called Belgium the “the snug, well-hedged, little paradise of the landlord, the capitalist, and the priest”. In 2021 Belgium offers the EU’s best hope for the ideology that bears his name.■

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Britain

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Emergency care

The NHS faces a bleak winter

Hospitals are in a dire state—and temperatures are only just starting to drop

Nov 20th 2021

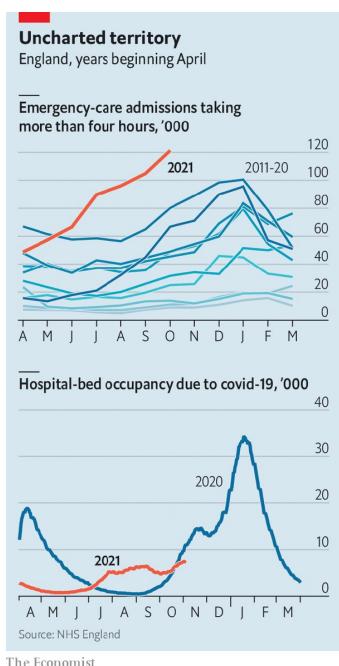


HOW MUCH is the local Amazon warehouse paying? Raina Summerson used to ask that question a couple of times a year. Now her firm checks most weeks, such is the competition for workers. In parts of the country she has raised pay at Agincare, the care provider she runs, to £11 (\$15) an hour from around £9.50 before covid-19 struck. Even so carers are scarce: “We are turning away work every day in every one of our locations.”

That is bad for business—and for the health service, the source of much of that work. With hospitals unable to free beds because of a lack of carers, patients ready for discharge are piling up, crowding out new admissions. In October, across England, nearly 120,000 people spent more than four hours waiting to be admitted. Even in the worst winters, waits have never been so long (see chart).

Outside the wards are ambulances trying to discharge patients and unable to pick up fresh ones. The average wait for a “category two” incident

(concerning a serious condition such as a stroke, chest pain or burn) is 54 minutes, up from an average of 25 last year and missing a target of 18. Research shows longer waits are associated with more deaths. The West Midlands ambulance service has warned delays are putting patients at risk of “catastrophic” harm.



The Economist

Pressure is ratcheting up almost everywhere, says Chris Hopson of NHS Providers, which represents hospitals. After nearly two years in which people have tried to stay away from health-care facilities, patient demand is now higher than it was before the pandemic. More primary-care appointments are by phone, which tends to mean more referrals. Patients presenting for acute care, meanwhile, are sicker, suggesting that the wait for treatment has taken a toll on their health.

Fewer than 9,000 people are in hospital with covid, down from more than 34,000 in January. But that is still a lot, and infection controls further reduce the number of beds available. “We’ve stopped using areas that were unsuitable even before the pandemic,” says an emergency doctor. According to Mr Hopson, the combination of covid, anti-infection measures and the difficulty of discharging patients has cut the number of beds available by a third.

What particularly worries hospital bosses is how early in the year this crunch has come. The normal pattern is for problems to mount until January, and sometimes longer. Having declined for three weeks, covid cases are now ticking back up, meaning those with the disease will continue to take up space. And anti-covid measures are making recruitment more difficult. Ms Summerson lost 20 of her 1,100 care-home workers because of a national vaccine mandate which came into effect on November 11th.

Winter is tough in health-care systems everywhere. That the taxpayer-funded NHS falls into a “crisis” every year—and is suffering so early in this one—reflects how little slack it has. It runs on relatively low numbers of doctors and nurses. In Europe, only Sweden has fewer beds per person than Britain does. Other rich countries with small numbers of beds also tend to have more “step-down” care, so people do not linger in hospital.

Policymakers have long sought to divert patients away from accident-and-emergency departments. The latest attempt is a health and care bill making its way through Parliament, which the government promises will move “services out of hospitals and into the community”. Yet two decades of attempts to do just that have so far had little success, notes Nigel Edwards of the Nuffield Trust, a think-tank. That is both because preventive health care is inherently difficult and because of hospitals’ dominance within the NHS.

Even if this attempt succeeds, it will take time to bear fruit. Spending on health care is set to rise by 4% a year for the next three years, which will ease pressures, but not immediately. The decision on November 15th to offer covid boosters to over-40s will help, but will not make a big dent in patient numbers. It is already too late to meet many of the goals in the NHS’s emergency-care “recovery” plan, published in September (“patients should not be left waiting in ambulances for handover to emergency departments,” for instance).

A spoonful of sugar

Sajid Javid, the health secretary, is establishing a “delivery unit” under the guidance of Sir Michael Barber, who set up the original one for Tony Blair in the 2000s and another for Boris Johnson that works on a wide range of policies. The new unit will include 30-odd people from the health

department, NHS and outside government, and will scrutinise health-care data in an attempt to cut surgical waiting lists. This focus on waiting times for operations could, however, fall victim to deteriorations in emergency care, which will suck up hospital beds and attention.

All this is a problem for a government that has done a great deal to tie its fortunes to those of the health service. Before the general election in 2019, Mr Johnson toured hospitals vowing more nurses, equipment and cash (as he also did before the Brexit referendum). Having now raised taxes in order to increase spending on the health service, even more rides on its performance improving. Until it does ministers must hope, as one Conservative politician puts it, that “people are quite used to NHS war stories”. Yet the coming months may bring enough casualties to shock even hardened observers. ■

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Just not cricket

Azeem Rafiq claims anti-Asian abuse is widespread in English cricket

Allegations made to a parliamentary committee may spark a wider reckoning

Nov 20th 2021



Getty Images

IN MARCH A government report concluded that institutional racism was not a significant issue in Britain. But evidence heard by a parliamentary committee on November 16th suggested that such complacency was misplaced.

Azeem Rafiq, an English cricketer of Pakistani origin who played on and off for a decade for Yorkshire, a leading county side, had alleged in interviews and an employment-discrimination claim that racial taunts and bullying had driven him close to suicide. An investigation for Yorkshire conceded that he had been a “victim of racial harassment” but nothing more systematic. It imposed sanctions on no one. Mr Rafiq’s evidence to parliamentarians broadened this long-running county row into something that may implicate senior sports administrators and the national team.

Mr Rafiq, a practising Muslim, said that at his local club when he was a teenager, he had been pinned down by a teammate and had wine poured into his mouth. He claimed that after he joined Yorkshire Michael Vaughan, a former England captain, said of the county's Asian players that there were "too many of you lot". (Mr Vaughan denies this.) A former teammate and England batsman, he said, had called all Asian players Steve and black players Kevin because their names were too hard to pronounce.

When Mr Rafiq's wife gave birth to a stillborn son, he told the committee, the club's head coach suggested that he was making too big a deal of it. Other allegations included that some of his teammates had referred to players of Asian descent as "elephant washers" and frequently used the derisive moniker "Paki". That word, the club report decided, had been "in the spirit of friendly banter".

Mr Rafiq thinks such behaviour is common across cricket and part of the reason that few Britons of South Asian origin play the sport at high levels. They account for around 30% of recreational and club players, but just 4% of the professionals who turn out for county sides. Others point out that the sport brings together posh white boys from private schools and working-class South Asians, providing occasion for displays of arrogance, and clashes over heavy drinking and wild nights out. "Sledging"—taunting intended to distract a batsman—is common and sometimes crosses into abuse. It may contribute to a culture in which offensive remarks are normalised.

Yorkshire seems to have been shaken out of its complacency: its new chairman has apologised to Mr Rafiq and said the charge of institutional racism would be addressed "head-on". The bigger question is whether this is an isolated example of crass, outdated attitudes coming up against modern sensibilities or something more widespread. An independent commission on racism in cricket set up in March has received more than 1,000 calls since a request for evidence on November 9th. The "floodgates" would now open, Mr Rafiq predicted. This reckoning is likely to have consequences both on and off the field.

Blue light

British Indians are emerging as an important group of swing voters

But domestic issues trump foreign affairs

Nov 18th 2021



Press Association

“I HAVE BEEN here many times,” declared Boris Johnson as he and Priti Patel, the home secretary, toured a Hindu temple in north London (pictured) on November 7th to mark Diwali. And indeed so: he had last dropped in days before the election of 2019. His predecessors, Theresa May and David Cameron, visited too.

Such trips reflect not only the goodwill that leaders extend to many faith groups, but also the growing potential for the Tories to scoop up support from British-Indian voters. The Labour Party still enjoys a ten-percentage-point lead over them among British Indians, who also prefer Sir Keir Starmer, Labour’s leader, to Mr Johnson. But Labour’s historical advantage has eroded, while support for the Tories has remained stable. The result, according to a study published on November 18th by the Carnegie Endowment for International Peace and Johns Hopkins School of Advanced

International Studies, is a growing pool of British Indians who are undecided or aligned to third parties.

These swing voters are in theory ripe for wooing. But they are not a homogeneous bloc. Moreover, much of the received wisdom in Westminster about what makes them tick is based in stereotypes.

The Indian diaspora fragments according to age and class. Younger British Indians lean most heavily to Labour, as do the poorer and those without degrees. The older, wealthier and better-educated are more inclined to vote Tory. There is also a cohort effect, with an earlier generation of immigrants and their children more likely to vote Labour, and more recent arrivals to vote Tory. That might reflect differences in political attitudes between those who grew up under the social-democratic government of Jawaharlal Nehru, India's first prime minister, and those conditioned by Narendra Modi's right-wing administration, speculates Devesh Kapur, a co-author of the study. But religion is the most important fissure. Support for the Tories is far higher among Hindus and Christians than among Muslims or Sikhs.

One common misconception is that the Tories' appeal relies on recruiting more MPs of Indian descent, such as Ms Patel and Rishi Sunak, the chancellor. Such diversity is good in itself. Yet the study found "large levels of indifference" among British Indians to the ethnic composition of the Cabinet, with only around a quarter of them saying it made them look more favourably on the Tories.

Another misconception is that foreign policy is decisive. Many Tory MPs embraced the argument that Brexit would allow Britain to prioritise its former imperial assets over the European continent. Ms Patel once promised a post-Brexit migration regime to "save our curry houses". Yet Brexit has limited appeal for British Indians, with two-thirds of those who voted now reporting that they opposed the divorce.

Mr Johnson is seeking a trade agreement with India. But if there are votes for the Tories among the Indian diaspora, they will not be found by cosying up to Mr Modi's government, which is approved of by only one in five respondents. Those British Indians who did support Brexit were far more likely to cite restoring Britain's lawmaking powers than striking a trade deal

with New Delhi. On the whole, British Indians seem not to dwell much on which politicians would best serve Anglo-Indian relations: 31% say there is no difference between the parties and another 31% say they don't know.

The final myth is that British-Indian values are an unusually good fit for the Tories, representing hard work, enterprise and family. Many British Indians do value these things, as do their neighbours. Yet asked to place themselves on a seven-point ideological scale, ranging from “extremely liberal” to “extremely conservative”, British Indians skew to the liberal end.

What does move their votes? The economy, health care and climate change were respondents’ top priorities—the very things that other polls suggest preoccupy the rest of Britain. It is no surprise that bread-and-butter issues come first among immigrant communities, says Mr Kapur, since people move to improve their daily lives. Cultural identity supposedly matters increasingly in politics. But sometimes it’s best to stick to the basics. ■

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All change

Britain's economy does not lack oomph, but productivity is lagging

Post-furlough labour-market data offers grounds for hope, but more investment is needed

Nov 20th 2021



WONKS SPENT months worried about the thousands of British workers sent home during the pandemic, who then lingered on the government's furlough scheme. Were they simply being strung along by employers, to be discarded once it ended on September 30th? On November 16th the first batch of post-furlough labour-market data offered reassurance. The number of payrolled employees (that is, excluding the self-employed) grew by 0.6% in October compared with the previous month. The economy will need that dynamism as it adjusts to Brexit, covid-19, climate change—and more besides.



The Economist

A big employment reshuffle is clearly under way in Britain, which is good news for growth if people move into roles they are better suited for. The share of workers switching jobs rose to a record high of 3.2% in the third quarter of the year (see chart). Encouragingly, this was mostly driven by people resigning rather than being dismissed. Fabrice Montagné and Abbas Khan of Barclays, a bank, note that this mobility was broad-based, having now spread beyond people with highly skilled jobs.

Other measures of dynamism are looking up, too. Joint research from the Centre for Economic Performance and the Resolution Foundation, two think-tanks, analyses the Decision Maker Panel, a survey of British companies. It suggests that financial officers expect the reallocation of workers from shrinking to growing companies (a measure of dynamism) to speed up in the coming year. A different business survey found that by July this year over 60% of companies had engaged in product innovation and nearly 70% had adopted new management practices. Since productivity increases when people and stuff are used more effectively, all this bodes well.

Britain's productivity could certainly do with some added oomph. Before the crushing impact of covid-19 restrictions, it was languishing. Between 1995 and 2007 output per worker grew by around 2% a year, roughly matching

the rate in the 25 richest members of the OECD. But during the next 12 years that figure for Britain was a dismal 0.4%, compared with an average of 0.9% among the rest.

Britain has long been known for outdated and ineffective management practices, so innovation here is a promising sign. As for labour dynamism, a back-of-the-envelope calculation from Juliana Oliveira-Cunha of the Centre for Economic Performance and her co-authors suggests that if just 4% of workers moved from the least productive companies to ones at the other end of the distribution, and those companies' productivity remained unchanged, GDP could grow by a sizeable 6%. (They reject the commonly heard suggestion that improving Britain's long tail of relatively unproductive firms would make a big difference, both by debunking the idea that this tail is indeed unusually long, or has grown in the past decade, and by pointing out that these firms are so unproductive that even large improvements would barely register at the level of the economy.)

As an explanation for Britain's past productivity malaise, however, an insufficiently dynamic labour market cannot satisfy. Britain's productivity has lagged behind that in other developed countries throughout recent decades, even as its companies created and destroyed jobs at a pretty steady rate relative to overall employment. Meanwhile, the rate of such creative destruction in France and America fell. Even as Britain's productivity growth slowed between the 2000s and the 2010s, the researchers found that its economy actually became better at reallocating workers from less productive companies to more productive ones.

The researchers think that a surer path to a high-wage, high-productivity economy lies in raising investment. Between the public and private sectors, investment grew by less than 1% in Britain over the five years to mid-2021, compared with an average of 14% across France, Germany and America. Higher investment will be expensive in the short term, of course. But without it, sustained real wage increases are unlikely. For all the job-switching going on, underlying wage growth from July to September could be as low as 3.4% relative to the previous year. Meanwhile in October inflation reached 4.2%. Adapting to new challenges will require fixing the weaknesses in Britain's economy, not merely playing to its strengths. ■

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Social mobility

Britain's inequalities are spelt out in its surnames

Shapley, Evershed and Charter are among the most fortunate

Nov 18th 2021

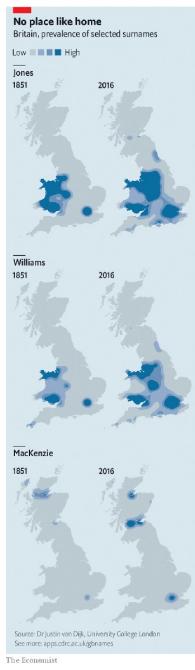


Alamy

“AM SURPRISED TO realise that anybody ever goes to, lives at, or comes from, Norwich,” wrote the novelist E.M. Delafield in 1930. The town is not Britain’s only one to find that its charms elude outsiders. There are also Slough (John Betjeman invited “friendly bombs” to fall on it), Hull (“a dump”, said Philip Larkin) and Bromley (“suburb of the damndest”, according to H.G. Wells). These opinions are abrasive, but hint at an abiding mystery. The world is our oyster. And yet people happily spend their lives in such unremarkable places.

New research suggests a simple reason. “Most people don’t move,” says Paul Longley, a geographer at University College London. By combining census records since 1851 with other data sources, such as electoral rolls, he and colleagues have plotted 40,000 British surnames to show how they have moved in 150-odd years. Mostly, they haven’t. “The vast majority of family names are...concentrated around the locales in which they were first coined

between the 12th and 14th centuries,” they write in *Nature Communications*, a journal.



An online time-lapse tool animates this information (see maps for some snapshots). Regional names tend to remain in the regions, apart from some spread to London and the nearest big city. Wales remains crowded with Williamses and Scotland with MacKenzies. The Joneses are easy to keep up with as they gently ooze across the Midlands.

This probably seems surprising if you work in or visit London, where a single meeting may contain people from all over not only Britain, but the world. Moreover, the English middle classes have all but institutionalised migration through universities and, for the richest, boarding schools. But their experiences are atypical. For most people, says Mr Longley, “migration is a traumatic experience and is not undertaken lightly”.

Surnames are linked to social as well as geographical horizons. The researchers scored them on an index of multiple deprivation, from 1 (worst) to 100 (best). If Britain were perfectly socially mobile they would cluster around 50, with a little random variation; in fact, some do markedly better and others worse. Among the hundred most fortunate are Shapley, Evershed and Charter, which would sound at home in a Dickensian law firm. The

bottom 100 includes Ram, Scamp and Pincher, any of which Dickens might have used for a street urchin.

Mr Longley also rated places in a similar manner. The bottom 100 included Wigan, Liverpool and Coventry; the top Cheltenham, Harrogate and, despite H.G. Wells's disdain, Bromley. In Britain family, geography and destiny intertwine in an intricate dance—one that spans centuries.

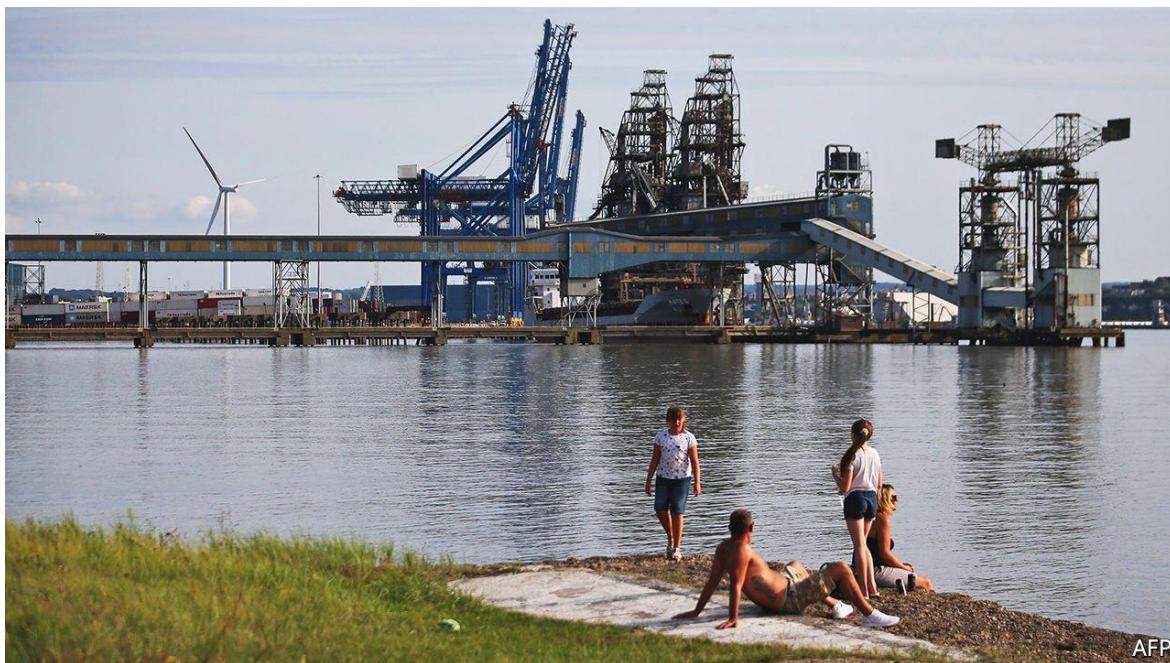
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On the dock

The government wants to ensure that tax breaks for freeports aren't wasted

That makes them more complicated and potentially less fair

Nov 20th 2021 | Tilbury



AFP

ENTER THE port of Tilbury and you will see heaped-up building materials, imported, processed and waiting to be carted to construction sites. With London nearby and a pandemic-related increase in demand for home extensions, business is booming—or rather, beeping, as vehicles lift and pile containers into stacks. Things quieten as you go east to land that is part of Thames Freeport, one of eight experiments in boosting deprived areas. The hope is that when generous tax breaks become available for new investors on November 19th, the hubbub will spread.

More than 5,000 tax-advantaged zones are dotted around the world, with varying incentives and eligibility rules. Britain's freeports will offer simpler customs procedures as well as relief from stamp duty, employer payroll taxes, business rates and corporation tax. Politicians hope all this will support innovation, trade and, in the inequality-slaying phrase of the moment, “levelling up”. A report in 2016 by Rishi Sunak, then a

backbencher and now the chancellor, claimed that if Britain replicated America's success with its free-trade zones, it could create 86,000 jobs.

It is easy to scoff at such boosterism. Mr Sunak counted all jobs within any American free-trade zone as created by its existence—a heroic assumption, since pre-existing factories can apply for special status. More generally, sceptics point to three risks. What if businesses stay away? What if any new activity would have happened anyway? And what if the sites suck investment from places even more in need? Some of these are in tension; if no one invests, freeports will not cost the exchequer much. But common to all is the idea that they will fail to encourage new activity.



The Economist

Britain's experiences with place-based policies have been disappointing. Last month the Office for Budget Responsibility (OBR), a government watchdog, pointed out that an older policy of enterprise zones, which offered tax breaks for investors in struggling places, cost around a quarter as much as expected, which suggests that it had “smaller impacts than initially hoped”. An evaluation by the Centre for Cities, a think-tank, found that the jobs created were overwhelmingly done by people with low skills. Drawing on international evidence, the OBR assumed that freeports would mainly move economic activity around rather than stimulating it, and would cost the taxpayer around £50m (\$67m) in the 2022-23 fiscal year.

Freeports offer a greater array of benefits than enterprise zones do. But British businesses can already defer tariff payments by parking goods in bonded warehouses, or escape them altogether for items that are processed and immediately re-exported through special customs arrangements. If freeports really make a difference, it will be because of tax breaks. Lewis Atter of KPMG, an advisory firm, says these could be worth 15-25% of the cost of constructing a new factory. LM Wind, a subsidiary of GE, made its investment in Teesside contingent on the area succeeding in its bid to be a freeport. Ben Houchen, the mayor of Tees valley, says talks are under way with around 30 other big, internationally footloose businesses. Although some sites need decontaminating and developing, Mr Atter says ground may be broken on some projects early in the new year.

The question, then, is how much of this activity would have happened anyway, either in freeports or elsewhere in Britain. In time Tilbury port would have expanded to serve the hungry London market. There are plans for education projects, both to develop locals' skills and to persuade youngsters that working in logistics really is attractive. But the second of those sits uncomfortably with the notion that freeports will absorb labour that would otherwise have sat idle. And a cynic might point out that companies have every incentive to claim that their investments are contingent on tax benefits. LM Wind, for example, was already facing pressure to strengthen its British supply chain because of separate commitments to bring production onshore.

The government has come up with its own way of making sure that freeports do not merely pull in activity that would otherwise have happened elsewhere. Officials have spent recent months haggling with freeport operators over which sectors will be eligible for tax benefits. These vary from location to location. In theory, that means each can play to its strengths. Thames Freeport will specialise in logistics and advanced manufacturing (its site in Dagenham is linked to a big Ford engine plant). The industries favoured include chemicals processing, advanced manufacturing and low-carbon energy production. In the Wilton site of the Teesside freeport, chemicals processing will be eligible for the tax breaks. Low-carbon energy sources will be encouraged at the Teesworks site.

So far this micromanagement is pretty opaque, at least to potential investors, who must contact each freeport company or landowner to see whether their plans would qualify under the terms negotiated with the government. This may reduce the risk that freeports merely displace activity, at some cost to the public purse. But it does nothing to reduce the risk of a tax bung for investors who would have made investments anyway. And the more prescriptive freeports are about who qualifies, the greater the chance that genuinely new investment will be shut out.

Discrimination is the object of freeports, as the government tries to shepherd businesses into busy, efficient clusters. The hope is that any casualties will be overseas, in countries too slow or too stingy to match Britain's competitive tax offering. But as word spreads of which sectors and companies are eligible and which not, businesses closer to home may conclude that the whole policy is simply unfair. ■

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Bagehot

Britain's establishment has split into two, each convinced it is the underdog

The result is extremism, and juvenile squabbling

Nov 20th 2021



BORIS JOHNSON is under siege from all directions. Stories of “Tory sleaze” multiply. Constituencies in the north of England are furious about plans to scale back high-speed rail. Yet the prime minister nevertheless found time on November 15th to don white tie and tails and address the annual Lord Mayor’s banquet at the Guildhall in London. Packed with people far more powerful than mere politicians, it had all the hallmarks of an establishment affair. The proceedings were incomprehensible to outsiders; dullness and high theatre intermingled. Mr Johnson started by name-checking dignitaries: aldermen, sheriffs and the chief commoner (whose title was once rendered in Chinese as “head peasant”) and progressed to quantum computing and AstraZeneca vaccines.

Henry Fairlie, who coined the term “establishment” in 1955, argued that “the exercise of power in Britain...cannot be understood unless it is recognised that it is exercised socially”. Surveying the stately procession of sea-bass

and grass-fed beef on Monday night (Monday night!) he would have been certain that nothing had changed. Yet the self-satisfied surface concealed a split. For Britain's establishment is now not unitary, but divided—a pair of rival power centres, hostile and mutually uncomprehending.

One, centred on the Conservative Party, includes such vestiges of the old establishment as the armed forces and great public schools. It extends to public-relations firms, government contractors and right-wing newspapers. The City, once happy with New Labour, was pushed towards the Conservatives by Labour's former far-left leader, Jeremy Corbyn. This establishment's heartlands are the provinces, where small-business owners complain about their taxes and swap stories of political correctness gone mad.

The other power centre is progressive-liberal. It is less focused on a political party (though it loved New Labour) than on cultural institutions: the civil service, universities, publishing houses, the BBC, the *Observer* and *Guardian* newspapers, the arts bureaucracy and, increasingly, the legal profession. It is so metropolitan that the division between the two echoes the split between the Court and Country factions of the 17th and 18th centuries.

The Tory establishment believes in the primacy of the nation state; the liberal establishment in cosmopolitanism. This divide was both reflected in and reinforced by the struggle over Brexit. The Tory establishment believes in the primacy of the queen-in-parliament (much of Mr Johnson's legislative agenda is motivated by a desire to undo New Labour's constitutional fiddling); the liberal establishment in dividing power between lots of institutions. The Tory establishment sees British history as a treasure-house of achievements (David Cameron, Mr Johnson's predecessor-but-one, said that Henrietta Marshall's "Our Island Story", published in 1905, was his favourite book as a child, and he often referred to it when calling for reforms of the history syllabus.) The liberal establishment believes that the "arc of history bends towards justice", with justice defined as diversity, equity and inclusion.

The Tory establishment's most irritating tendency is to justify its actions as the will of the people—as if the leading light of Tory philosophy was Jean-Jacques Rousseau rather than Edmund Burke. The liberal establishment,

meanwhile, thinks it knows what is good for people. The Tories see the man in the pub as a fount of wisdom; liberals increasingly think he is a bigot.

Having two establishments is not all bad. Whichever is out of power can act as a counterweight to the government, helping to make up for Britain's lack of constitutional checks and balances. Arguably, Britain is now politically healthier than during the early days of New Labour, when both government and cultural institutions sang from the same hymn-sheet.

But there are many disadvantages, among them institutionalised irresponsibility. For both elites refuse to acknowledge that that is what they are, seeing themselves rather as heroic rebels. Mr Johnson (educated at Eton and Balliol) thinks of himself as leader of an army of revolutionaries against what he calls “the blob”—that is, civil servants and anyone else who seeks to frustrate his will. Panjandrums of the liberal elite, such as heads of Oxford colleges, an astonishing number of them cast-offs from the civil service and BBC rather than distinguished scholars, regard themselves as freedom-fighters against a dictatorial government.

Another disadvantage is the triumph of extremism. You can't get into the Tory establishment without endorsing Brexit, or the liberal establishment without lauding diversity. Thus the Tories have lost moderates such as Rory Stewart, a former diplomat and candidate for the party leadership. The liberals have exiled heterodox thinkers such as Kathleen Stock, a philosopher who questions liberal pieties about trans identities, and who recently left Sussex University after harassment by students and colleagues.

Power without responsibility

Yet another drawback is a weird combination of blame-shifting and tail-pulling. The government is adept at pinning crises on civil servants—hence the unusually high number of permanent secretaries to resign since the election of 2019. The liberal establishment attributes everything bad to Tory cuts. The Tory establishment delights in foisting hard-core Brexiteers on the liberal establishment—hence the attempt to install Paul Dacre, former editor of the *Daily Mail*, as chair of Ofcom, the broadcasting regulator. The liberal establishment is never happier than when casting the other side as woman-hating racists, even though the Conservative Party has produced two female

prime ministers and Labour none, and the cabinet is filled with members of ethnic minorities.

The great virtue of Fairlie's old establishment was that, for all its pompousness, it brought an adult seriousness to British life. Its twin successors, by contrast, are addicted to juvenile squabbling. That would be bad at the best of times. When the country faces such severe problems, it may prove catastrophic. ■

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International

- [After COP26: Out of reach?](#)

After COP26

The Glasgow summit left a huge hole in the world's plans to curb climate change

But it did agree a mechanism to fill it in

Nov 20th 2021 | GLASGOW



Andrea Ucini

AS COP26 FINALLY came to a close on November 13th, more than 24 hours behind schedule, the mood inside the drab temporary buildings erected to house it on the banks of the River Clyde was a mix of celebration and frustration. The painful reality suffusing the conference was that the world is failing to limit global warming to 1.5°C above pre-industrial levels, despite promising to do so in the Paris agreement of 2015. Yet the summit put a series of new procedures in place that keep alive the possibility of reaching that goal, if countries suddenly find it within themselves to embrace drastic measures.

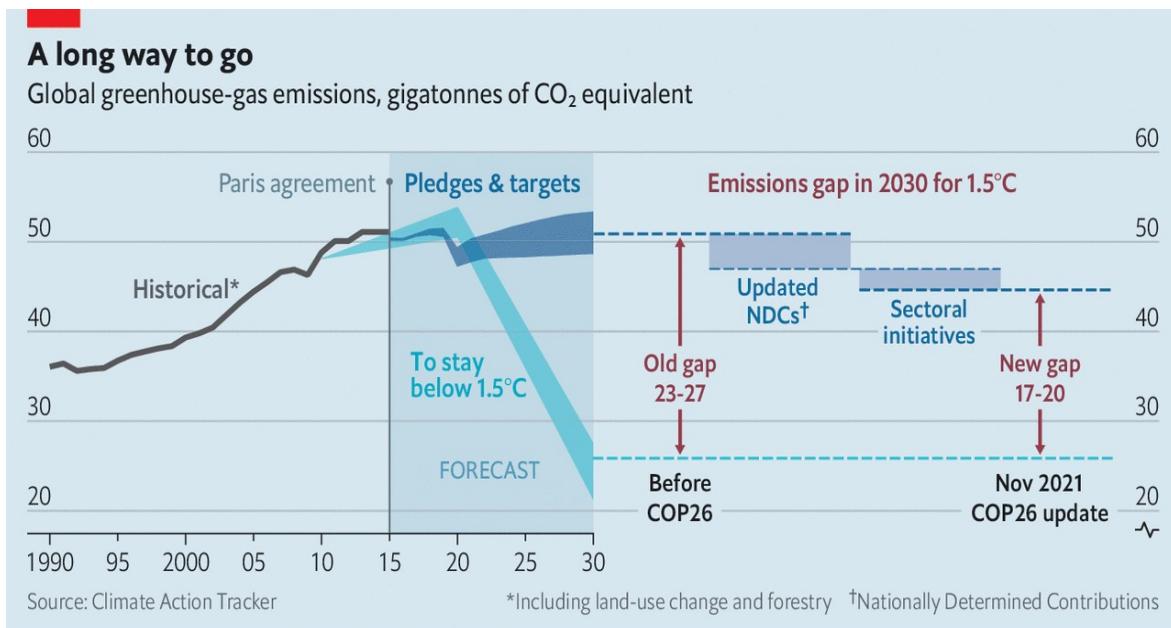
In an admission that the goals set in Paris were not being met, the summit sought to speed up the fight against climate change in a number of ways. There was an unexpected, and eventually unanimous, call for a faster phasing down (though not out) of the “unabated” (ie, polluting) use of coal and for the scrapping of subsidies for fossil fuels. In a departure from

previous COPs, a number of countries joined assorted “coalitions of the willing” to do their part to eliminate coal power, reduce methane emissions, make financial services greener, protect forests and more.

Perhaps most important of all, governments agreed to beef up their national plans for reducing emissions over the coming decade before meeting for next November’s COP27 in the Egyptian resort of Sharm el-Sheikh. That means translating the promises made in Glasgow into policies and seeking new ways to hasten the transition away from fossil fuels by 2030.

One way to look at the 1.5°C challenge is in temperature terms. The global average in 2020 was 1.1-1.3°C warmer than pre-industrial levels, and that figure is rising by 0.1-0.3°C each decade. The pledges made at the time of the Paris agreement in 2015 led climate modellers to project a “best guess” of 2.7°C of warming by 2100. The more ambitious ones made in Glasgow reduced that by perhaps 0.3°C.

Another way of measuring the task ahead is in billions of tonnes of avoided greenhouse-gas emissions. Prior to Glasgow, there was a gap of 23bn-27bn tonnes between the emissions reductions needed by 2030 to avoid more than 1.5°C of eventual warming and the emissions foreseen between now and 2030 in countries’ climate pledges, known as nationally determined contributions or NDCs. The new NDCs for 2030 presented in the run-up to the summit narrowed the gap by a mere 4bn tonnes, according to Climate Action Tracker (CAT), a coalition of climate modellers. Pledges at the summit on methane, coal, electric vehicles and forestry shaved off roughly 2bn tonnes more. So, on top of current commitments, further cuts of approximately 17bn-20bn tonnes of greenhouse gases must be made before 2030 to meet the 1.5°C goal (see chart).



The Economist

The past year has seen many countries promise to achieve net-zero emissions by mid-century. The next must focus on curtailing emissions in the coming decade. The 17bn-20bn tonnes of greenhouse gases that need to be cut by 2030 correspond to a 45% drop from 2010 levels. Even then, there would be only a 50% chance of limiting global warming to 1.5°C, says the Intergovernmental Panel on Climate Change, a UN-convened conclave of climate scientists. Yet current NDCs will result in a rise in emissions, not a drop, by 2030.

The yawning gap between ambition and reality, and the dwindling time to close it, are what drove attention in Glasgow to the Paris agreement's "ratchet": a clause stating that every five years parties to the agreement must lay out their plans for reducing emissions by the end of the subsequent decade. Glasgow in effect added an extra crank of the ratchet by requesting fresh pledges for 2030 be made by November next year, before decarbonisation plans for 2035 are presented in 2025.

Even these extra pledges are unlikely to be sufficient to limit global warming to 1.5°C. But the widespread view in Glasgow was that, even though the necessary cuts would be almost impossible or cripplingly expensive to meet, the 1.5°C goal should not be abandoned because each step towards it is beneficial. Every tenth of a degree of warming has

consequences for human wellbeing and carries large financial costs. Extreme weather brought about by global warming has proliferated over the past decade. Counterfactual climate modelling has shown it contributing to all manner of calamities from fires to floods and deadly heatwaves.

Show me the money

Another focus in Glasgow was the need for more lending to help poor countries shift out of fossil energy, to build societies that are better adapted to the impacts of climate change, and to recover from the damage caused by extreme-weather events. Poor countries resent that they were promised \$100bn annually by 2020 to deal with the first two needs, yet only \$80bn a year has materialised. Eventual costs are likely to be in the trillions. Yet the only material concession that was made related to funding for adaptation, which was supposed to have made up half of the \$100bn but so far has only amounted to some \$20bn. Rich countries pledged in Glasgow to at least double the amount given by 2025.

The talks were marked by a perceptible change in the rhetoric around such financial assistance. In the 2010s, poor countries framed the \$100bn figure partly as a show of solidarity from rich countries and partly as a charitable grant. The West had grown wealthy by burning fossil fuels, the argument ran, and so should help clean up the mess. In addition to this moral claim to assistance, another justification came to the fore in Glasgow. It frames the cash as an essential tool for energy transition, rather than as a form of aid. Without it, poor countries said they could not decarbonise, thus jeopardising the Paris goals—so more cash will need to be found.

One model for doing this will be closely watched over the coming year. America, Britain, the EU, France and Germany have agreed to raise a pot of \$8.5bn from a mix of public and private sources for South Africa. In exchange it has agreed to decarbonise its electricity supply, currently derived almost entirely from coal, while protecting the livelihoods of the 120,000 people who work in the industry. If the results between now and COP27 are promising, it could become a model for other countries.

A host of other measures, taken together, could begin to narrow the emissions gap. More countries could sign up to the “sectoral pledges”, as the

coalitions of the willing are known in climate jargon, or to adopt their own goals if, like China, they are reluctant to join the multilateral deals. As part of its renewed climate collaboration with America announced in Glasgow, China said it would draw up a national strategy for curbing methane emissions. That is important, since it spews out more of the stuff than any other country, and did not sign up to the sectoral pledge. John Kerry, America's COP26 envoy, suggested the Chinese plan on methane would be unveiled before COP27.

CAT estimates that if all countries were to sign on to all four sectoral pledges on methane, coal, cars and forests, the 17bn-20bn tonnes in emissions cuts needed to reach 1.5°C could be narrowed by a further 6bn-9bn tonnes. That is large but hypothetical since the forest pledge, especially, is questionable, given the failure of previous efforts to curb deforestation and the fact that Indonesia, one of the worst culprits, has already withdrawn support.

Voluntary carbon markets could also contribute to emissions reductions, but only if their standards are improved. Although the volumes traded are not yet in the billions of tonnes, demand has grown and is receiving a boost from the increasing number of private companies with climate targets. Theoretically, these markets could help steer private funds towards the most effective carbon-reducing projects and accelerate decarbonisation. But the markets are poorly regulated and standards are variable.

Other avenues to narrow the emissions gap to 1.5°C include financial incentives for emerging economies to cut emissions with a mix of public and private funds, the threat of carbon border-adjustment mechanisms that will tax CO₂-heavy imports, and more transparency and accountability in the private sector. Currently, there are hundreds of different standards for corporate disclosure of environmental, social and governance (ESG) data. Firms can therefore cherry-pick flattering numbers and investors struggle to compare different companies.

Regulators can also play a part in corporate transparency. António Guterres, the secretary-general of the UN, intends to set up a body to examine net-zero pledges made by companies and to develop standards. Rishi Sunak, Britain's chancellor, said that the country will "strengthen requirements" from 2023

—but not yet make it mandatory—for all British financial institutions and all companies listed on British stockmarkets to publish plans explaining how they will decarbonise operations, lending and investment. However, all these regulatory measures will take years to have much effect.

The next 12 months will be marked by a constant drumbeat to keep up the pressure on climate change. In April the 15th UN biodiversity summit will release new goals for protecting ecosystems. Some of these will seek to fight climate change as well by increasing the volumes of CO₂ that are soaked up by vegetation and the oceans. In June the Swedish government will host a UN conference to mark the 50th anniversary of the first Earth summit. Throughout the year, a UN-sanctioned global stock-taking of progress towards the Paris agreement goals will get under way. Its conclusions are due in 2023.

And the Intergovernmental Panel on Climate Change will publish not one but three reports, the first of which will almost certainly conclude that the impacts of climate change are already at the high end of what previous reports had anticipated, and that future effects, even if warming could be limited to 1.5°C, are likely to be worse than previously thought in rich and poor countries alike.

That will also be a focus of the new COP presidency. The handover began in Glasgow, where Egyptian leaders hinted that adaptation and resilience would be high on the agenda for COP27. Sharm el-Sheikh, too, is likely to see frustration do battle with celebration. ■

For the latest from COP26 see our [news updates](#). For more coverage of climate change, register for [The Climate Issue](#), our fortnightly newsletter, or visit our [climate-change hub](#)

Business

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The Party capitalists

China's communist authorities are tightening their grip on the private sector

Its growth model is at risk

Nov 18th 2021 | HONG KONG



IT MIGHT just be confused for one of the world's savviest tech investors. China Internet Investment Fund's (CIIF) portfolio is the envy of venture capitalists everywhere. It owns part of a subsidiary of ByteDance, the Beijing-based parent of social-media group TikTok, and Weibo, a Twitter-like platform. It has a stake in SenseTime, one of China's most advanced artificial-intelligence (AI) groups, and Kuaishou, a popular short-video service. The firm's investment list reads like a who's who of the industry.

More stunning are the terms of these investments. CIIF's 1% stake in a ByteDance subsidiary gives it the power to appoint one of three board members in a unit that holds key licences for operating its domestic short-video business. A similar bargain has been struck with Weibo, which is listed in New York, with CIIF picking up 1% for just 10.7m yuan (\$1.5m). The firms hardly need more capital. Nor is CIIF, with plans for a 100bn yuan

fund—enough to rival a big Silicon Valley venture-capital firm—overly concerned with the outsize returns its investments will certainly deliver.

That is because the outfit, founded a mere five years ago, is no typical investor. CIIF is itself mostly owned by the Cyberspace Administration of China (CAC), a powerful internet watchdog. The arrangement is akin to America's Federal Communications Commission taking discounted stakes in tech groups such as Facebook and Twitter, appointing board members, then steering them in the direction it sees fit.

CIIF's investment spree is symptomatic of a new form of state capitalism that is taking shape in China. Under the aegis of President Xi Jinping, regulators in recent years have unleashed a sustained attack on the technology sector, deeming it to have gained too much influence and strayed too far from the Communist Party's core values. Tech magnates such as Jack Ma, the co-founder of e-commerce giant Alibaba, have been subdued. Entire business models have been rewritten from on high—and the tenor of the Chinese economy altered as a result.

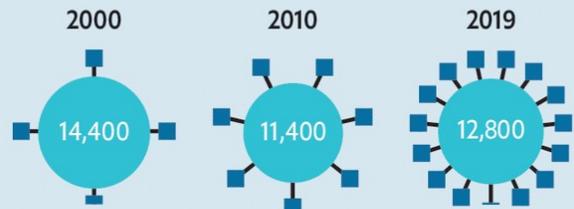
Bringing the commanding heights of the modern economy to heel might be expected from what is, after all, a communist regime. Nor is state investment in private companies anything new: “guidance funds”, massive state vehicles that direct money towards semiconductors and other favoured areas, have become a fixture of China's investment landscape. But the extent of such activity over the past two decades has risen sharply.

Protean spikes

1

China, state/private joint ventures

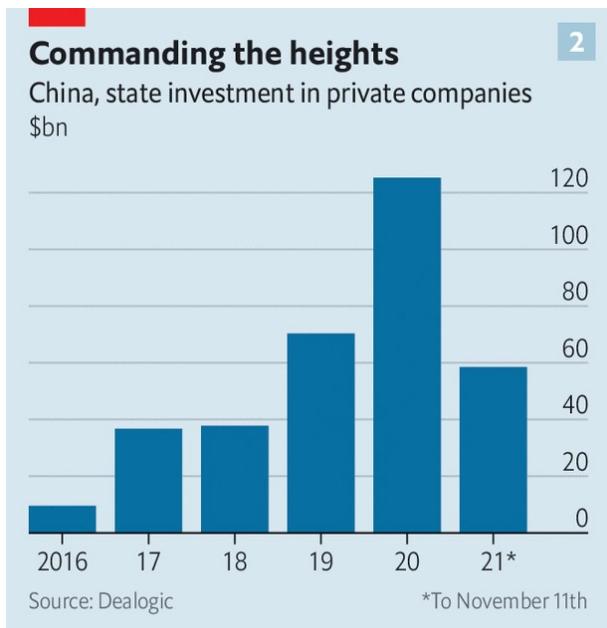
- State owners operating joint ventures with private owners
- Average number of private owners a state owner has joint ventures with



Source: "Special deals from special investors: the rise of state-connected private owners in China", NBER working paper, Aug 2021

The Economist

Private companies with state-connected investors increased from 14.1% of all registered capital in China in 2000 to 33.5% in 2019, according to a paper by Chong-En Bai of Tsinghua University in Beijing, Chang-Tai Hsieh of the Booth School of Business in Chicago, and two other academics. While the number of state-controlled investors has not changed much, each has done vastly more business with private firms (see chart 1). As a result, today's Chinese corporate landscape might best be described as a sprawling complex of state-private commerce. More than 130,000 private companies had formed joint ventures with state-owned companies by 2019, up from 45,000 at the turn of the century.



The Economist

The jump in private companies with state investment since then has accounted for nearly all of China's increase in new registered capital. Public investments in private-sector companies surged from \$9.4bn in 2016 to \$125bn in 2020, though looks set to fall this year, according to data from Dealogic, a research firm (see chart 2).

This means the growth of business in the country is inextricably linked to the state. The tech industry has been a notable focus. Regulation has long hemmed in the sector, as has the occasional bringing down of a tycoon by one or two notches. This is now considered insufficient to ensure entrepreneurs are kept in line.

Thus extending the government's reach directly into more private companies via financial interests is emerging as a mechanism to control them. Government "golden shares", tiny investments that give a high degree of control over companies, have been rumoured for years; only recently have they been disclosed in the likes of Weibo and ByteDance. It is likely this feature of state investment will expand, says Nana Li of the Asian Corporate Governance Association, an investor interest group.

Unwittingly tagging along for the ride have been global investors who had once spent freely to gain a foothold in the booming Chinese market.

Americans and others are unlikely to be comfortable with the new arrangements. More might get snared: CAC, the ultimate power behind the state investments in startups, was recently given the authority to vet the overseas share listings of large Chinese tech groups.

What might the new regime mean for the firms involved? CIIF's chairman, Wu Hai, has proclaimed the fund to be firmly part of China's "national team", a catchall for the most important state-owned enterprises. The Communist Party has provided generous financial and policy support for CIIF-backed firms, says Sun Xin of King's College London. But, he adds, these investments also tighten regulatory scrutiny and have even imposed greater direct control by the Party over their management.

Yet CIIF's objectives would fit awkwardly in a venture-capital firm's pitch book. It has committed itself not to pursue "excessive profitability" in its investments. That echoes recent missives by top officials concerning the "savage growth" and "disorderly expansion of capital" at China's tech groups. Its area of focus—AI chips, robotics, quantum computing and blockchain—dovetail with the sectors the government prioritised in its 14th five-year plan, one of the state's most important policy documents. Companies have no doubt taken note.

ByteDance has claimed the CIIF investment has little influence over operations. If that is true then it somehow found it wise of its own volition to mirror new state policy. TikTok's owner has officially limited working hours to 10am-7pm on weekdays; the change comes after the state berated Mr Ma and Alibaba for vocally supporting a "996" work schedule, or working 9am-9pm six days a week. The firm is among those whose founders have departed during the crackdown.

As Mr Xi's model for state curbing of tech darlings becomes clearer, so too have the potential drawbacks. One of them is the clumsiness built into some of the Party's increasingly dogmatic practices. For the past two decades links between companies and local governments have been central to the Chinese economic model. These partnerships have historically been focused on business, not Party ideology.

More recently there have been signs that local governments are preoccupied more with ideological exercises, says Mr Hsieh. These include frequent “study sessions”, where Party officials gather to read and discuss the merits of Xi Jinping Thought. Forging connections between state and private companies has become more difficult and requires informal connections with more senior leaders, he says.

Another problem is the level of risk aversion among the new government-linked shareholders. China’s model was recently described as a “venture capitalist state” by Arthur Kroeber, an economist. The model mimics a massive corporate investor, taking small stakes in various early-stage companies; CIIF itself is staffed with executives with tech and startup investing experience. Yet the state has all the risk appetite of a timid bureaucrat. Private-sector executives working with government-linked firms have described officials’ growing fear of making mistakes. Losing public money on investment does not appear to be the biggest worry, says Nis Grünberg of the Mercator Institute for China Studies, a think-tank in Berlin. Rather, the real blunder would be failing to control companies that run counter to Party ideologies.

Thus an uncomfortable prospect for Mr Xi’s new era of party control of the economy: fear by state-capitalists of falling foul of ideological diktats could lower investment returns and throttle corporate dynamism. CIIF’s board appointee to ByteDance has no clear business experience on his résumé, according to Ms Li, but a background in communist propaganda. For doing business in China these days, an insider’s steer on how not to run afoul of the Party may prove invaluable.■

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An early version of this article was published online on November 14th 2021

Royal purge

Shell mulls a breakup

The oil major is looking for a less taxing energy transition

Nov 20th 2021



AFP

PITY BEN VAN BEURDEN. The boss of Royal Dutch Shell is an affable man steering a Scylla-and-Charybdis course between oil-loving shareholders on one extreme and carbon-hating ones on the other. His latest task is to convince investors that Shell's strategy of doubling down on oil and gas production while bulking up on renewables is viable, even as Third Point, a hedge fund, demands it breaks itself up. And for seven years he has run a company with one foot in the Netherlands and the other in Britain—with Brexit in between.

On November 15th Shell offered shareholders some badly needed simplification. It asked them to vote next month for a proposal to ditch a dual Anglo-Dutch share structure, haul the headquarters back to Britain, and scrap the Royal Dutch name. It marks a homecoming of sorts. The original moniker dates back to the 19th century, when the company's forebear, Marcus Samuel, dealt in sea shells along the Thames. But the reaction in

parts of the Netherlands has been apoplectic. Some politicians want to impose an exit tax to dissuade Shell from leaving.

Simplification looks like the handiwork of Andrew Mackenzie, Shell's new chairman, who oversaw a restructuring of BHP, the Anglo-Australian miner that he previously ran. But it has a financial logic, too. Under the dual-share structure, Shell's Dutch A shares were subject to a withholding tax, which meant that only British B shares could be bought back economically. That capped buy-backs at \$2.5bn a quarter. Oswald Clint of Bernstein, an investment firm, says the maximum could now rise to \$5bn. More buy-backs are a way of increasing cash returns to shareholders while they see how Shell's energy-transition strategy plays out. They may not guarantee the company wins the argument against Third Point. But they will buy it some time.

There are other potential side-effects. The Netherlands has dealt some harsh blows to Shell recently. They include a court judgment in The Hague ordering Shell to reduce its worldwide emissions—part of which the company is appealing against (and which it says the planned move won't affect). A Dutch pension fund, ABP, stunned Shell last month by saying it would sell its shares in the firm as part of efforts to divest from fossil fuels.

The British government cheered the relocation announcement. Kwasi Kwarteng, the business secretary, called it “a clear vote of confidence in the British economy”. But the boon to global Britain could come at a cost to global warming. In the coming months the government is expected to decide whether to allow drilling of an oilfield called Cambo off the coast of Scotland—a litmus test for the future of North Sea oil. Cambo is part-owned by Shell.■

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Bartleby

The business phrasebook

A short guide to what your colleagues really mean

Nov 20th 2021



REED HASTINGS HAS built the culture at Netflix around it. Ray Dalio made it a founding principle at Bridgewater, a successful investment fund. “Radical candour” is the idea that bracing honesty is the best way to run a business: no one dances around the truth, and swifter feedback improves performance.

Most firms rely on a messier doctrine. People rarely say what they mean, but hope that their meaning is nonetheless clear. Think Britain, but with paycheques. To navigate this kind of workplace, you need a phrasebook.

“I hear you”

Ostensible meaning: You’re making a legitimate point
Actual meaning: Be quiet

“Let’s discuss this offline”

Ostensible meaning: We shouldn't waste other people's valuable time
Actual meaning: Let's never speak of this again (see also: "Let's put a pin in it")

"We should all learn to walk in each other's shoes"

Ostensible meaning: Shared understanding results in better outcomes
Actual meaning: I need you to know that my job is a living hell

"I'm just curious..."

Ostensible meaning: I'd like to know why you think that...
Actual meaning: ...because it makes no sense to anyone else

"It's great to have started this conversation"

Ostensible meaning: We've raised an important issue here
Actual meaning: We've made absolutely no progress

"I wanted to keep you in the loop"

Ostensible meaning: I am informing you of something minor
Actual meaning: I should have told you this weeks ago

"Do you have five minutes?"

Ostensible meaning: I have something trivial to say
Actual meaning: You are in deep, deep trouble

"Let's handle this asynchronously"

Ostensible meaning: We'll each work on this task in our own time
Actual meaning: I have to go to my Pilates class now

"It's on the product roadmap"

Ostensible meaning: It'll be done soon
Actual meaning: It won't be done soon

“We’re moving to an agile framework”

Ostensible meaning: We will work iteratively in response to user feedback
Actual meaning: We’re literally planning to go round in circles

“It’s a legacy tech stack”

Ostensible meaning: It’s a rat’s nest of old and incompatible systems
Actual meaning: None of this is our fault

“We are a platform business”

Ostensible meaning: We provide an ecosystem in which others can interact
Actual meaning: Let’s pretend we are a tech firm and see what happens to our valuation (see also: “as a service”, “network effects” and “flywheels”)

“We are planning for the metaverse”

Ostensible meaning: We are ready for a shared, immersive digital world
Actual meaning: Ooh, look! A bandwagon! (see also: “Web3”)

“Bring your whole selves to work”

Ostensible meaning: Be authentic and don’t be afraid to show vulnerability
Actual meaning: But not those bits of your whole self, obviously

In a world of radical candour, there would be less need for translating. Most managers and colleagues could indeed be better at giving unvarnished feedback. Some words and phrases are so opaque they absorb all visible meaning.

But there is an awful lot to be said for coded communication. Work is where people learn to manage social interactions, not define them out of existence. Transparency doesn’t necessarily travel well across borders. And perpetual bluntness is draining; humans constantly finesse and massage the messages they send in order to avoid open conflict. Radical candour is associated with firms that pay very well. That may be because this approach leads to greater success. It may be because otherwise most people wouldn’t put up with it.

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Monet, Manet, Money

An auction at Sotheby's raises \$676m

The art market is changing

Nov 20th 2021



WHEN SOTHEBY'S raised the gavel on the season's biggest art auction on November 15th the sellers, Harry and Linda Macklowe, did not arrive as one to watch the proceedings from the discreet skybox above the auction floor, as those disposing of a collection often do. The couple can hardly stand to be in the same room together. Their divorce, after nearly six decades of marriage, was so contentious that in 2018 a judge ordered them to sell 65 of their magnificent 20th-century artworks and split the proceeds.

Death, debt and divorce are the auction market's traditional catalysts. Sotheby's won this particular deal by guaranteeing the Macklowes at least \$600m from the sale. At the time it was agreed such a fulsome promise, the biggest ever offered to a client by an auction house, seemed to hark back to a bullish age before covid-19 roiled the art market. But Sotheby's panache was well judged: the evening brought in \$676m including fees, to which the proceeds of a second auction in May will be added. For beyond the Macklowe sale, the art market is changing, in three important ways.

It started even before the pandemic. The takeover of Sotheby's by Patrick Drahi, a French telecoms and cable entrepreneur, for \$3.7bn in the summer of 2019 looked with hindsight like an error when covid struck nine months later. Lockdowns shuttered auctioneers and galleries the world over. Art collectors quickly decided that 2020 was a bad time to sell. The best-connected auction houses moved swiftly into trying to broker private deals; the more entrepreneurial bolstered online sales with digital auctions.

Mr Drahi's commercial nous has brought new meaning to the famous art-market quip that Sotheby's are "auctioneers trying to be gentlemen", in contrast to Christie's, a firm of "gentlemen trying to be auctioneers". The tycoon, who took on well over \$1bn of debt to finance the deal, now has access to details of the 300,000 or so richest people in the world. The new Sotheby's is bent on selling them not just art, but handbags and history too.

His timing may prove prescient. Contemporary art, which accounts for the single biggest share of the art market, saw a record-breaking \$2.7bn change hands during the year to June, according to Artpice, which tracks sales. Both Sotheby's and Christie's say they expect their sales in 2021 to match the \$4.8bn and \$5.8bn they respectively made in 2019.

In part that is because both the main auction houses are expanding beyond their conventional offering of art, watches and wine—the market's first big shift. In 2020 Christie's sold a dinosaur fossil named Stan for \$31.8m. Earlier this year Sotheby's auctioned Kanye West's Yeezy trainers for \$1.8m. Both firms have jumped into crypto-art, selling non-fungible tokens (NFTs) to techies. All of these have brought in new buyers, especially from Asia, the fastest-growing market. Of the top 20 lots auctioned by Sotheby's last year, Asian clients bid on ten and bought nine.

A second new development is that the two houses are wooing new customers by making buying at auction more fun. Last month Sotheby's organised a weekend jamboree in Las Vegas for 40 clients. The main business was the auction of \$100m-worth of artworks by Picasso. But in an effort to turn the affair into more of an experience, Sotheby's also laid on wine-tasting, a session on how to game an auction and a talk by Jay Leno about vintage cars. At the party after the sale, the DJ was Picasso's great-grandson.

Going, going, gone

The most far-reaching shift, though, may be the auction houses' new cosy relationship with commercial galleries and private dealers. Historically these were their great rivals. Galleries know where the art is and what their clients might be prepared to sell, but lack the access to buyers who flock to auction houses. Now the two work more closely together, to find the right buyer for a piece and vice versa.

When a Düsseldorf gallerist recently wanted to sell a Gerhard Richter from the 1970s, an under-appreciated period, he turned to Sotheby's. The private sale to one of its clients was at a far better price than he would have got at auction or selling to one of his own collectors, he says. In April 2020, a month after the pandemic hit, Rafael Valls, an dealer in Old Masters in London, was able to sell nearly 100 pictures in an online Sotheby's auction; in a normal year the gallery would sell around 200.

In a move that highlights this rapprochement between auction houses and dealers, Sotheby's recently hired Noah Horowitz, a director of the Art Basel art fair who is known to be particularly close to galleries. "Sotheby's is tearing up the traditional playbook," says a rival. The marriage is partly one of financial convenience: galleries lack the pools of capital big auction houses deploy to offer guarantees and thus lure potential sellers. Teaming up with dealers helps auctioneers find works to sell, which is almost as hard for them as identifying the next generation of buyers.

Sotheby's and Christie's hope their new approach will help both sides of the trade. When Christie's sold its first piece of crypto-art earlier this year, its boss Guillaume Cerutti points out, almost all of the 33 bidders were new to the firm. A few days later one of those who had been outbid, a 31-year-old Chinese-American tech entrepreneur named Justin Sun, went on to buy a \$20m Picasso—and, in the Macklowe sale, a Giacometti sculpture for \$78m.



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The future of the internet

The video-game industry has metaverse ambitions, too

Where the tech titans have money, the games industry has experience

Nov 17th 2021



THE PLANET is black, perfectly spherical, does not really exist, and is exactly 65,536km around (being the sixteenth power of two, a number any hacker worth their salt would recognise). A single 100-metre-wide road runs round it. All the real estate on the virtual planet is owned by the Association for Computing Machinery, an academic body.

The Association sells parcels of land to enterprising programmers wishing to develop them. Many do: their efforts are responsible for the houses, bars and skyscrapers that line the great road. At any given hour the road bustles with people, or at least, with their 3D avatars. Some are going to work, some are going on dates, many are just milling around in the way that people have done since the invention of streets. A few take their cars—like everything else in that world, really just bundles of computer code—out off the highway and “race [them] in the black desert of the electronic night”.

That is how Neal Stephenson, a science-fiction author, aptly described what he called the “metaverse”, in a tongue-in-cheek cyberpunk novel called “Snow Crash” (1992). Three decades later, the metaverse—a sort of immersive sequel to today’s text-and-picture-based internet—has been anointed as Silicon Valley’s latest Next Big Thing. Microsoft is integrating virtual-reality offices and avatars into its “Teams” remote-collaboration software. Mark Zuckerberg, the founder of Facebook, is so enamoured of the concept that on October 28th he renamed the firm “Meta” to signal its focus on this new “north star”.

It sounds like west-coast techno-utopianism. But some glimpse of the potential could be seen on November 8th, when Roblox, an online game with 200m monthly users, reported its quarterly results. The number of daily players rose 31% year-on-year, to 47.3m, propelling revenue to \$509m. David Baszucki, Roblox’s co-founder and boss, said that the firm had predicted the rise of what is now called the metaverse when its first business plan was written 17 years ago. In 2020, when it was still privately held, Roblox was valued at \$4bn. Today it is listed and worth \$68bn, not least thanks to an over-60% bump in its shares in the past month.

For metaverse enthusiasts like Matthew Ball, a venture capitalist, online games such as Roblox—and “Minecraft”, “Fortnite”, “Animal Crossing” and “World of Warcraft”—serve as proof that immersive virtual worlds can be popular and profitable. According to Newzoo, a market-research firm, consumers spent \$178bn on video games in 2020. Besides blasting each other, many gamers use them to keep in touch with distant friends. And they are already happy to spend cash on virtual property. Newzoo thinks around 75% of the industry’s revenue comes from games that allow the sale of virtual goods, for example powerups or clothes for players’ avatars. The video-game industry has been experimenting with virtual worlds for decades, says Raph Koster, a veteran designer, exploring how players use them to socialise, create and run entire economies based on virtual goods. Interest waxes and wanes as each generation’s ambitions bump up against technical limitations, he says. But now that the subject is in the air again, some metaverse enthusiasts reckon that the benefit of all that experience might let video-game firms like Roblox, Epic Games and Unity beat the tech titans to the punch.

Roblox is both a game and a platform. In the same way firms such as Squarespace provide tools that allow tech neophytes to create websites, Roblox comes with a set of easy-to-use programs that let punters build and monetise their own 3D games and experiences. “Piggy”, for instance, is a user-created horror game inspired by “Peppa Pig”, a cartoon. In “Adopt Me”, users rear, collect and trade exotic virtual animals. (The latest craze is programmes based on “Squid Game”, a Netflix series.)

“Every experience is built by our community,” says Manuel Bronstein, Roblox’s chief product officer. The firm busies itself handling behind-the-scenes problems, providing server space and infrastructure to support its users’ creations. It has its own currency, called Robux, which is paid for with real cash. Users can spend it in what is, in effect, an app store that sells the powerups or cosmetic items like shirts, hats or pairs of angel wings which avatars need to stand out. The developers of those virtual items get a cut—around 27%—from each sale.

The game’s popularity has led to other firms offering experiences within Roblox as a marketing strategy—a simple but effective way to merge the digital and the real. Users can wander round a virtual version of the Starcourt Mall, a place in “Stranger Things”, another Netflix series. In May one user resold a virtual copy of a real Gucci handbag for around \$4,100. On November 15th Roblox announced grants worth \$10m to develop educational experiences, including a simulated trip to the International Space Station.

Mr Baszucki is not the only boss in the games industry with metaverse ambitions. Tim Sweeney, chief executive of Epic Games, the privately held firm that develops “Fortnite”, has been a fan of the idea since he wrote “Unreal”, an early multiplayer 3D-shooter, in 1998. Like “Roblox”, “Fortnite”—which is, at least on the surface, a straightforward action game—has been flagged as an early example of what a metaverse might look like. “We don’t see ‘Fortnite’ as *the* metaverse,” says Marc Petit, a vice-president at Epic, “but as a beautiful corner of the metaverse.”

Also like Roblox, it has seen crossovers from the real world. In 2019 “Fortnite” hosted a virtual space battle to promote “Rise of Skywalker” (the “Star Wars” film, in turn, referred back to the in-game event—very meta). In

July Ferrari uploaded a virtual version of one of its luxury sports cars into the game for players to drive around. It is not quite the same as renegade hackers racing virtual cars in the “black desert of the electronic night”. But it is not a million miles away, either.

The best-known uses of “Fortnite’s” virtual world have come from the music industry. In 2020 Travis Scott, a rapper, hosted a virtual concert. The malleable physics of the digital world allowed him to do things no amount of stagecraft could accomplish in reality. His hundred-foot-tall avatar, wreathed in lightning, danced and stomped through the game’s pixellated universe, shaking the ground with every step. Around 12.3m people attended, around 60 times more than can fit onto the fields of Glastonbury, a big music festival.

The second prong of Epic’s strategy, besides “Fortnite” itself, is to sell pickaxes in a gold rush. Here it is in competition with Unity, a firm founded in Denmark in 2004 and which went public last year. Both firms sell sophisticated software “engines” that were originally designed to power video-games. Now they are touting them as pieces of general-purpose simulation software that they hope will become a common language in which 3D worlds are built, in the same way HTML underpins websites.

They are already partway there. Games engines are finding uses outside the gaming business. Architectural firms, for instance, use them to build virtual versions of buildings to dazzle clients before construction. Some use them to help manage the build itself. A collaboration between Epic and Cesium, a startup that maps cities and landscapes, allows virtual copies of real cities such as Melbourne or Detroit to be dropped into Unreal, the engine that powers “Fortnite”.

Mr Ball points out that much of “The Mandalorian”, a “Star Wars” TV show, was shot within a virtual world generated by Unreal. Since they are built with the same software, he writes, “audiences could freely investigate much of these sets [in an Unreal-powered world]”—a metaversey twist on charging fans for tours of film sets. Unity recently paid \$1.6bn for Weta Digital, a visual-effects studio founded by Peter Jackson, who directed the special-effects-heavy “Lord of the Rings” films. It also unveiled Metacast, a piece of software designed to broadcast sports events into virtual worlds.

The firm showed off a mixed-martial-arts bout that viewers could watch from any angle—even the point of view of one of the fighters.

Whether the games firms can compete with the tech titans remains to be seen. Meta's annual revenues, at \$86bn in 2020, make it half the size of the entire gaming industry by itself. But Mr Ball points out that big changes in technology often lead to the rise of new players despite the efforts of old incumbents. And, besides experience, the games industry has plenty of ready-made early adopters for whom virtual worlds are already an established cultural norm. "You have at least two generations of kids who've grown up playing online games," says Mr Bronstein. "Navigating a 3D environment. Hanging out in a virtual world with friends. This stuff is commonplace for them." ■

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Chugging along

Times are good for American railways

Supply-chain snags are driving up profits

Nov 20th 2021 | New York



Alamy

FEW INDUSTRIES are more vulnerable to events that depress revenues and increase expenses than America's railways. The basic business model is to lug lots of stuff to offset the high fixed costs of owning fleets of locomotives and maintaining thousands of miles of track. That has been hard as America's supply chain has come unglued, first because of covid-19 and then as it has waned. Ports are gridlocked, warehouses over-stuffed and labour unavailable. It has unquestionably been a tough time to be a rail company and, it turns out, a remarkably good time to be one.

Volumes and profits at the listed companies that run America's tracks and trains used to be tied as closely as a locomotive to its cargo. No longer. Traffic has yet to recover from pre-pandemic peaks, according to the Association of American Railroads, a trade group. But the financial equivalent of a train crash that such a slump would once have presaged has not arrived. On the contrary, America's major freight carriers are on their

way to record annual profits. Their share prices in recent weeks have helped stockmarkets there chug to new highs.

Train dispatchers have earned their crust in recent months: vital rails underlying many trans-continental supply chains are not exempt from disruptions of their own. At Union Pacific (UP), one of America's two largest rail operators, fuel costs have risen by 74% over the past year and locomotive productivity has fallen by 8%. Freight car "velocity", the number of miles travelled in a day, is 5% below the company's standard, in part because of "terminal dwell"—rail-speak for being stuck.



The Economist

Wildfires across 13 western states during the summer caused widespread delays, rerouting and damage. The global microchip snafu has reduced shipments of cars, a lucrative cargo. Railways have their own shortages to contend with, from the rolling chassis used for unloading containers to large warehouses. Employees, whom rail bosses once thinned in repeated cost-cutting drives, are now in short supply too. Many who were furloughed during the early days are not keen on coming back to work, says James Foote, the chief executive of CSX, the third-largest rail company.

Ordinarily all these factors would be toxic, but these are not ordinary times. The capacity to get goods from A to B has become extraordinarily valuable.

Jennifer Hamann, UP's finance chief, explains that strong demand "supports pricing actions that yield dollars exceeding inflation". Price rises mean UP's operating income over the past two years is up by 9% even as volumes have slipped by 4%.

Other railways have made precisely the same point (the networks overlap in places, though largely cover their own patch of America). All have limited capacity and similar obstacles. Better yet, for railway shareholders, the shortage of labour has been even more acute in the trucking industry, blunting outside competition.

Inevitably, the environment will shift as bottlenecks are resolved and workers return. Pushy business customers will not have forgotten how to negotiate. The railways themselves are not sitting still. UP, for example, is stretching its seemingly endless trains from 9,500 to 10,000 feet. CSX is introducing autonomous locomotives. Norfolk Southern is shifting ever more traffic from jammed west-coast ports to smoother operations on the east coast. This unusual moment, in short, will pass. But for now, the industry remains on something of a roll. ■

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Schumpeter

Walmart gets its bite back

The Beast of Bentonville still has Amazon on its tail

Nov 20th 2021



IN THEORY THIS should be a good time to be Walmart, the doyen of American retailers that came of age in the stagflationary era of the 1970s. Inflation is back, yet no one knows better than the Beast of Bentonville how to use the power of the growl to convince suppliers to lower prices. Supply chains are buckling, yet such is Walmart's heft that it has chartered ships and bypassed rail services to deliver Halloween and Christmas goods early this year. Workers are in short supply, but it managed to add 200,000 jobs to its 2.3m global payroll in the three months to September. “There’s a level of excitement in the air, you can feel it,” enthused Doug McMillon, its chief executive, as Walmart raised its year-end sales and profit targets after solid third-quarter earnings on November 16th.

There’s a puzzle, though. Investors are not buying it. In the past year Walmart’s share price has lagged behind not just Amazon, the e-commerce giant, but other big-box American retailers, such as Target and Home Depot. On November 16th its shares fell a further 3%, as investors fretted over what

Simeon Gutman of Morgan Stanley described as slightly “squishy” profit margins. Is the stockmarket, so enamoured of all things new, missing the turnaround story of the decade? Or is there something else to worry about, namely the hot breath of Amazon on Walmart’s neck?

There are few more engaging advocates of the turnaround story than Felix Oberholzer-Gee of Harvard Business School, who co-hosts a weekly podcast with two of his fellow professors called “After Hours”—a “Seinfeld”-like dose of bonhomie for business enthusiasts. The trio, who interchange high-brow discussions on companies with topics ranging from Scandinavian crime drama to cocktail-making, might not be regulars in the aisles of Walmart. But they are cheerleaders. “Walmart is on fire,” Mr Oberholzer-Gee exclaimed in a recent episode. He acknowledges that investors have not yet caught on. But that might just be because their mindsets are hardened against legacy retailers, he argues.

The turnaround story has two parts. First is the customer. Since lockdowns ended, shoppers have returned to Walmart’s stores, though not yet in sufficient numbers to prove that its almost-800m square feet of American retail space—more than the size of Manhattan—is worth cherishing. The company claims it is. It says having stores within ten miles of 90% of Americans is vital for an “omnichannel” strategy that encourages shoppers to buy in-store, online or a combination of the two.

But with footfall still subpar, its challenge is to attract online shoppers without cannibalising the ones who visit the stores. It is having some success. Surveys suggest its new Walmart+ subscription service—a lower-cost rival to Amazon Prime—is attracting young, urban and affluent online shoppers who might not be seen dead in a Walmart store (a partnership with American Express’s platinum card reinforces the impression of upward mobility). According to Mr Oberholzer-Gee, Walmart.com has also started to display “edgy” brands such as Ray-Ban that typically shunned Walmart’s physical stores, which further appeals to this cohort. Moreover, Walmart is rolling out Uber Eats-style home delivery to 900 cities through its Spark network of gig-economy drivers. It makes for an intriguing gambit. Walmart, the emblem of suburbia, is moving tentatively into Amazon’s metropolitan heartland.

The second part of the story is profit. Unlike Amazon, whose e-commerce business is not a big contributor to earnings, Walmart needs to justify returns on everything it does. That encourages it to think laterally, since online profit margins are meagre. As a result, it is seeking to defray the cost of its e-commerce distribution network by attracting third-party merchants, rather than just selling Walmart stuff. It is building a fast-growing advertising business, called Connect, which Mr Gutman reckons could generate \$2bn of operating profit—8% of last year's total—by 2025. And it is delving into fintech, specifically placing bets on customer-supporting financial services ranging from bill-paying to cryptocurrencies. All of these could bolster the bottom line without detracting from physical-store sales.

The twist in the tale, though, says Marc Wulfraat of MWPVL, a logistics consultancy, is Amazon. While Walmart may be encroaching on its urban territory, Amazon is on the counterattack across the suburban hinterland. Its weapons are distribution centres, the vast warehouses from which retailers ship goods around the country. In 2018, Mr Wulfraat says, the size of Amazon's distribution network in America overtook Walmart's. Since then, Amazon has sought to double it again, building what Mr Wulfraat reckons will be another 140m square feet of distribution centres—as much as Walmart has built in America in its entire 59-year history.

It is a daunting operation. Mr Wulfraat says that each week Amazon builds what some retailers construct in a decade. "It's almost like a war effort," says Ken Murphy, of abrdn, an asset manager that invests in Amazon. He reckons the logistics blitzkrieg is part of Amazon's effort to shrink delivery times so sharply that people will have little incentive to go to stores. That makes Walmart, with its vast store network in America, vulnerable.

Banana armies

Defeat is not inevitable. More than half of Walmart's domestic sales are groceries, which people are still hesitant to buy online. That gives it some protection from the Amazon onslaught. So far Amazon's ownership of Whole Foods, an upmarket grocery chain it bought in 2017, and its Fresh supermarket formats, have been half-hearted attempts to take on its Bentonville rival.

But if Amazon masters the art of cashierless shopping, as it is trying to do, it could change the buying of groceries as it has everything else, from bookselling to cloud-computing. So far Walmart can pride itself on keeping Amazon at bay while reinventing itself for an omnichannel world. And yet the grocery wars have barely begun. And the size of Amazon's arsenal is growing. ■

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Material needs

China seeks to extend its clout in commodity markets

Aside from its big appetite for energy and metals, it is also opening up to international traders

Nov 18th 2021

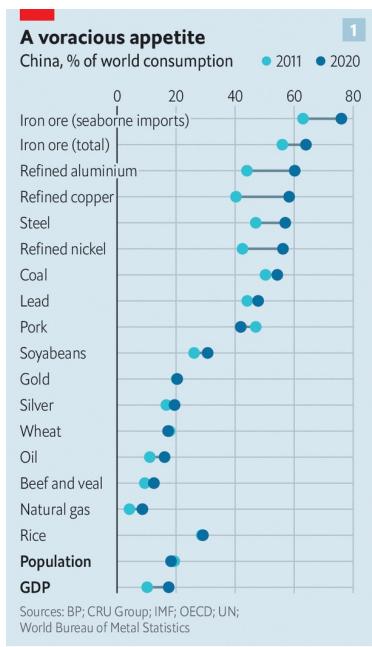


FEW CRISES highlight China's weight in commodity markets as clearly as the global energy crunch. Though analysts attribute the shortages to many different causes, all mention China. Its post-covid economic recovery, coupled with a hot summer, produced a surge in demand for power. Supplies of its two main sources of electricity, coal and hydropower, were curbed by environmental crackdowns and droughts respectively.

At first China tried to supplement power generation with liquefied natural gas (LNG). Its imports of LNG so far this year are 14% higher than in the same period last year. That has caused prices to surge and has had ripple effects around the world. As LNG cargoes have been rerouted east, for instance, Europe has found itself short of gas. Rising gas prices have only underscored the importance of coal in China, which already consumes 55% of the world's supply of the stuff. In October China imported nearly twice as

much coal as it had in the same month in 2020, causing prices to boom. Even oil has risen on expectations that China will burn that too, if necessary, to keep its electricity plants running. As usual in commodity markets, other factors are also at play. But China still shakes the world.

China's heft is partly the result of its size. As a huge consumer and, in some cases, producer of materials, it can disrupt global markets even with modest tweaks to policy. Its clout is growing on the financial side of commodity trading too, thanks to China's three big futures exchanges; international traders say that you cannot be successful without dealing on them. Now China wants to extend its influence over commodities further still. Officials are aiming to turn the proliferation of local contracts, for instance, into international price standards.



The Economist

The rule of thumb for commodity traders is that China consumes “half of everything”. For some materials, such as iron ore, even this is an understatement (see chart 1). China's big appetite alone gives it influence in markets. But it also means that the authorities deem many commodities strategically important. And they are not shy about intervening.

Take maize. A glut in China in 2010-15 pushed government inventories up to unprecedented levels and led the authorities to reduce financial incentives

to corn farmers. But the resulting fall in output was too sharp, forcing China to look overseas to replenish stocks. Corn imports jumped from less than 5m tonnes a year in 2013-18 to almost 30m tonnes in 2020. Partly as a consequence, American corn prices doubled over the first half of last year.

China's strategies also involve boosting supply to keep prices low. In order to keep a lid on infrastructure costs in the 2000s, it invested in a huge number of aluminium smelters and encouraged producers to raise output. Graeme Train of Trafigura, a trading firm, estimates that the smelters cost around \$70bn. But without them, the price of aluminium would probably have increased in line with that of copper, says Mr Train. And that would have raised China's infrastructure costs by an extra \$1trn or so between 2000 and 2015.

In some cases China's appetite has helped create new financial systems. Iron ore, the main ingredient of steel, is a good example. Between 2003 and 2016 China's imports of the ore rose tenfold as it built masses of steel-intensive infrastructure. Today it is the world's biggest consumer of iron ore, for which it has also become "the world's most sophisticated" market, says a manager at a big mining firm.

Buyers in other countries, such as Japan and South Korea, tend to prefer long-term contracts. In China a dynamic spot market has emerged, which gives punters opportunities to resell excess ore and informs the price of long-term contracts. Dozens of seaports act as mini iron-ore exchanges. They have storage facilities and serve as places where customers can buy and sell ore. Analysts look at the portside price to gauge the outlook for the market.

Chinese trading firms are becoming more sophisticated, too. The biggest, such as PetroChina and Sinopec, two state-owned oil companies, are getting better at strategically steering the market, notes Michal Meidan of the Oxford Institute for Energy Studies. They mimic tactics used by European traders. That includes placing bets to shift the price of the Dubai benchmark which, in part, helps inform the prices in their long-term contracts. Other Chinese traders are scaling up. In March COFCO, a food giant, announced plans to float its trading arm.



The Economist

China's commodity-futures exchanges are now world-beating. The three big ones are in Dalian, Shanghai and Zhengzhou. The number of contracts traded on these in 2020 was six times higher than on America's CME Group's exchanges (see chart 2). In terms of value they were roughly equivalent. From January to June this year the ten most-traded agricultural futures contracts were all Chinese. So were eight of the top ten metals contracts and five of the top ten energy contracts.

Chinese exchanges look different from Western ones. They are dominated by retail investors (who are nicknamed "chives" because when they get cut down, they soon grow back). Estimates from 2016 suggest that this group holds around 85% of open positions, compared with 15% on Western bourses. They trade smaller lots, too, and hold them for less time, which adds to liquidity. A lack of expertise means retail investors tend to accentuate price swings. For the most part, they are losing money, says Xiao Jin of Orient Futures, a broker.

For officials in Beijing, the next step in the development of China's commodity markets is to turn the country's benchmarks into global standards. One reason for this is to boost use of the yuan, which is used to conduct only 2-3% of cross-border commodity trades, compared with the

dollar's share of 38%. Another is that officials are wary of Western benchmarks, suspecting that they may have been manipulated.

Until now China's way of protecting its manufacturers and consumers from price volatility had been through isolation. Only select state firms could trade on foreign commodity-futures exchanges, and only a small group of international traders could access Chinese ones. Those exchanges have no warehouses—which are where physical commodities are delivered—outside the mainland. Foreign exchanges are not allowed warehouses inside China.

But the new strategy of benchmark nationalism is leading China to slowly loosen the rules for international traders. Around 80 commodity-futures contracts are traded on its big exchanges, nine of which are available to foreign punters. That covers mostly imported commodities, such as copper and oil. Some of these trade on Shanghai's International Energy Exchange, a subsidiary of the city's Futures Exchange designed to appeal to traders abroad. As more investment firms take advantage of arbitrage opportunities, the prices of futures contracts on Western and Chinese exchanges are more often moving in tandem.

More opening up is in the works. In September the State Council, China's cabinet, said it would launch more futures contracts, accelerate the participation of overseas traders in Chinese markets and build another yuan-denominated exchange aimed at such punters.

Two big problems stand in the way of these ambitions, though. One is shifting commodity demand. Over the next decade this is likely to become more evenly spread around the world, argues Jeffrey Currie of Goldman Sachs, a bank. Climate-friendly policies require vast amounts of metals to build wind turbines and power grids. Meanwhile, China's economy will slowly become more services-oriented, reducing the need for commodities. Its consumption of some metals, such as aluminium, is expected to peak in the next few years.

Another hurdle is trust. China's commodity exchanges are closely tied to the state. Senior managers move between exchanges and government departments. Authorities intervene readily in markets. Investors point to China's intervention in equity markets after a downturn in 2015. Back then,

it banned short-selling and told investors with big stakes in companies that they could not sell shares. All this makes commodity investors worry about the predictability of Chinese markets.

Indeed, China has dabbled with commodity-market intervention in the past year, as prices have gone berserk. Authorities worry that rising costs will squeeze the manufacturing sector. To offset this, in the summer they sold some of their metal reserves and cracked down on speculative hoarding. In September they auctioned off oil reserves, too. In both cases the extra supply was so small that it had no lasting effect on prices. But analysts think the goal was not to move the market but to signal to investors that regulators are watching it.

The energy transition will probably make commodity prices much more volatile, as demand and supply adjust over time and one occasionally overshoots the other. Chinese authorities will have to decide whether to interfere or let markets respond. The path they choose will determine the future of commodity markets far beyond their borders. ■

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Houdini economics

Germany grapples with weird ways to dodge its debt brake

The constitutional ceiling on borrowing is inspiring all sorts of wheezes

Nov 20th 2021 | BERLIN



Getty Images

VISITORS TO MURKY corners of the internet may encounter ads promising “one weird trick” to help them lose weight or acquire millions. To meet its climate obligations and upgrade its digital infrastructure, Germany needs to rustle up perhaps €50bn (\$57bn) a year in public investment. But a “debt brake” inserted into the constitution in 2009 limits annual borrowing to 0.35% of nominal GDP (equivalent to about €12bn). Changing the constitution looks impossible. Squaring this circle means the three parties now negotiating a coalition agreement, after an election in September, will need some tricks of their own.

Several are doing the rounds. The first is to establish off-budget public companies that can tap markets for funds devoted to specific aims: insulating buildings, say, or charging stations for electric cars. Deutsche Bahn, Germany’s rail giant, operates this way. A related but distinct proposal is to beef up the KfW, the state development bank, to enable it to leverage

private funds for green investment. In theory hundreds of billions could be raised this way, although EU state-aid rules are a constraint.

A more cunning ruse is to go on a one-off borrowing binge in 2022, exploiting the temporary suspension of the debt brake applied last year, which allowed the government to fund furlough schemes and the like in the pandemic. Experts have mentioned a sum of €500bn, to be spent over the next decade. But a badly designed scheme could attract the beady eye of Germany's constitutional court.

Perhaps the cleverest wheeze comes from Dezernat Zukunft, a Berlin-based think-tank. Noting that the debt brake relies on estimates of the mysterious "output gap"—or the difference between GDP today and a measure of the economy's potential—the group suggests tweaking some of the inputs to that calculation. Assuming more slack in the labour market than the finance ministry does, for example, would raise the spending limit. Conservatives dismiss the idea as "Pippi Longstocking economics". But it involves no legal jiggery-pokery and rests on assumptions no more outlandish than those already in use. "No one understands these bureaucratic methods, which is why they are politically attractive," says Jens Südekum of Heinrich-Heine University in Düsseldorf. They could add €20bn of annual spending.



More conventional sources may offer fiscal crumbs. A new global corporate-tax deal could raise a few billions, as could the legalisation and taxation of cannabis, which is likely under the next government. EU climate funds might offer a bit more. The odd subsidy might be cut. And the government anyway has a tendency to underestimate projected tax revenues; 2020 brought in €11.4bn more than expected (see chart). These will not flood the coffers, but every little helps.

Each of these proposals, to varying degrees, may make it into the coalition agreement promised by the end of November. The absurdity of some of Germany's finest economic minds concocting complex schemes to escape the country's self-imposed limitations is not lost on all of them. "It's ridiculous that so much time is spent trying to find a way around rules we have set ourselves," says Philippa Sigl-Glöckner of Dezernat Zukunft. Clicking on "one weird trick" ads is rarely wise. But Germany has left itself little choice. ■

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Land of the falling price

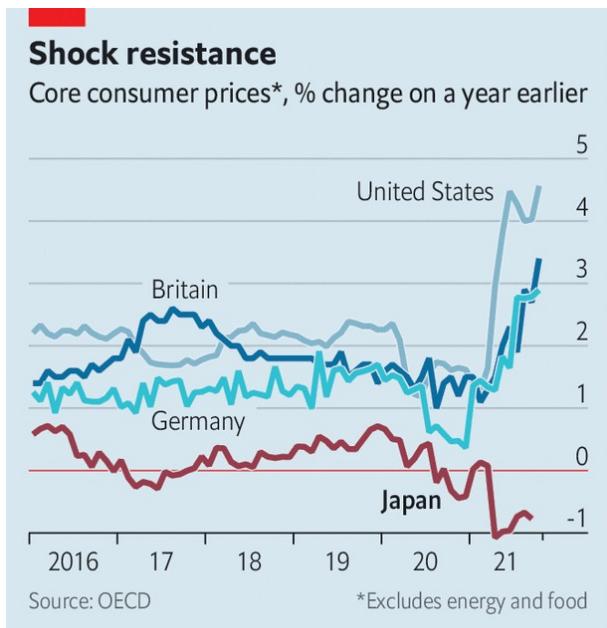
The case of the curiously quiescent inflation rate

As consumer prices rise across much of the world, inflation in Japan stays stubbornly low

Nov 20th 2021 | HONG KONG



INFLATION IS SURGING around the world, with price rises now exceeding central banks' targets. But Japan is a notable holdout. Although policymakers there have long sought to generate inflation, consumer prices still refuse to budge. In September they rose by just 0.2% year-on-year, and inflation, excluding fresh food and energy prices, actually fell by 0.5% in the same period. Analysts at Goldman Sachs, a bank, expect that measure to fall to -0.8% in the latest data, which was due to be published after this was written. By comparison, a “core” measure rose by 4.6% in America in October, 3.4% in Britain and 2.9% in Germany (see chart).



The Economist

What's going on? Japan is not insulated from global trends. In October producer prices rose by 7.9% year-on-year, the largest single increase since 1980. The pickup was overwhelmingly led by higher import costs, which rose by 38% in yen terms. The prices of petroleum products and lumber rose by 45% and 57%, respectively, compared with the same month last year.

These increases may in small part have been offset by an idiosyncratic factor. Tumbling mobile-phone fees, driven by a government campaign against carriers, are pulling down the consumer-price index as a whole. The communications segment of the basket is down by 28% year-on-year. Yet even if fees were flat, inflation would still be below target. That suggests broader economic factors are an important part of the story.

Entrenched expectations built up through decades of little to no inflation play a big role in explaining why rising producer costs have not fed through to consumer prices. Domestic companies are notoriously unwilling to pass on increases in the prices of imports to consumers. At a press conference in October Kuroda Haruhiko, the governor of the Bank of Japan, attributed this reluctance to habits picked up during the country's periodic bouts of deflation. Companies have a good reason to resist increases. Last week Kikkoman, a producer of soy sauce, announced a 4-10% increase in its

prices from February. Such an event might barely be noticed in America. But in Japan it made the national news.

Another crucial factor is the weakness of Japan's consumer recovery. Private spending fell in the third quarter of the year, and is now 3.5% below where it was at the end of 2019. Spending on durable goods, the source of much American inflation, has been practically flat for the past eight years in Japan.

The Bank of Japan was an early adopter of zero-interest-rate policies and bond-buying programmes, tools that have since been used elsewhere in the rich world as interest rates hit rock-bottom after the global financial crisis of 2007-09. The absence in Japan of the same inflationary pressures apparent across other advanced economies once again makes the country a laboratory for economists.

Despite the Bank of Japan's activism, inflation has persistently failed to reach its 2% target. Its assets ran to 103% of Japanese nominal GDP even before the pandemic, and bond and stock purchases since have pushed that share up to 134%. In the same period, the Federal Reserve's purchases have risen from 19% to 36% of American GDP. The Bank of Japan's policy to keep ten-year government-bond yields at around 0% is still firmly in place, even as a similar effort at yield-curve control by the Reserve Bank of Australia was abandoned after it came under market pressure in October.

This suggests that whatever is raising prices elsewhere in the world—whether supply-side constraints associated with the pandemic, demand-side stimulus, or some combination of the two—monetary easing alone is struggling to move the needle when confronted with decades of low inflation expectations. Kishida Fumio, Japan's new prime minister, has vowed to deploy a fiscal-stimulus package that includes cash for poor families and the under-18s. Analysts at Barclays, another bank, expect new spending worth 3.7% of GDP.

These handouts may well nudge up inflation, if the money is actually spent by consumers rather than saved. But for now Japan seems to be the place that inflation forgot yet again. ■

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Buttonwood

Baillie Gifford and the three quandaries of fund management

A visionary British investment house has had a stellar run. Can that continue?

Nov 16th 2021 | EDINBURGH



THE HOME of the Scottish Mortgage Investment Trust (SMIT) is an office a mile down the road from Edinburgh Castle. Aside from that it has little to do with Scotland, and nothing at all to do with mortgages. This makes it an apt flagship for Baillie Gifford, a British investment manager that prides itself on its unconventionality. Baillie Gifford's 12 trusts and 33 funds together oversee assets worth £346bn (\$466bn). That puts it well below the heavyweight category for global fund managers, whose members hold assets in the trillions. Yet the firm and its star vehicle hold wider lessons for other fund managers.

Among the previous jobs of members of Baillie Gifford's investment team are ballerina, soldier, doctor and concert pianist. One partner likes to tell potential clients that the firm's equity-fund managers aren't much interested in the stockmarket. Another describes her enthusiasm for a founder who is

so focused on developing a breakthrough medical technology that he refuses point-blank to discuss what his company could be worth. But even those investors who insist on vulgar bean-counting will be impressed by the fact that £1,000 invested in the SMIT ten years ago would be worth around £11,600 today. By contrast, the same amount invested in the FTSE All-World index of stocks would be worth around £3,800.

The author of this success is James Anderson, who took the helm of the SMIT 21 years ago and will step aside in April. The iconoclastic Mr Anderson participates in a long tradition of fund managers pouring scorn on their own industry. Conventional asset management, he said in his latest annual review of the SMIT, is “irretrievably broken”. Markets are in thrall to the “near-pornographic allure of news such as earnings announcements and macroeconomic headlines”.

Mr Anderson has used his tenure to mould the SMIT to his liking. When he took over, the trust, then 91 years old, held shares in hundreds of listed firms, around half of which were British. Today it invests in a few dozen public and private companies based all over the world. The meteoric rise in the trust’s share price was fuelled by backing companies like Alibaba, Amazon, Tencent and Tesla early and then hanging on to them. Along the way, the amount of money Baillie Gifford oversaw grew by a factor of ten.

The challenges the firm faces as Mr Anderson leaves are emblematic of those that confront the wider industry. The first is how to prevent a run of extraordinary performance from reverting to the mean and becoming pedestrian. Under Mr Anderson, the SMIT broadened its horizons to include new geographies and unlisted companies. It also placed bets on firms with unconventional business models and maverick founders that put other investors off. That does not mean that the route to future success lies in finding more privately owned companies run by irascible bosses. The SMIT’s outperformance in fact came from its early recognition of trends, such as the growing dominance of internet retailers and the increasing importance of electric vehicles. There is no set of rules for arriving at such insights, and so no guarantee of repeating them.

The second challenge is to square the opportunities for returns with investors’ demands for social responsibility. The firm’s “health innovation”

strategy attempts to do this, by betting on a hoped-for megatrend that will deliver both profits and improved medical care. But elsewhere in Baillie Gifford's portfolio is BGI Genomics, a Shenzhen-based firm. It is part of a group that had two subsidiaries placed on an American watch list last year for "conducting genetic analyses used to further the repression of Uyghurs and other Muslim minorities" in Xinjiang, according to the Commerce Department. Even the most quixotic aim can end up in a moral quagmire.

The final challenge is timeless and universal: succession. In announcing Mr Anderson's departure, Baillie Gifford emphasised continuity. His replacement, Tom Slater, has managed the SMIT jointly with him since 2015. The philosophy and investment process of the trust, it insists, will not change. Yet it is losing the leadership of an uncommonly prescient investor. Mr Anderson himself has written of his waning enthusiasm for Amazon as Jeff Bezos, its founder and CEO, stepped aside and it ceased to feel like "Day One" at the company. Having been founded in 1908, Baillie Gifford's first era passed a long time ago. As another day draws to a close, replicating its successes will be a tall order.

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Patch-up job

As housing costs rocket, governments take aim at large investors

The approach is politically expedient, but it may not make housing cheaper

Nov 20th 2021



HOUSING COSTS across the rich world are rising fast. In America and Australia prices have increased by nearly 20% in the past 12 months, and rents too are on the up. In the past year, prices in New Zealand have shot up at a pace of more than NZ\$2,000 (\$1,400) a week. Costs in big cities have been going up for years, propelled by a mix of cheap borrowing and a scarcity of new homes. The pandemic has made matters worse; lockdowns boosted demand for larger homes, while labour and materials shortages constrained housing supply. As they try to bring down costs, governments are throwing all sorts of ideas at the problem.

One set of policies involves helping first-time buyers and renters, while discouraging other types of prospective homeowners. Spain, for instance, wants to get young people out of their parents' houses, and is offering them nearly \$300 a month for rent. In South Korea, President Moon Jae-in has

brought in more than 20 different regulations, including tighter lending rules and punitive taxes on expensive homes.

Officials elsewhere are focused on deterring foreign buyers. Justin Trudeau, Canada's prime minister, vowed a two-year ban on house purchases by non-residents during his re-election campaign in August. New Zealand's ban on foreigners buying homes came into force in 2018 after the controversial purchase of a ranch in the country by Peter Thiel, a Silicon Valley heavyweight. Yet although these policies have successfully put off foreigners, they have missed the mark on affordability. House prices in New Zealand have risen even as purchases by overseas buyers have dried up. Mr Moon's efforts have, likewise, failed to curb steep price rises. Prices of flats in Seoul have increased by over a third during his presidency.

That might explain why the focus in South Korea has shifted to supply. This year the government unveiled a plan to build 83,000 homes in the capital. America has pledged to subsidise construction. Officials in Hong Kong, who blame unaffordable housing for the anti-government protests that erupted in 2019, want to ease costs by building a new city near the territory's border with mainland China. The development could house as many as 2.5m people—a third of Hong Kong's population. But Britain's experience shows just how difficult expanding housing supply can be. The government wanted to revamp planning rules to open up more land to housebuilding. Then fears of a backlash from NIMBY voters and disagreements within the governing Conservative Party prompted a rethink.

Faced with the failures of managing demand and the political difficulties of expanding supply, some governments are turning instead to a more expedient target: big landlords. In October Spain's left-wing coalition agreed on a housing bill aimed at cracking down on investment funds. The new legislation imposes rent controls on landlords with more than ten properties. The changes—due to take effect in the second half of 2022—are a blow for companies such as Blackstone, a private-equity giant that is Spain's biggest landlord.

Spain is only the latest country to propose restrictions on large property investors. Similar approaches have sprung up in Ireland and New Zealand. In America President Joe Biden wants to restrict the types of homes large

investors are allowed to own. Canada's central bankers plan to analyse investors' role in surging prices. In a referendum in September Berlin's residents took the drastic step of voting to expropriate big landlords such as Vonovia and Deutsche Wohnen. (The result is non-binding, and legal setbacks mean it may never become reality.)

Taking on big investors might be popular with voters, and easier to achieve than loosening supply constraints. But whether such an approach will lead to more affordable housing is less clear: curbs on big landlords make it less profitable to build new properties. If the crackdown continues, investors could simply take their pots of capital elsewhere, leaving housing costs to rise further still. ■

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Lifting off

Frequent-flyer schemes provide airlines with a lifeline

Many carriers are using them as collateral

Nov 20th 2021 | NEW YORK



WHEN EXECUTIVES at American Airlines unveiled the world's first frequent-flyer programme 40 years ago, they probably didn't imagine it would one day be worth more than the airline itself. Last year analysts valued the scheme at around \$18bn-30bn, eclipsing the company's current market capitalisation of \$12.9bn. Such programmes have proved a boon to American carriers in the pandemic. Firms including American Airlines have raised \$30bn in debt backed by the schemes.

Airlines once hoped simply to foster loyalty by offering customers freebies. Passengers collected miles as they travelled and were awarded a free flight once they racked up enough of them. But schemes today are far more sophisticated. Airlines profit by selling miles to credit-card firms at a price that exceeds the cost of providing reward flights and dishing out other perks, such as hotel stays. They also gain when miles expire unused or are cashed

in for something of poor value. According to McKinsey, a consultancy, 15-30% of miles expired unused before the pandemic.

Credit-card issuers in turn use miles to lure customers with bonuses. Airline-affiliated cards tend to rake in much more in transactions a year than other cards. Many miles are therefore earned not in the air, but through card spending on the ground.

That explains why customers earned \$6.8bn-worth of miles across big loyalty schemes in 2020, even as many kept to their homes. If they were to rush to convert those miles into free flights as travel takes off again, the profitability of such schemes would be jeopardised. But airlines have another way to ensure that their programmes stay profitable: they can deflate the value of their miles. In the early 2010s American airlines began to calculate the value of a mile based on a complex formula of fares and routes. In 2015 Delta Air Lines stopped disclosing how the value of its miles was calculated and embarked on a series of devaluations, prompting competitors to follow. In the past year or so Delta, Southwest and United have devalued miles on major routes by 6-20%.

Airlines have tapped loyalty schemes for cash before, by selling miles to credit-card firms at discounted rates. United traded its miles with JPMorgan Chase, a bank, for \$600m in the financial crisis. But the pandemic saw the first use of loyalty programmes as collateral in America, says Benjamin Metzger of Barclays, another bank. United was the first to do so with a secured loan in June 2020. Delta followed with a bond offering soon after.

The deals have attracted more investors than bonds secured by old aircraft (which, unlike loyalty schemes, depreciate). Scheme-backed debt tends to boast a better credit rating than the airline issuing it. And investors are comforted by the structure of the deals, which use the schemes' cash flows to repay debt, and limit risk if an airline goes bust. Affinity Capital Exchange, a fintech firm, is working with JPMorgan to securitise air miles, so that they can be more easily traded.

The trick for airlines in all this is to balance the costs and benefits of perks so that customers stay engaged, while carriers' margins are preserved.

Endless devaluations could rattle that equilibrium and upset securitisation arrangements. Sky-high valuations are not assured. ■

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Lost promise

The violence in Ethiopia imperils an impressive growth record

Of all the countries in Africa, it came closest to mimicking the Chinese model

Nov 20th 2021



Getty Images

ONE OF THE most extraordinary growth records over the past two decades was to be found, perhaps surprisingly, in the horn of Africa. Real GDP per person in Ethiopia, the second-most-populous country in Africa, rose by an average annual rate of 9.3% from 1999 to 2019, just 0.4 percentage points less than China's pace of growth. Now a year-long war between Ethiopia's government and forces led by the Tigrayan People's Liberation Front (TPLF) threatens to spill into the capital city, wreak humanitarian disaster and wipe away those economic gains.

From the late 1990s, a roaring Chinese economy provided the impetus for a boom in the rest of the developing world. As China became richer, some of its industry moved abroad, allowing poorer countries like Bangladesh and Vietnam to follow in its wake. In the 2010s some optimists hoped that this

process of sequential industrialisation might eventually shift to Africa. More than any other country there, Ethiopia illustrated this potential.



The Economist

Three decades ago, its economy was among the world's least developed. Then in 1991 forces led by the TPLF overthrew the Marxist regime that had long run things. Though the TPLF-dominated government remained authoritarian, it began liberalising the economy and directing investment towards infrastructure. Ethiopia's GDP per person has risen more than sevenfold since 1995, faster than other sub-Saharan economies and the emerging world as a whole (see chart). The share of Ethiopians living in extreme poverty fell from half the population to under a quarter in the 2010s.

Ethiopia's success was first owed to increasing productivity in agriculture, which lifted incomes and helped the construction and service sectors expand. While employment in industry rose rapidly from the late 1990s into the 2010s, most manufacturing workers laboured at small firms, making food and beverage products and other goods for local markets. Coffee and cut flowers remain big exports.

Yet over the past decade, manufacturing for export has gained a foothold. In industrial parks scattered across the country factories sprang up, many dedicated to making the textiles and clothing that often represent the first

rung on the industrialisation ladder. Apparel giants like H&M and Primark began sourcing products from Ethiopian plants, and the value of clothing exports rose more than sixfold from 2009 to 2019. Foreign direct investment roughly quadrupled from 2011 to 2017, much of it from China. The vast majority of direct investment—about 80%—flowed into the manufacturing sector.

But economic development depends more on sustaining growth over long periods than on bursts of explosive growth. Fighting in Tigray, one of Ethiopia's most important industrial centres, has idled or destroyed many factories. Others are increasingly being shut out of markets. On November 2nd President Joe Biden suspended Ethiopia's tariff-free access to America, citing “gross violations of internationally recognised human rights”, chiefly by the forces of the prime minister, Abiy Ahmed. Plans to privatise more of the economy are faltering as foreign investors lose their appetite.

A swift, diplomatic resolution to the crisis may let Ethiopia salvage something of its economic miracle. Still, the road ahead would be difficult. Even before the Tigrayan forces' advance, the government faced unmanageable foreign debts of nearly 30% of GDP: a heavy burden for a poor country coping with covid-19, and which collects less than 7% of GDP in tax.

Nor can the destruction of capital be easily undone. Foreign investors may prove difficult to lure back. China enjoyed good relations with the TPLF when the group ran the country, and might be expected to provide support if the TPLF wins. But it faces a slowdown at home; and because China's spending in Ethiopia favoured manufacturing, rather than the production of commodities needed by Chinese industry, it may treat its investments there with less urgency.

A protracted conflict, by contrast, would undo most or all of the country's past economic gains. Whatever happens next, Ethiopia's case already demonstrates that a state's capacity to maintain order is the most important, and often the most elusive, condition for development. ■

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Free exchange

Janos Kornai understood capitalism by studying its opposite

Prices cannot work if losses do not hurt

Nov 20th 2021



Otto Dettmer

IN HIS CABIN aboard the *SS Bashan*, a luxury river boat sailing to Wuhan, Janos Kornai was sleepless with excitement. The Hungarian economist, who died last month, was one of seven foreign experts invited in 1985 to share their views on China's economic reforms. As Julian Gewirtz recounts in his book "Unlikely Partners", Mr Kornai stole the show. On a week-long cruise with an audience of Chinese technocrats, he dissected socialism's familiar "cares and woes" (featherbedded firms, rushed growth and consumer shortages). And he offered a hopeful vision of a restrained, guided capitalism. His book "Economics of Shortage" soon became a bestseller in China, although he never saw any royalties.

Forty years earlier, Mr Kornai lay on the roof of a Jesuit monastery in Budapest, hiding from a fascist raid down below, even as Soviet forces dropped bombs from above. The skyline had a "hellish beauty", he wrote. As a Jewish Hungarian who had lost his father and a brother to the

Holocaust, he welcomed the Soviets as liberators. He did not even mind when they stole his watch. His gratitude was one reason why he became an enthusiastic communist, so devoted to his work on a party newspaper that he missed the birth of his first child. His communism, in turn, explains why he became an economist. He pored over Karl Marx's "Das Kapital". Enlightenment radiated from it "like sunshine", he later wrote. "I had no more doubts about what profession to choose."

The spell of Marxism broke when he met a victim of the torture it entailed. He also came to hate the improvised haste of journalism. He turned instead to research at Hungary's Institute of Economics. But his reporter's habits served him well in his dissertation. By interviewing managers, grumbling with them about bureaucratic idiocy, wastage and "disregard for customer needs", he crafted a rare systematic account of how a planned economy actually worked, as opposed to how it was supposed to work. The book also served as an index of shifting political winds. It was celebrated in the lead-up to the Hungarian revolution in 1956, denounced after that revolution was crushed by Soviet tanks, then approved for translation into English, all by the same person, the director of the institute.

Some socialist reformers thought that widespread state ownership was compatible with market forces and price signals. But Mr Kornai recognised that getting prices right, even if it were possible, would not be enough. Under capitalism, a firm cannot defy prices for long without going bust. Under socialism, things were different. State-owned firms knew they could always appeal to higher authorities to bail them out. In 1979 Mr Kornai called this a "soft budget constraint": the sharp line drawn by economists on their blackboards was smudged. If firms do not fear losses, they need not heed prices. This lack of financial restraint also allowed firms to indulge their "investment hunger", an excessive appetite for resources, which squeezed out consumers and resulted in chronic shortages.

The argument made his name: it was a "congenial" extension of a concept familiar to mainstream economists. Mr Kornai had once had larger ambitions, hoping to smash the crystal through which most economists viewed the world. He had studied neoclassical theorists such as Kenneth Arrow with much the same care he had lavished on Marx. But he could not square their ethereal "general equilibrium" theory with his observations of

the living, breathing economy. The mismatch reminded one economist of a line by the poet Edith Sodergran: “You searched for a woman and found a soul—you are disappointed.”

On the China cruise, Mr Kornai convinced his audience of the need to harden the budget constraints of the country’s firms. One of his fellow passengers is now China’s banking regulator. But the imposition of financial discipline remains a work in progress. The rise in defaults, even of state-owned firms, in recent years is evidence of some harder financial lines. But it comes only after years of gluttonous investment.

China has not, however, suffered chronic shortages. On the contrary, it is a “super-surplus” economy, marked by massive excess capacity, as Xu Chenggang, one of Mr Kornai’s students, has pointed out. One reason is that state-owned enterprises do not have the economy to themselves. They coexist with fiercely competitive private firms. The surpluses may also reflect the dual nature of investment. It is both an immediate source of demand and an eventual source of supply. In the short run, it makes a claim on the economy’s resources, which can crowd out consumers. But when the investment bears fruit, it adds to the economy’s ability to supply goods and services, resulting in abundance not scarcity.

Team transitory

Like the economies he deciphered, Mr Kornai inhabited two worlds. He was half in the mainstream of economics, half out. From 1983, he was half in America, half out. The transitions were not always easy. It took him time to perfect his English. In his Boston driving test, he declared that a “no hitchhiking” sign was a “no hijacking” sign. In a lecture, he repeatedly mispronounced warehouse as whorehouse. On returning home to Hungary each year, he had to remember to drop his upbeat stateside persona and complain a bit more.

But although he straddled different worlds, he was in no doubt where his allegiances ultimately lay. “Despite its detrimental and morally nasty features...I would sooner live under the capitalist system than in the happiest barrack in the socialist camp,” he wrote in his memoir. And although he was intellectually opposed to patriotic bombast, he felt an instinctive pride in the

achievements of his compatriots. It was their music and literature that moved him. Their unillusioned meliorism that animated him. He counted in Hungarian. And when he wasn't sleepless with excitement, he dreamt in it too. ■

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Science & technology

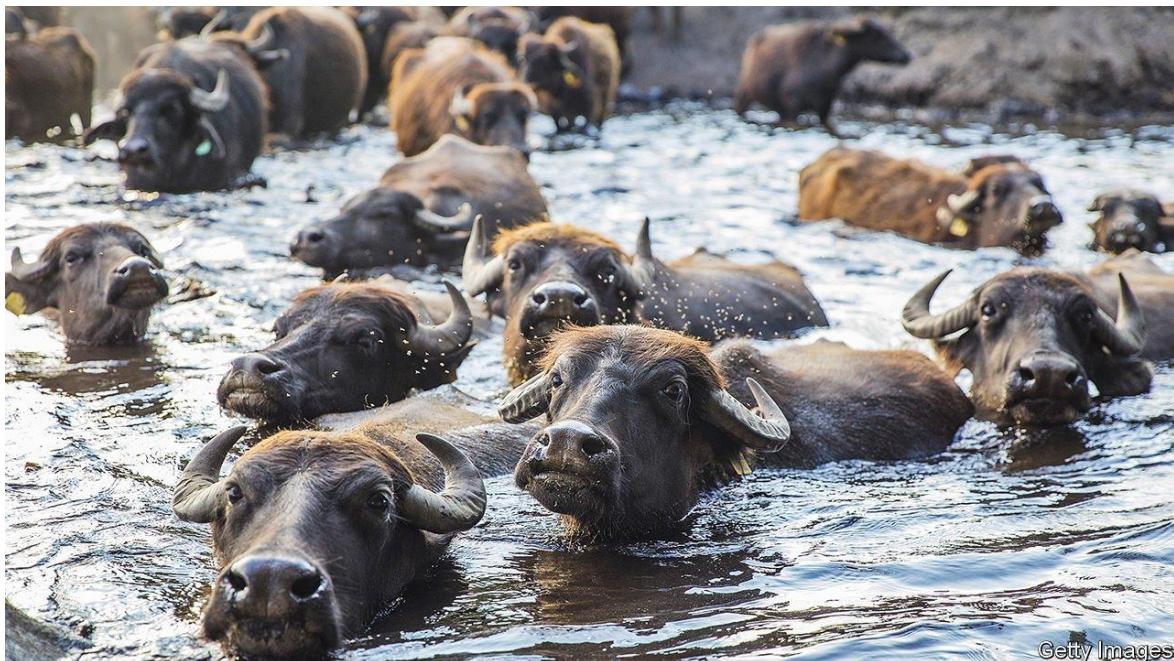
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Covid animal reservoirs

Sars-CoV-2 could be lurking in animal hidey-holes

Many animals besides humans look as if they can catch the virus, too

Nov 18th 2021



Getty Images

IN THE FIELD of epidemiology, a “spillover” is a virus that has made the leap from one host species to another. The spillovers of most concern to people are those from other animals to *Homo sapiens*. These may then go on to create “zoonotic” human diseases—of which covid-19 is believed to be one (the original host of SARS-CoV-2 is thought to have been an as-yet-undetermined species of bat).

Such traffic can, however, run in two directions. For example, in 2020 the World Health Organisation reported that SARS-CoV-2 had spilled over in Denmark from human beings into farmed mink, and was thereafter transmitted from animal to animal to create a separate veterinary epidemic. And, earlier this month, a paper posted on *BioRxiv*, an electronic host for work that has not yet been peer reviewed, presented evidence that the virus is also circulating in white-tailed deer in North America, having presumably spilled over from people there. All of which is on top of reports suggesting

that domestic pets, especially cats and dogs, can also pick up SARS-CoV-2—and in the case of cats at least, can then pass it on to others of their kind.

Spillovers of this sort are potentially serious, for two reasons. One is that they create viral reservoirs beyond the easy reach of medical science and monitoring. Even if there are no human cases of covid in an area, such animal reservoirs mean that SARS-CoV-2 may still be lurking, waiting to spill back into people. The other is that exposure to the immune systems of novel hosts may drive the evolution of new and (if they then do spill back) potentially threatening viral strains. The mink incident therefore led the governments of Denmark, the Netherlands and Spain to cull 18m animals and place strict lockdowns in regions around the fur farms concerned. Treating a wild population, such as white-tailed deer, in a similar way would be harder. But precautions are still possible. Raising awareness among those who interact with the deer, such as hunters, can do a lot.

These, though, are reactive approaches. A proactive one would try to establish which species are at greatest risk of becoming reservoirs for SARS-CoV-2 before they actually do so. That would permit the monitoring of threats before they got out of hand. And, as she reports this week in the *Proceedings of the Royal Society*, Barbara Han of the Cary Institute of Ecosystem Studies, an independent environmental-research organisation based in Millbrook, New York, thinks she has worked out a way to achieve this.

Hidden ACEs

Starting early in 2020, just after covid emerged, Dr Han and her colleagues focused their attention on ACE2, a cell-membrane protein that had been identified almost immediately as the virus's point of entry. ACE2's day job is to help regulate blood pressure, and most vertebrates have it in one form or another. The researchers wanted to determine in which other vertebrate species SARS-CoV-2 might be expected to bind as strongly to the local ACE2 receptors as it does to those in human beings. These would be candidates for the role of reservoirs.

To this end, they gathered molecular information about every version of ACE2 that they could get their hands on. Mostly, these were from mammals

—142 species of them. They then used computer modelling of the interatomic forces involved to work out the strengths of the bonds likely to develop between SARS-CoV-2’s spike protein and each version of ACE2. As they expected, based on news that broke while they were conducting their work, the bond with mink ACE2 was particularly strong. They found a similarly strong affinity with ACE2 from white-tailed deer, long before reports of infections in that species emerged. Cats and dogs also showed up as being at risk—which reports then confirmed that they were. And gorillas and macaques, which have suffered a few cases in zoos, looked susceptible as well.

Useful as this information was, Dr Han was keen to look beyond these 142 species. To delve deeper, the team built a database of evolutionary traits shared by the species with the most vulnerable ACE2 receptors. This is a technique which has been used successfully in the past on rodents and bats, to assess their likelihood of acting as reservoirs for viruses including Ebola and Zika. It is based on the idea that particular proteins of species with similar physiologies and ways of life might be expected to evolve in similar ways.

The researchers studied everything they could—from breadth of diet, metabolic rate and age of sexual maturity to litter size, lifespan, geographical range and phylogenetic relationships—about more than 5,000 mammals for which little or no ACE2-receptor information was available. This enormous database completed, they fed the outcome into a machine-learning system that had been trained on the characteristics of the 142 species they had already examined. The result was the revelation of 540 species which seemed likely to have vulnerable ACE2 receptors and thus the potential to function as covid reservoirs.

Most primates were on this list—which, considering that people are primates too, was expected. Nor, given suspicions about SARS-CoV-2’s origins, was the inclusion of 35 types of bat a surprise. Surprises, however, there were. Though the common house mouse does not look to be a risk, which is good news, two of its fellow rodents, the ricefield rat and the Malayan field rat, both do. Since these species are often preyed on by domestic cats, themselves now known to be covid-susceptible, that provides a route by which people might become infected.

Dozens of other species were also flagged up as potential reservoirs. These included red foxes and raccoon dogs—two creatures which, like mink, are sometimes farmed for fur—and white-lipped peccaries (pig-like creatures found in South and Central America) and nilgai (a large Asian antelope), both of which are farmed occasionally, and also hunted and eaten.



Among more widespread livestock, the species of most concern is the water buffalo. There are reckoned to be over 200m of these around the world, acting as both beasts of burden and sources of milk. And other frequently hunted animals, such as the duiker (another antelope), the warty pig and the mule deer were also reckoned vulnerable, together with some rarities, including two critically endangered antelopes, the addax and the scimitar-horned oryx (pictured below), which was once extinct in the wild and is only now being reintroduced. In these cases the threat is less to human beings than to the survival of the species concerned.

Paying the buffalo bill

The sheer range of species involved staggers Dr Han. “I never imagined that we would ever see a virus with such a high cross-species infection potential,” she says. “It appears that there are at least an order of magnitude

more species that are susceptible to SARS-CoV-2 infection than any other zoonotic virus I can think of.”

Forewarned, however, is forearmed. And here there is perhaps a lesson on keeping the weapons in the arsenal sharp. One reason Dr Han’s study took so long from inception to publication is the disparate nature of the sources she needed to draw on. Scattered as they were around the world’s natural-history collections, assembling them took time. Many museums are now in the business of making their collections available electronically. To some, that might sound a low priority. Work like this suggests it is not. ■

Dig deeper

All our stories relating to the pandemic can be found on our [coronavirus hub](#). You can also find trackers showing [the global roll-out of vaccines](#), [excess deaths by country](#) and the virus’s spread across [Europe](#). To enjoy more of our mind-expanding science coverage, [sign up to Simply Science](#), our weekly newsletter.

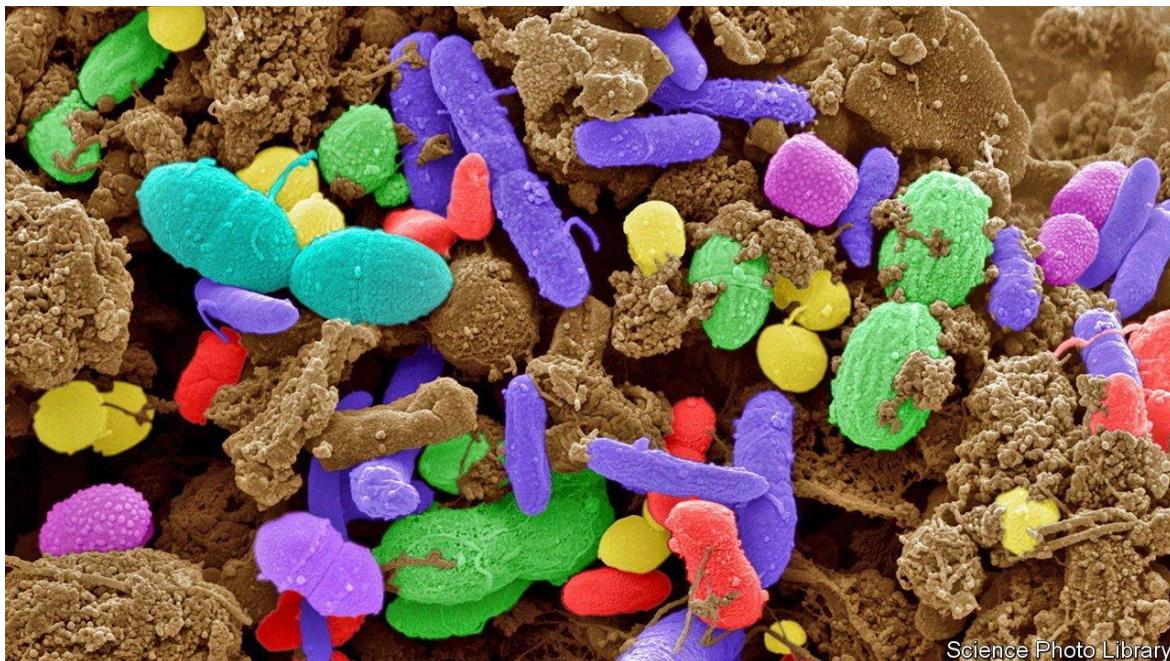
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Autism

Can an upset gut microbiome cause autism?

The latest evidence suggests not

Nov 17th 2021



Science Photo Library

THE GUT microbiome's effect on health is so big that it is sometimes referred to as a forgotten organ. The trillions of critters in the lower alimentary canal have an influence that seems to reach all over the body—helping regulate weight, for example. In recent years, though, one idea in particular has intrigued researchers. This is that certain mixtures of gut microbes may help cause autism.

It is well known that children with autism suffer gastroenteric problems. They often also seem to have simpler gut floras than their neurotypical peers, and some observations report the presence of unusual species. This has led to the suggestion that these abnormal microecosystems might actually be triggering autism. So tempting is this thought that preliminary experiments intended to tweak the microbiomes of autistic children have been carried out, with apparently positive results.

Unfortunately, the theory that gut microbes can cause autism is built on shaky foundations. The best evidence comes from work on mice, which is

problematic because identifying murine behaviour patterns that correspond to human autism is as much an art as a science. Work on people, meanwhile, has been criticised for relying on samples too small to yield statistically definitive conclusions.

But no longer. A study published in *Cell* by Jacob Gratten of the University of Queensland, Australia, and his colleagues is reckoned to have enough statistical power to answer the question robustly. And that answer is “no”, gut microbes do not cause autism. Dr Gratten’s work indicates that, while there is indeed a correlation to be explained, it is actually autism which (albeit indirectly) affects the gut flora, not the other way around.

Dr Gratten and his colleagues embarked on their project in 2016, using stool samples and dietary information collected as part of two large studies, the Australian Autism Biobank and the Queensland Twin Adolescent Brain Project. Of 247 children they selected for inclusion, 99 had been diagnosed with autism, 51 were neurotypical siblings of some of these, and the remainder were unrelated neurotypical children.

There was, they found, a clear connection between individual children’s dietary diversity and the diversity of their gut microbes—with more adventurous diets being associated with richer microbiomes. And since the sensory experiences associated with new foods can be overwhelming to them, autistic children are more likely than others to have restricted diets. Subtracting this effect left no remaining signal. The team thus found no connection between autism and microbial diversity beyond that brought about by autistic children’s food preferences. Nor was there any detectable connection between autism and particular bacterial species of the sort suggested by previous studies.

On the face of things, this is at odds with the findings of the treatment-by-microbiome-tweaking camp, led by Rosa Krajmalnik-Brown of Arizona State University. Her initial studies, admittedly small in number, suggested faecal transplants—used in extreme cases to treat infection with an intestinal bug called *Clostridium difficile*—had a positive effect on the behavioural traits of children on the autism spectrum, as well as on their gastrointestinal symptoms. She is now supervising clinical trials to test these findings more robustly.

Whether there is really a contradiction remains to be seen. Dr Krajmalnik-Brown, while acknowledging the quality of Dr Gratten's analysis, still thinks it cannot explain away the results she saw in the preliminary trials. But it is also possible that faecal transplantation, by relieving the uncomfortable symptoms brought about directly by unbalanced microbiomes, improves the behaviour of children with autism, yet does so without affecting the neural underpinnings of the condition. ■

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ASATs and the ISS

A Russian anti-satellite missile test puts the ISS in peril

Should such tests now be banned?

Nov 18th 2021



NASA

“SORRY FOR the early call”, the transmission from ground control to the International Space Station (ISS) in the morning of November 15th began, “but we were recently informed of a satellite break-up and need to have you guys start reviewing the safe-haven procedure.” That meant the crew of the ISS—a joint venture between America, Canada, the European Space Agency, Japan and Russia—had to seal off some of the modules in which they live and work and retreat to the two space capsules currently moored at its airlocks, lest debris from the break-up puncture their living space.

The source of the debris was a Soviet-era spy satellite, *Kosmos-1408*, in an orbit 100km or so above, and at an angle to, that of the ISS. A few hours earlier this had been blown to smithereens in a Russian anti-satellite-missile test which turned the two-tonne hulk into some 1,500 pieces of debris large enough for American radars to track (meaning a few centimetres or greater across), and countless more smaller fragments. The exact extent of the cloud

of debris could not be known, but it looked as if the ISS was passing through it, and would do so repeatedly.

America condemned the test as “reckless”, stressing that it endangered not just the five astronauts on the ISS (four Americans and a German) but also the two Russian cosmonauts, one of whom, Colonel Anton Shkaplerov, is currently the station’s commander. Russia’s defence minister, Sergei Shoygu, was quoted in TASS, a Russian news agency, as saying that “a cutting-edge system of the future” had “hit an old satellite with precision worthy of a goldsmith. The remaining debris pose no threats to space activity.”

That was not true. When a satellite is destroyed in this way the debris starts off close to the satellite’s previous position and orbit. That was the situation when the ISS was put on alert hours after the test. Over days, the debris spreads out along the orbit, forming a ring around Earth. Over weeks, lateral spread turns that ring into a shell. This diffuses the risk. But if America’s assessment of 1,500 fragments holds, the test will have increased the total number of trackable bits of space debris by almost 10%. And all space debris poses some threat to space activity.

The fallout—or rather, the fall-ceaselessly-around—from the Russian test is not quite as bad as that from a similar Chinese test carried out in 2007, which accounts for 3,500 bits of trackable debris. But it is worse than the debris from an Indian test which took place in 2019. That used a target in a very low orbit, and as a result most of shrapnel has since re-entered Earth’s atmosphere. The same is true of America’s own most recent satellite-smashing escapade, in 2008, which destroyed a re-entering satellite said to have a dangerous amount of fuel on board.

Why do countries keep doing these things? One reason is the link to missile defence. An ability to destroy a satellite with a missile launched from below, as the Russians did, is also an ability to destroy an intercontinental ballistic missile during the part of its flight which puts it above the atmosphere. America prizes that ability, and others seek it. But testing missile-defence systems, or for that matter anti-satellite weapons, does not require the creation of copious orbital debris with no prior warning. (The Outer Space Treaty of 1967 requires countries to consult with each other before doing

anything which might lead to “potentially harmful interference”.) Such flamboyant recklessness seems to be more about proving a point. It is possible that the timing of Russia’s test, coinciding with its build-up of troops on the Ukrainian border, was intended as a signal.

Brian Weeden of the Secure World Foundation, an organisation devoted to the sustainable and peaceful use of space, says the test “calls into question [Russia’s] commitment to dealing with the threats to the long-term sustainability of space and their expressed desire to prevent an arms race in outer space.” One way in which that desire is purportedly expressed is in the “Treaty on Prevention of the Placement of Weapons in Outer Space and of the Threat or Use of Force against Outer Space Objects”, which Russia and China started to promote at the UN in 2008. America and its allies are not keen—in part, America says, because it does not place limits on ground-based anti-satellite systems.

Earlier this month, though, the UN General Assembly voted in committee for an “open-ended working group” on possible norms, rules and principles for the responsible and peaceful use of space. Despite Russia and China voting against, because they prefer their treaty, open-endedness may provide enough scope for some sort of agreement. But not soon. UN processes, like space debris, can stay up in the air for a very long time. ■

This story is an updated version of this [earlier article](#) that we published in the aftermath of the explosion.

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Books & arts

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The less accused

Far-right ideas are gaining a renewed respectability in France

They have a deep and troubling history

Nov 20th 2021 | PARIS



Klawe Rzeczy

“NATIONALISM IS THE safeguarding of all those treasures that are at threat without a foreign army crossing the border, without the physical invasion of territory. It is the defence of the nation against the stranger from within.” Thus wrote Charles Maurras, a reactionary and anti-Semitic French author, in “My Political Ideas” in 1937. After the disgrace and trauma of Vichy France, which officially branded Jews the stranger within, such thinking was for most of the post-war period banished to the fringes of French intellectual life. For decades it was *intellos* from the political left who dominated the salons and newspaper columns of Paris.

Today, however, France is seeing a disconcerting revival of ultranationalist thinking, and with it the rehabilitation of once-ostracised reactionary writers. Robert Laffont, a respected Paris publisher, reprinted the collected works of Maurras in 2018. This year a right-wing French publisher reissued “The Great Replacement”, which first came out in 2011; its author, Renaud

Camus, is a hard-right writer currently appealing a conviction for incitement to racial hatred. As some nativists allege of America, Mr Camus argues that France is undergoing a demographic “conquest”, in this case involving the relentless replacement of the “French people” with those from its former colonies.

Assorted micro-movements and individuals on the extreme and ultra-Catholic right have long claimed to be the inheritors of reactionary *fin-de-siècle* thought. But these peripheral voices were dignified with neither serious scrutiny nor polite debate. Now, outlets such as *Valeurs Actuelles*, a right-wing magazine, and CNews, a French 24-hour news channel likened to Fox News, discuss little else. Mr Camus has turned from recluse to television-studio guest. Eric Zemmour, a pundit and polemicist, doubles as a populist radical hoping to stand in next April’s presidential election. His latest bestseller, “France Has Not Had Its Final Word”, is a lament for “the death of France as we know it”. Dressed in an intellectual veneer, the book identifies at every turn a threat to “the French people, their customs, their history, their state, their civility, their civilisation”.

Two sinister underlying obsessions link this contemporary discourse to the earlier reactionary and nationalist French essayists. The first is a belief in an immutable “eternal France”. Maurras, who was a leading figure in Action Française, a political movement that was founded in 1899 to defend “true France”, termed this *le pays réel* (the real country): a land of church spires, ancestral soil and family tradition. It was to be distinguished, in his view, from *le pays légal* (the legal country), or the artificial structures of the anticlerical republican administration.

Old enemies and new

Identity in this sense is not a fluid multiple construct, but rather is fixed and rooted in the earth. “The land gives us discipline, and we are the extension of the ancestors,” declared Maurice Barrès, another influential nationalist writer who was close to Maurras, in 1899. The iconography of Vichy France later embraced this blood-and-soil identity, celebrating rural life, church, family and work on the land. Indeed, Mr Zemmour entitles a chapter of his latest book “The Land and the Dead”, after a speech of that name by Barrès. In it, Mr Zemmour declares that the three members of a French family who

were murdered in a terrorist attack at a Jewish school in Toulouse in 2012, and who were buried in Israel, did not belong to France.

The second obsession is paranoia about decline, and the failure of elites to protect French identity. For Maurras, the chief menace to it was that enemy within: Jews, Protestants, Freemasons and foreigners. For Barrès, the enemy was principally without: Germany, and its military might. For Mr Camus and Mr Zemmour, it is above all Islam. Echoing the “great replacement theory”, Mr Zemmour claims that, in today’s France, “an Islamic civilisation is replacing a people from a Christian, Greco-Roman civilisation”. “Veiled women”, Mr Camus recently told a TV interviewer, “are the flags of conquest, of colonisation”.

Today’s reactionaries tap into a deep undercurrent of fear and paranoia in France, but also of anti-Semitism. An unapologetic anti-Semite, Maurras defended the French army’s accusations against Alfred Dreyfus, a Jewish French captain wrongly convicted by the French army of high treason in 1894. That was a time, among the Catholic and military French elite, of intense anxiety about spies and traitors, and of conspiracy theories about Jewish financiers. In “Jewish France”, a virulent anti-Semitic tract published in 1886, Edouard Drumont had warned of the threat of a “Jewish conquest” of France, led by a “hateful, gold-hungry” people bent on bringing about the “painful agony of a generous nation”.

Himself of Jewish and Algerian descent, Mr Zemmour occupies an ambiguous place in this tradition. By hinting today that Dreyfus may not have been innocent, or defending Vichy for “protecting” French Jews—because it deported foreign ones first—Mr Zemmour is concocting not a serious historical assessment but a studied provocation. As well as distorting history, this is a way of “signalling his link to a pillar of French society, which is the army, and to a particular set of right-wing values”, suggests Jean Garrigues, a historian at the University of Orléans.

That such views are given a legitimate airing is new, and disquieting. Jean-Marie Le Pen, who founded the hard-right party that his daughter, Marine Le Pen, rebranded and now leads, appalled the salons of Paris and was treated accordingly. Mr Zemmour, who is well-read and flatters the French regard for the *cultivé*, is handled with respect. Aspiring presidential candidates are

invited by debate moderators, with scarcely a blush, to offer their perspective on the “great replacement theory”.

Moreover, France lacks the counterbalancing intellectual voices of the past. “At the time of Maurras, Émile Zola and republicans fought back. But the intellectual left and radical left in France have been swept away,” says Sudhir Hazareesingh, a political scientist at Oxford University and author of “How the French Think”. Today, no French thinker has the towering stature of Jean-Paul Sartre, Simone de Beauvoir, Albert Camus, Michel Foucault or others in turtlenecks and trench coats on the left bank whose influence lingered well beyond their lifetimes.

No left-wing political leader has a commanding influence, either. In this void, toxic theories are resuscitated, and used to frame discussion, without robust or persuasive rebuke. As elsewhere, reason and rationality seem, like contempt, to be fragile tools against the potent narrative force of populist reactionaries. The decline of the public intellectual on the French left removes one more line of defence. ■

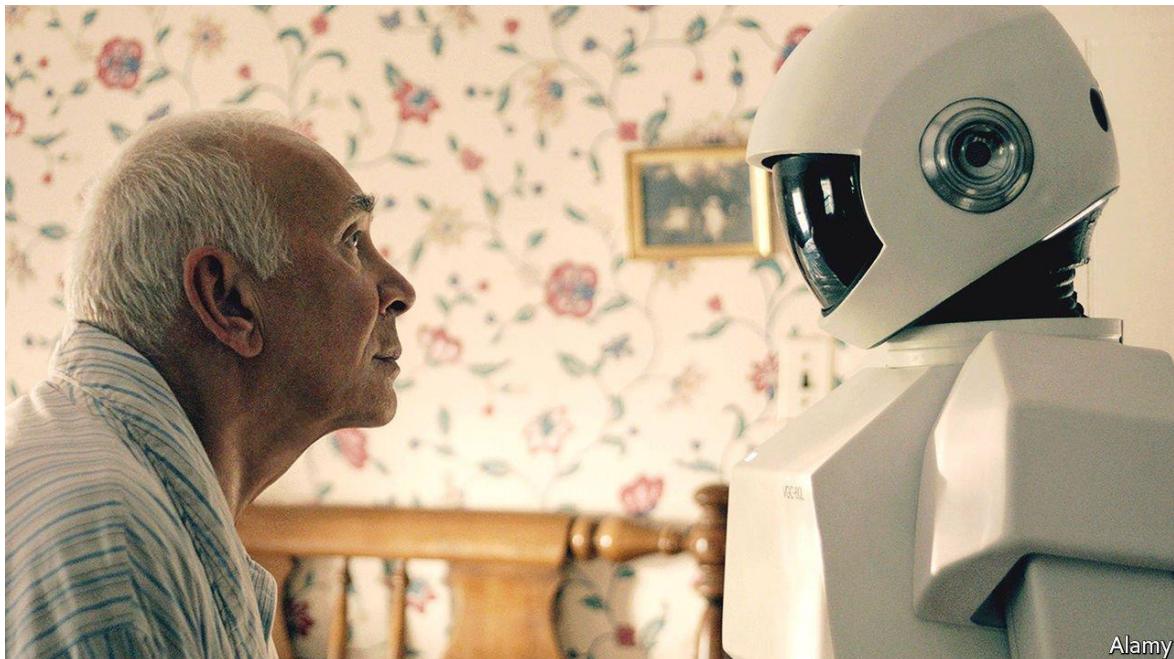
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Artificial intelligence

Henry Kissinger and Eric Schmidt take on AI

The statesman and Google's former boss issue a salutary warning about the future

Nov 20th 2021



The Age of AI. By Henry Kissinger, Eric Schmidt and Daniel Huttenlocher. *Little, Brown and Company;* 272 pages; \$30. *John Murray;* £20

EARLY LAST year, researchers at the Massachusetts Institute of Technology (MIT) used a machine-learning algorithm to look for new antibiotics. After training the system on molecules with antimicrobial properties, they let it loose on huge databases of compounds and found one that worked. Because it operated in a different way, even bacteria that had developed a resistance to traditional antibiotics could not evade the new drug.

Behind the success was a deeper truth: the algorithm was able to spot aspects of reality that humans had not contemplated, might not be able to detect and may never comprehend. The implications of this general development for science, business and warfare—and indeed, for what it means to be human—are the subject of these ruminations by Henry

Kissinger, America's pre-eminent living statesman, Eric Schmidt, the former boss of Google, and Daniel Huttenlocher, an expert on artificial intelligence (AI) at MIT.

In their telling, the most important way that AI will change society is by redefining the basis of knowledge. "Whether we consider it a tool, a partner, or a rival, [AI] will alter our experience as reasoning beings and permanently change our relationship with reality," the authors write. "The result will be a new epoch." If uttered by a Soylent-quaffing coder, that sentiment might be dismissed as hyperbole. Coming from authors of this pedigree, it ought to be taken seriously.

In an essay in the *Atlantic* magazine in 2018, Mr Kissinger argued that AI represents the end of the Enlightenment. This book substantiates that thesis with an engaging romp through the history of reason and decision-making. Unsurprisingly, the crunchiest discussion is of international security. The authors show that AI is radically changing the way states challenge one another, and why fighting wars with autonomous weapons—which could devise strategies, identify targets and kill opponents—invites calamity. Interactions between rivals will become harder to predict, and conflicts more difficult to limit.

Hitherto in the era of nuclear weapons, the central objective of national-security policy has been deterrence. That rests on the premise that a rival state's capabilities are visible, its doctrine known and its actions foreseeable. The rise of AI systems undermines those consoling assumptions, since responses may diverge from human expectations, and to disclose capabilities may be to forfeit them. A winning manoeuvre may be horrific yet inscrutable, like the algorithm that crushes human players at chess and the board game Go.

The recommendation for policymakers is realism. Since the technology cannot be un-invented, the book calls on America to develop and shape the military applications of AI, rather than surrendering the field to countries that do not share its values. Some of the new capabilities will involve non-violent tasks, such as managing logistics and helping wounded servicemen. At the same time, the authors write, major powers should pursue arms control in AI, as they have for nuclear weapons. The fact that both Mr

Kissinger and Mr Schmidt have advised America's armed forces gives their counsel special weight.

Living with this technology will be tough. Based, as they are, on correlations and elaborate statistics, rather than on a sense of causality, AI's decisions may seem otherworldly; when the stakes are high, they must be diligently validated. And as AI becomes more widely used, and makes findings that surpass human understanding—whether concerning the laws of science, medicine, managing businesses or navigating roads—society may seem at once to be hurtling towards knowledge and retreating from it. If an AI co-pilot or surgical robot experiences an emergency, who should seize the controls, the human operator or the algorithm? The book calls for a “partnership” between people and machines, but is silent on how to achieve it.

Master and man

There are other shortcomings. A chapter on “global network platforms” (ie, big tech companies) is alternately banal, over-abstract and mealy-mouthed—as if wary of offending any particular business or government. In light of the many ways in which AI bolsters state power, human rights ought to be an essential consideration. Yet there is no discussion of the camps in which, abetted by technology, China’s rulers have imprisoned many Uyghurs. The disappointing final chapter is merely a recapitulation of the first.

Despite these faults, “The Age of AI” is a salutary warning to handle this technology with care and build institutions to control it. Human values and peace must not be taken for granted, the book urges. “While the advancement of AI may be inevitable,” it concludes, “its ultimate destination is not.” With his co-authors Mr Kissinger has, at the age of 98, used his vast experience and versatile mind to make a muscular contribution to one of the 21st century’s most pressing debates. ■

Marking time

How the seven-day week came to rule the world

A new book shows how modern cities embraced the weekly rhythm

Nov 20th 2021



Alamy

The Week. By David Henkin. *Yale University Press; 288 pages; \$30 and £20*

IN THE AUTUMN of 1853 Thomas Butler Gunn got lost—temporally rather than physically. On a visit to Mammoth Cave in Kentucky, and isolated from the outside world, his diary quickly slipped the moorings of chronological reality. Wednesdays are repeated and days go mislabelled. It took around a fortnight, and renewed contact with civilisation, for Gunn to restore his weekly bearings.

The episode, says David Henkin, suggests how fragile a sense of time can be—especially when it comes to weeks. Unlike months or years, these seven-day groupings have no real basis in astronomy. People from Nigeria to China have thrived without them. And yet the week has become the measure not only of routine, but even of sanity. “Weekly rhythms have become so thoroughly absorbed into ordinary human experience”, Mr Henkin writes,

“that forgetting what day it is constitutes a singular symptom and feeling of disorientation.”

His new book shows how the week came to rule the world. Until the 19th century, he explains, the other days were a preamble to the Sabbath for many Protestants. Catholics followed a cycle of feast days and fasts. When newspapers, factory schedules and weekly paydays were all rarer, the weekly structure was less important. People got muddled, not just underground. As late as 1866, the *Louisville Courier* mentioned a man getting drunk on Friday because he thought it was Saturday.

In outline, the story is one of urban development. As towns grew and society became more sophisticated, citizens “became differently and more intensely week-oriented, in ways we can now recognise as modern”. When his local benevolent society met on Wednesdays in 1859, and choral concerts were scheduled for Fridays, James Fiske of Massachusetts couldn’t afford to mix up his days. When *Every Saturday* magazine landed in New York each weekend in 1866, Bayard Taylor was expecting it.

Later anecdotes illustrate the “distinctive air” that individual days came to develop—the particular associations each subliminally carries. Philadelphians once used chains to block horse traffic on Sundays. The advent of washing machines disrupted the weekly cleaning schedule. In due course Westerners exported these feelings to the world. Japan formally adopted the seven-day system only in 1873; all the same, a character in a novel by Haruki Murakami is as sure of something “as I am that today is Wednesday”.

That sort of conviction is now crumbling. French and Russian revolutionaries ultimately failed in their attempts to abolish the seven-day week, but for many people the pandemic has squashed the weekly rhythm into an interminable present. Monday, runs the joke, has been replaced by Nonday. As Netflix offers entertainment on a whim, and morning newspapers become obsolete, Mr Henkin argues that “the hold of the week on our lives loosens, and our place in the cycle becomes in turn less memorable.” Everyone may soon start to feel a bit like Thomas Butler Gunn.

Brave new worlds

The travails and bold aims of the Guggenheim Abu Dhabi

It intends to retell the story of modernism

Nov 20th 2021



© Guggenheim Abu Dhabi

THE JAGGED towers and palm-fringed walkways of the proposed Guggenheim Abu Dhabi (GAD) take their inspiration from the wooden sailing dhows that ply the waters of the Gulf and the funnel-shaped wind towers, known as *barjeel*, built to bring natural ventilation into old houses in the United Arab Emirates (UAE). Designed by Frank Gehry, the project has been beset by protests over workers' conditions and other human-rights issues, and by finance-induced delays and cancelled contracts. Now, ten years after clearance of the site began, work has restarted at last.

The museum is part of a long-term, state-funded effort to diversify Abu Dhabi's economy. Culture—and especially museums—are part of the push. The Guggenheim will be the third to be built on Saadiyat Island, a flat sandy triangle just off the coast that will be the biggest cultural infrastructure project between Marrakech and Shanghai. The first museum, Jean Nouvel's Louvre Abu Dhabi, opened in 2017; the Sheikh Zayed National Museum,

designed by Sir Norman Foster and named after the UAE'S founding ruler, will follow in 2023. The hope is for GAD to open in 2025.

“It’s like walking through a really great Minecraft setting,” says a curator of the computerised mock-ups of galleries that GAD has developed. But though the building is still imaginary, the collection—about 600 artworks from 60 countries, of which half have been acquired in the past four years—is real. And the mission is clear: to present a journey through global art from the 1960s to the present, and in so doing rewrite the story of modernism.

Modernism, and especially abstract expressionism, was at the heart of Solomon Guggenheim’s original collection. On his death in 1949, the businessman left hundreds of works by American and European artists, such as Vasily Kandinsky and Laszlo Moholy-Nagy, to the museum in New York that bears his name (and which will earn \$100m for advice on construction and acquisitions for its latest offshoot). But there were many modernisms, not just the Euro-American kind. “Around the world,” says Dana Chehayeb of Abu Dhabi’s department of culture, “artists were asking ‘How can I be modern without being Western?’ And artists in the West often asked, ‘How can I draw from non-Western and premodern sources to make art more universal?’”

Inspired by the UAE’s history and position as a pivot between Europe and Asia, GAD aims to chart modernism’s evolution into a nuanced global movement. Alexandra Munroe, the curator of Asian art at the Guggenheim in New York, is central to that effort. She persuaded Guy Ullens, a Dutch collector of Chinese contemporary art, to give GAD first choice from his art trove before he consigned it for sale at Sotheby’s in 2011. The embryonic museum acquired pieces by Ai Weiwei and Huang Yong Ping, work by early Chinese video artists and some political pop art which could never be shown in China—such as “The Last Banquet” (1989), Zhang Hongtu’s panorama about the deification of Mao Zedong. “It was a real coup,” effuses Ms Munroe.

As well as art from China, GAD is building up a collection from Japan’s radical Gutai movement, which in the 1950s rejected traditional styles in favour of large multimedia works and the immediacy of performance. Both approaches would later become popular everywhere. Another focus is Latin

American modernism, such as the geometric abstraction of Gego and Jesús Rafael Soto, both Venezuelan, and Carmen Herrera (originally from Cuba). The Neo-Concrete movement in Brazil, meanwhile, brought together Lygia Clark, Lygia Pape and Hélio Oiticica, stars of the country's art in the 1950s. Their folded or curved sculptures were meant to make abstract expressionism more human.

Like many of the Asian and Latin American artists who feature in the new collection, several from Iran and the Arab world studied in Europe in the mid-20th century, afterwards creating modernist hubs in their home countries. Mohamed Melehi and Mohamed Chabâa of the Casablanca School, for instance, studied in Rome in the early 1960s and, with their compatriot Farid Belkahia, developed links to the Bauhaus school of design. Returning to Morocco, they strove to combine the modernist influence of European artists, such as Paul Klee and Nicolas de Staël, with an abstraction indebted to the geometric patterns of Berber carpets and the use of henna and walnut to stain leatherwork.

Parviz Tanavoli, who also studied in Italy, is the central figure of another modernist movement, known as *Saqqakhaneh* or Iranian Pop. Fascinated by locksmithing and calligraphy, Mr Tanavoli is best-known for metal sculptures that use the three letters in the word *heech*, Farsi for “nothing”. They are inspired by Alexander Calder and Barbara Hepworth, but also by the symbolic metal locks often attached to Iranian drinking fountains. Such work has generally been exhibited in artistic silos, in shows based on geography rather than form and ideas. The aim at GAD is to draw out overlooked connections, such as between Mr Tanavoli and his contemporary On Kawara, a Japanese conceptual artist who created an important series of paintings based on dates in the calendar.

Officials hope that Saadiyat Island will be a big employer. Despite the ongoing human-rights concerns, it is already a tourist draw—one reason why 11.35m people visited Abu Dhabi in 2019, more than double the number who came in 2016. The emphasis on culture is meant to distinguish the emirate from the shopping malls and glitz of Dubai, an hour down the road. When at last GAD opens, it will offer an encounter with a scintillating range of artists and fresh ways of seeing the world. Viewers will emerge with a rebalanced sense of art's tumultuous recent history. ■

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Economic & financial indicators

- [Economic data, commodities and markets](#)

Indicators

Economic data, commodities and markets

Nov 20th 2021

Economic data

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	Gross domestic product (% change on year ago; base quarter* = 2011†)	Consumer prices (% change on year ago; base quarter* = 2011†)	Unemployment rate
United States	-0.9 Q3	2.0 5.5	4.6 Oct
China	-0.9 Q3	0.8 7.9	1.9 Oct 0.8
Japan	-1.4 Q3	-3.0 2.3	0.2 Sep -0.7
Britain	6.6 Q3	5.1 6.4	4.2 Oct 2.8
Canada	12.7 Q2	-1.1 5.4	4.7 Oct 3.1
Euro area	3.7 Q3	0.3 4.9	4.1 Oct 2.2
Austria	12.8 Q2	24.6 4.1	3.7 Oct 2.7
Belgium	-0.7 Q3	7.4 5.0	4.2 Oct 2.3
France	-3.8 Q3	12.7 6.7	7.0 Oct 3.1
Germany	-2.5 Q3	7.3 2.8	4.9 Oct 3.0
Greece	16.4 Q2	14.5 6.5	3.4 Oct 0.1
Italy	3.8 Q3	10.8 6.0	3.0 Oct 1.6
Netherlands	5.0 Q3	8.0 3.7	3.4 Oct 2.3
Spain	2.7 Q3	8.3 5.5	5.4 Oct 2.5
Czech Republic	8.8 Q2	5.7 3.0	5.8 Oct 3.8
Denmark	10.0 Q2	8.2 3.2	3.0 Oct 1.7
Norway	6.1 Q2	3.0 3.0	3.5 Oct 3.0
Poland	10.8 Q2	3.7 5.3	8.8 Oct 4.7
Russia	4.8 Q3	na 42	8.0 Oct 6.6
Sweden	-3.7 Q3	7.4 4.0	2.8 Oct 2.2
Switzerland	7.7 Q2	7.4 3.5	1.2 Oct 0.5
Turkey	21.7 Q2	na 80	19.9 Oct 17.1
Australia	9.6 Q2	2.7 4.2	3.0 Oct 2.6
Hong Kong	5.4 Q3	0.5 6.2	1.4 Sep 1.6
India	20.1 Q2	-41.2 8.2	4.5 Oct 5.0
Indonesia	3.5 Q3	na 3.1	1.7 Oct 1.6
Korea	-4.5 Q3	3.8 3.8	2.2 Sep 2.4
Pakistan	10.0 2011**	na 3.9	9.2 Oct 6.9
Philippines	7.1 Q3	16.1 4.2	5.6 Oct 4.5
Singapore	6.5 Q3	3.4 6.1	2.9 Sep 1.9
South Korea	4.0 Q3	1.2 4.1	3.2 Oct 2.2
Taiwan	3.8 Q3	2.3 5.7	2.6 Oct 2.0
Thailand	0.3 Q3	-42.1 1.4	2.4 Oct 1.0
Argentina	17.9 Q2	-5.5 8.7	52.1 Oct 48.3
Brazil	12.4 Q2	-0.2 5.0	10.7 Oct 8.2
Chile	18.1 Q2	4.2 11.0	6.0 Oct 4.3
Colombia	12.8 Q2	-2.9 8.9	4.6 Oct 3.4
Mexico	4.6 Q3	-0.3 6.2	8.0 Oct 5.5
Peru	41.9 Q2	3.5 12.6	5.8 Oct 4.2
Egypt	7.7 Q2	na 3.3	6.3 Oct 5.7
Israel	4.1 Q3	2.4 6.1	2.3 Oct 1.7
Saudi Arabia	-4.1 2010	na 2.2	0.8 Oct 3.1
South Africa	19.3 Q2	4.7 4.9	5.1 Oct 4.4

Source: Haver Analytics. *% change on previous quarter, annual rate. †The Economist Intelligence Unit estimate/forecast. ‡Not seasonally adjusted. **New series. **Year ending June. ††Lates: 3 months; ‡‡3-month moving average.

The Economist

Economic data

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	Current-account balance (% of GDP 2021†)	Budget balance (% of GDP 2021†)	Interest rates	Currency units	
			10-yr govt bonds change on latest %	change on year ago, bp Nov 17th	% change on year ago
United States	-3.4	-1.24	1.6	73.0	
China	2.8	-4.9	2.7 44	-39.0	6.38 2.8
Japan	3.0	-8.8	nill	-8.0	11.5 -9.0
Britain	-3.9	-10.9	1.0	-36.0	0.74 1.4
Canada	-2.3	-35	1.7	10.0	1.26 -1.0
Euro area	3.1	-7.2	-0.2	31.0	0.68 -1.5
Austria	2.2	-7.4	nill	21.0	0.88 -4.5
Belgium	1.1	-7.1	0.1	45.0	0.88 -4.5
France	-1.3	-8.9	0.1	43.0	0.88 -4.5
Germany	7.0	-6.2	0.2	31.0	0.88 -4.5
Greece	-4.4	-8.6	1.2	46.0	0.88 -4.5
Italy	3.8	-9.6	1.0	38.0	0.88 -4.5
Netherlands	8.5	-5.2	0.1	49.0	0.88 -4.5
Spain	0.9	-10	0.5	57.0	0.88 -4.5
Czech Republic	3.7	-8.3	2.8	154	32.8 0.1
Denmark	7.5	-0.3	nill	49.0	6.58 -4.7
Norway	6.9	-3.0	1.4	76.0	8.74 3.8
Poland	2.1	-6.7	3.1	195	41.2 -8.2
Russia	5.2	-0.7	8.2	212	72.4 5.4
Sweden	5.2	-1.9	0.3	30.0	8.87 -2.7
Switzerland	5.3	-3.8	-0.1	36.0	0.93 -2.1
Turkey	-3.0	-3.2	18.9	698	10.6 27.5
Australia	4.1	-5.8	1.9	90.0	1.37 nill
Hong Kong	3.0	-4.4	1.5	80.0	7.79 -0.5
India	0.9	-7.0	6.0	160	7.03 0.3
Indonesia	-0.1	-6.0	6.2	4.0	14,242 -13
Malaysia	2.7	-6.0	3.6	90.0	4.18 -1.9
Pakistan	-4.5	-6.9	108.1 ††	101	174 -39
Philippines	-1.4	-7.5	5.1	203	50.4 -4.2
Singapore	18.1	-4.7	18	83.0	1.36 1.5
South Korea	4.6	-4.4	2.4	74.0	1,182 -5.4
Taiwan	15.2	-1.2	0.6	30.0	27.8 2.5
Thailand	-1.4	-7.8	1.8	64.0	32.7 -7.8
Argentina	1.7	-6.6	na	100	20.3
Brazil	0.5	-6.1	11.8	433	5.50 -2.5
Chile	-1.8	-7.1	5.8	216	923 -6.0
Colombia	-4.1	-8.5	7.9	293	3,908 -7.0
Mexico	1.7	-3.3	7.5	168	20.7 -1.8
Peru	-3.4	-4.4	5.8	160	4,00 -9.5
Egypt	-4.3	-8.0	na	na	15.7 -0.6
Israel	4.3	-6.1	1.1	33.0	3,08 8.8
Saudi Arabia	4.6	-7.0	na	na	3.75 nil
South Africa	1.8	-8.5	9.5	62.0	15.5 -0.5

Source: Haver Analytics. †5-year yield. ††Dollar-denominated bonds.

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Markets

in local currency	Index Nov 17th	% change on:	
		one week	Dec 31st
United States S&P500	4,588.7	0.9	24.8
United States NasComp	13,591.6	0.9	23.5
China Shanghai Comp	53,574	1.3	1.0
China Shenzhen Comp	74,770	1.9	6.3
Japan Nikkei 225	29,689.3	2.0	8.2
Japan Toxix	2,098.3	1.5	12.9
Britain FTSE 100	7,291.2	-0.7	12.9
Canada S&P TSX	21,633.0	0.9	24.2
Euro area STOXX 50	4,400.8	1.2	23.9
France CAC 40	7,156.9	1.6	28.9
Germany DAX	16,251.1	1.1	18.5
Austria ATX	2,732.9	1.0	22.2
Netherlands AEX	827.6	1.6	32.5
Spain IBEX 35	8,903.4	-1.6	11.4
Poland WIG	71,522.5	-1.7	25.4
Russia RTS, \$ terms	1,802.5	2.8	29.9
Switzerland SMI	12,800.2	1.6	17.7
Turkey BIST	1,707.0	5.1	15.6
Australia All Ord.	7,704.0	0.4	12.5
Hong Kong Hang Seng	25,560.1	-0.6	-5.8
China SSE	63,000.8	0.6	23.7
Indonesia IDX	6,975.8	-0.1	11.7
Malaysia KLC	1,525.1	0.2	-6.3
Pakistan KSE	41,194.4	-0.9	5.6
Singapore STI	3,232.7	n/a	13.7
South Korea KOSPI	2,962.4	1.1	3.1
Taiwan TWI	17,764.0	1.2	20.6
Thailand SET	1,644.6	0.9	13.5
Argentina MERV	87,541.8	-8.0	70.0
Brazil Ibovespa	102,948	-2.8	-13.5
Mexico IPC	51,046.1	1.3	10.0
Egypt EGX 30	11,453.3	-0.2	5.6
Israel TA-125	1,980.8	0.7	26.3
Saudi Arabia Tadawul	11,833.5	-0.2	36.2
South Africa JSE AS	70,942.3	3.9	19.4
World, dev'd MSCI	3,221.0	0.6	19.7
Emerging markets MSCI	1,786.9	1.0	0.3

US corporate bonds, spread over Treasuries		Dec 31st 2020
base points	basis	
600.0	6.6	23.7
6,975.8	-0.1	11.7
1,525.1	0.2	-6.3
41,194.4	-0.9	5.6
3,232.7	n/a	13.7

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

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Commodities

The Economist commodity-price index

2015=100		% change on		
		Nov 9th	Nov 16th*	month
Dollar Index				
All Items	145.9	148.7	-7.6	10.4
Food	131.0	135.7	4.3	22.2
Industrials				
All	159.9	160.8	-15.2	2.6
Non-food agriculturals	144.0	148.2	-1.6	34.2
Metals	164.6	164.5	-18.2	-3.5
Sterling Index				
All items	164.4	169.1	-5.0	9.0
Euro Index				
All items	139.7	145.3	-5.2	15.5
Gold				
\$ per oz	1,824.0	1,861.3	5.0	-1.4
Brent				
\$ per barrel	84.9	82.6	-3.1	88.4

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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Graphic detail

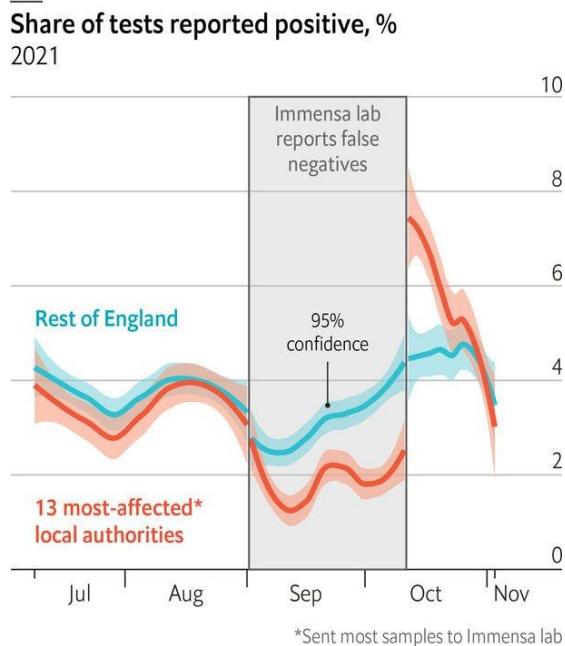
- [Covid-19 testing: An Immensa cock-up](#)

An Immensa cock-up

Botched covid-19 test results in Britain led to thousands of extra cases

A new study shows that each false negative results in 0.6-1.6 subsequent reported infections

Nov 20th 2021



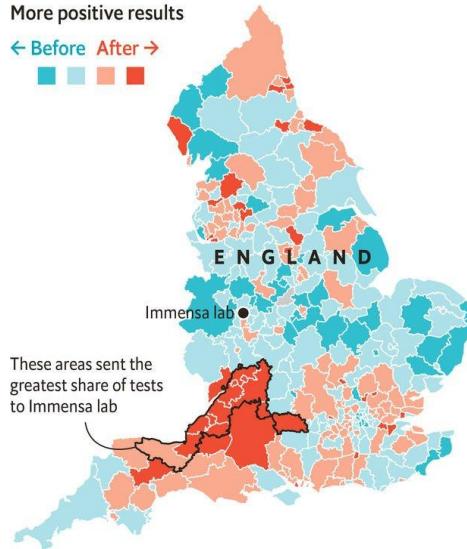
AMONG THE tools health officials have used to fight covid-19, the impacts of lockdowns, masks and vaccines have been well-studied. Testing, whose effect is hard to measure because it coincides with other pandemic-control policies, has received less attention. But thanks to a grim natural experiment, that is now starting to change.

In September covid seemed to come to a halt in south-western Britain. Overnight, the positivity rate of PCR tests near Bath and Bristol fell from 3% to 1%. Nowhere else in England enjoyed a similar decline.

Difference in rate of positive tests from period with false negatives to month after

More positive results

← Before →



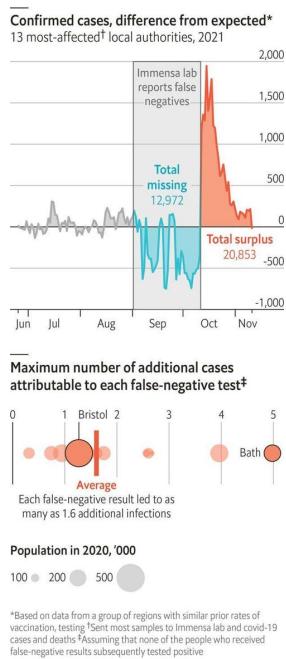
By mid-month a local volunteer group said this apparent dip might stem from faulty tests. A few weeks later, the group and local scientists asked Britain's Health Security Agency (UKHSA) to investigate.

On October 12th the UKHSA shut down a lab run by Immensa, a testing firm. The agency said that the firm had incorrectly told 43,000 infected people that they were virus-free. The cause of the error remains unclear. Immensa declined to comment.

As soon as the lab was closed, the region's reported covid case rate soared. A spokesperson for the prime minister said that the lab errors did not cause this surge. On November 14th, however, Thiemo Fetzer of the University of Warwick released a paper showing that they probably did. It has not yet been peer-reviewed, but offers firm evidence that accurate testing does indeed slow covid's spread, by letting infectious people know that they should isolate.

To estimate what might have happened were it not for the snafu, Mr Fetzer built a "synthetic control": a group of areas whose prior rates of vaccination, testing, and covid cases and deaths matched those of the 13 most affected regions. The difference was stark. From September 2nd to October 12th, the

areas in question recorded 13,000 fewer positive tests than the control. Afterwards, they registered 21,000 more.



This implies that each faulty test may have led to 0.6-1.6 extra cases (the range reflects uncertainty over how many people who tested positive received earlier false negatives). Based on Britain's case-fatality rate, this translates to 400-1,100 deaths.

Surprisingly, this toll is not the highest that Mr Fetzer has attributed to technical glitches. In 2020 a spreadsheet error prevented Britain's statistical service from reporting 15,000 covid cases to contact-tracers. In an earlier study, Mr Fetzer calculated that 1,500 people died as a result. ■

Sources: “Measuring the epidemiological impact of a false negative: evidence from a natural experiment”, by T. Fetzer, 2021; Office for National Statistics

Obituary

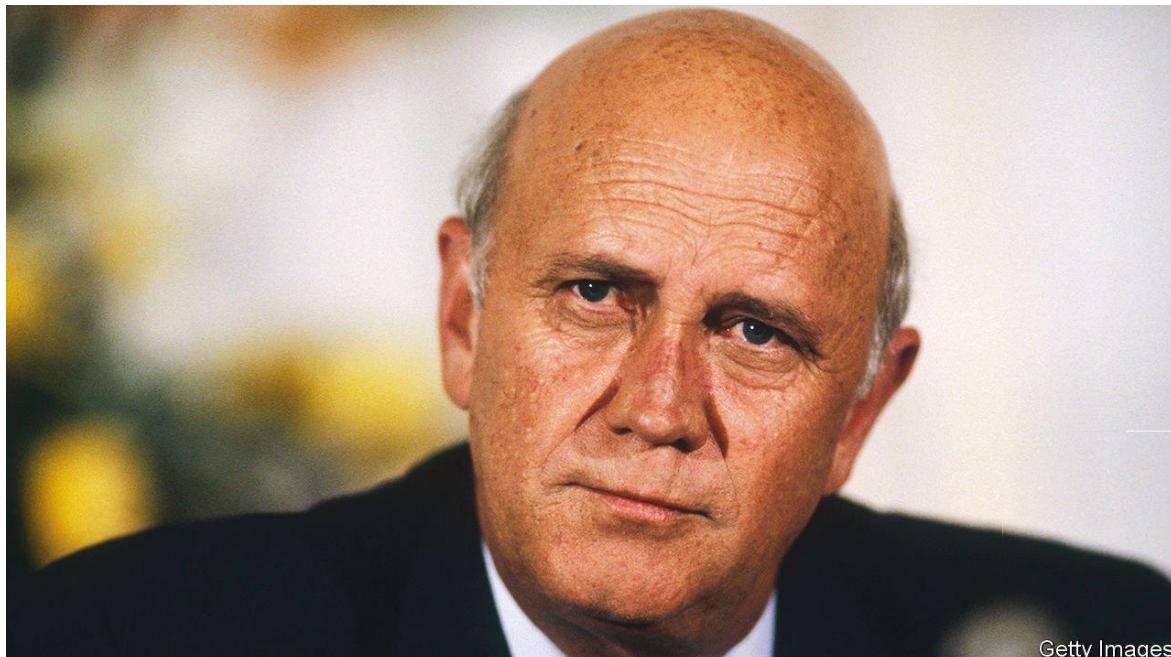
- [F.W. de Klerk: Builder and dismantler](#)

Builder and dismantler

F.W. de Klerk had to abandon what his ancestors had believed in

The last president of apartheid South Africa died on November 11th, aged 85

Nov 20th 2021



Getty Images

TO MAKE THE close acquaintance of F.W. de Klerk was to look into the face of a *voortrekker*. Although he had been comfortably brought up in suburban Johannesburg, his blue eyes still seemed to stare across the veld and the mountains the Afrikaner *volk* had crossed on the Great Trek in the 19th century. And his set jaw seemed ready to declare, as he often did, the blunt-but-courteous words: “You are wrong.”

His people had taken wagons eastwards to escape the imposition on Dutch-speaking Boers of English imperialism, English anti-slavery laws and the English language. For him the Boer wars against the British, in which his grandfather fought, were the first anti-colonial conflicts in Africa, and the Boers were another African tribe. His own Huguenot ancestors had arrived there in 1688. That made him an African born and bred, through and

through, as well as one of a strictly Calvinist people destined by God's hand to find their dwelling place in southern Africa.

The de Klerks survived grandly. His uncle became South Africa's prime minister in the 1950s, and his father also served in government. Both men built up the National Party, which in 1948 introduced apartheid. Under this system it was illegal for different races to marry, socialise, own property or work without permission across much of the country. In 1970 black South Africans were barred from citizenship and expected to move from the cities to "Bantustans", distinct tribal states, leaving whites as the majority.

To Frederik, as he grew up and studied behind the walls of his own culture, this seemed how things should be. God, having created the different races from Adam, also allotted the boundaries where each race should live. Apartheid was Scripture, to the letter. But then in 1993, as president, he took the whole system down.

The first step came in 1990, when he vowed in Parliament to begin negotiations to end it. The African National Congress (ANC), the main group resisting apartheid, was to be unbanned and its leader, Nelson Mandela, released from prison. Conservative MPs were shocked, and heckled him. They knew him as a firm supporter of apartheid, especially when, as education minister, he reinforced it in the universities. He was also a member of the Broederbond, a secret brotherhood that protected Afrikaner interests. Now he was betraying them.

He brushed that accusation aside. First, he had always been a pragmatist, despite the tough talk. Politics, as Bismarck said, was the art of the possible. The silver thread in his career was loyalty to party policy, so he proposed only as much as he thought the party would bear. At some points he sounded ultra-conservative. At others—as when he oversaw the repeal of the Mixed Marriages Act—he seemed liberal, almost revolutionary.

Second, his speech was no Damascene moment. His conversion had been gradual. It began when he had to deal with black and coloured (mixed-race) clients in his first legal practice in Vereeniging. As a politician after 1972, he became still more involved with other races. By the late 1980s he had started to look hard at himself, on his knees before God, to find out where he and

the party should go. Apartheid was under increasing strain. The Bantustans were struggling. In the slums and townships on the outskirts of cities, where most of the black population had stayed, misery and indignation were sparking into violence. And his country, beset by sanctions, was now isolated in the world.

Publicly he boasted that South Africa could get round sanctions. Privately, he knew it was teetering over the abyss. And it was not just the economy or the violence that worried him. He was a member of an increasingly beleaguered tribe, and his bold dismantling of apartheid was not just to ease the lives of the black majority. It was also to ensure that Afrikanerdom was saved.

The aftermath was hard. In South Africa's first all-race elections, in 1994, the ANC swept the board with two-thirds of the vote, a share he thought unhealthy. He was appointed deputy president in Mandela's new Government of National Unity, which felt humiliating. And working with Mandela, despite some mutual respect, was a strain. When they jointly won the Nobel peace prize in 1993 he found himself seething during Mandela's speech, biting his tongue to keep his fury back. It wasn't the only time. There were silent spells, too, and arguments even in the street.

Frankly, he felt he had done more than Mandela to bring apartheid down. To convince his own party had been bruising. At one peak in the terrible unrest he had defied his own generals, who wanted to bring in martial law. The chief reason for Mandela's coolness towards him was that he would not apologise for apartheid, or declare it intrinsically evil. But almost to the end, he could not do that.

He managed to admit the pain caused by it, and to call it "unfortunate". But he still agreed with the premise. A separate-but-equal space for each tribe to develop was not morally repugnant to him. His own people had wanted that, when they set up independent Boer republics in Transvaal and the Orange Free State. And it could be a racial success. America had clobbered him, but on a visit there in 1976 he had seen more racial incidents in a month than in South Africa in a year.

When the Truth and Reconciliation Commission spoke to him in 1995, he defended the state security forces who had backed the racist status quo with ever increasing violence. He denied that they had ever been authorised to carry out killings, least of all by him. Such abuses by rogue whites were always overplayed. And he resented being nagged to prostrate himself. Only at the end, in a video released posthumously, did he utter the word “wrong”.

In 1989, when he took the oath as South Africa’s president, he refused to say “So help me God”, after the chief justice. Instead he said clearly, in Afrikaans, “So help me the triune God, Father, Son and Holy Spirit”. When he retired from politics and wrote his memoirs, he gave them the bland subtitle “A New Beginning”. But their title, much more fervent, was “The Last Trek”. ■

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