

The Economist

Ukraine and the rise of killer drones

Trump's lead: smaller than it looks

When is it too soon to write history?

Our two cents on Taylor Swift

FEBRUARY 10TH-16TH 2024

WHO IS IN CONTROL?

Xi v the markets





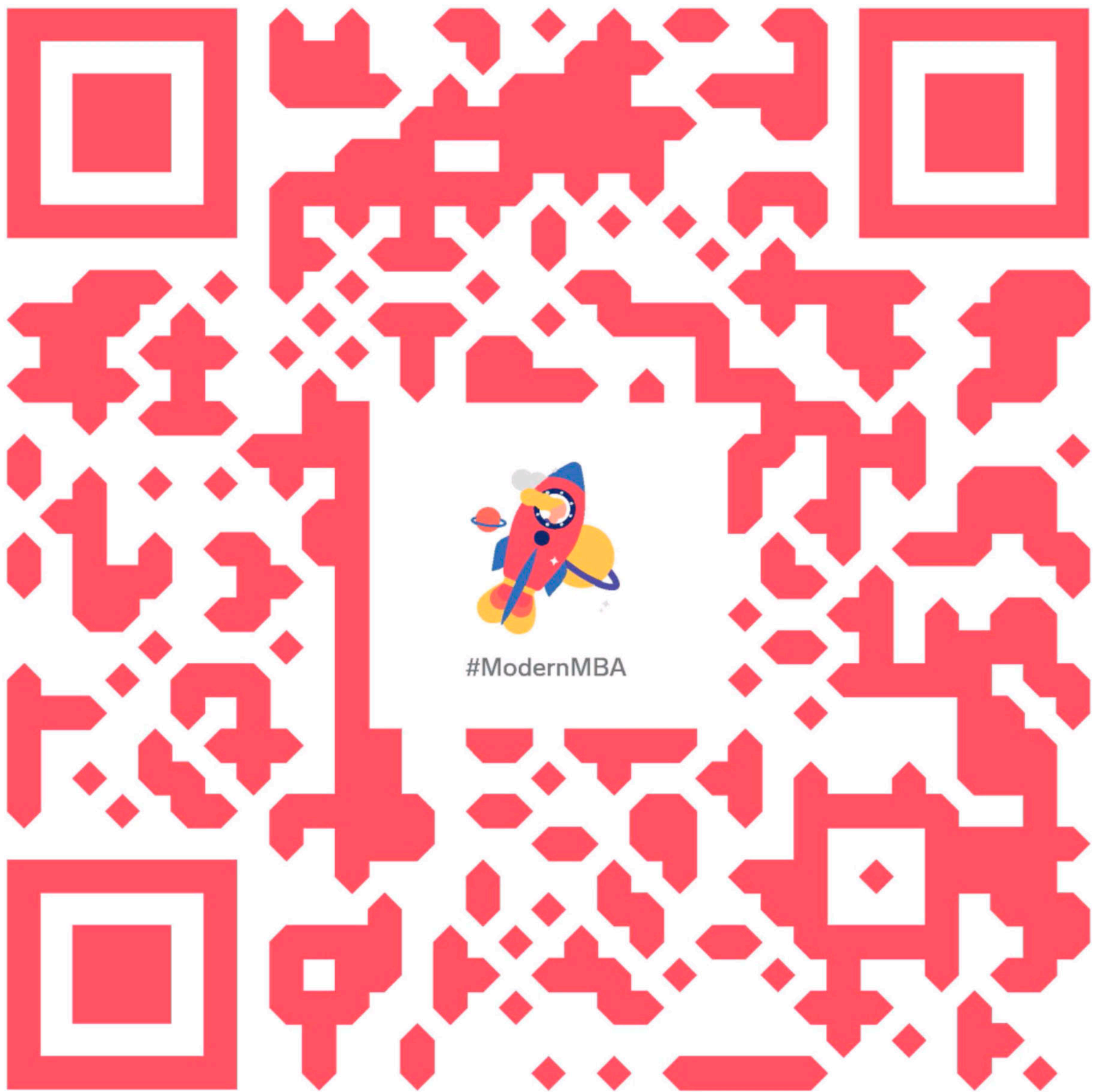
Morgan Freeman



Grand Siècle
Laurent-Perrier

It takes time to become an icon

PLEASE ENJOY CHAMPAGNE RESPONSIBLY



The MBA for the age of AI.

quantic.edu

WASHINGTON, D.C., USA



On the cover

Why investors are losing faith in China's president: leader, page 9. The country's stockmarket nightmare is not over, page 59. Markets are pummeling the well-to-do: briefing, page 15. Can China's consumers save the day? Page 33

Ukraine and the rise of killer drones Pioneered in Ukraine, they are the weapons of the future: leader, page 10. They offer precision warfare at scale and could one day become as dominant as artillery, page 66

Trump's lead: smaller than it looks What the national polls do not tell you, page 19

When is it too soon to write history? The answer rests on how soon you want to read it, page 71

Our two cents on Taylor Swift Hysteria reflects the overlap of politics, conspiracy and celebrity: Back Story, page 74. The meltdown: Lexington, page 24

→ The digital element of your subscription means that you can search our archive, read all of our daily journalism and listen to audio versions of our stories. Visit economist.com

The world this week

7 A summary of political and business news

Leaders

- 9 **China's economic woes** Who's in control?
- 10 **Killer drones** Kalashnikovs in the sky
- 11 **America's Congress** The arsenal of hypocrisy
- 11 **Governing Poland** How to escape capture
- 12 **Indonesia's election** Jokowi's inglorious exit

Letters

- 14 On China and Taiwan, royalty, artificial intelligence, activist investors, retirement

Briefing

- 15 **Chinese investors** Dissipating dreams



Schumpeter Guess who has won the real-life contest between Musk and Zuckerberg, page 57



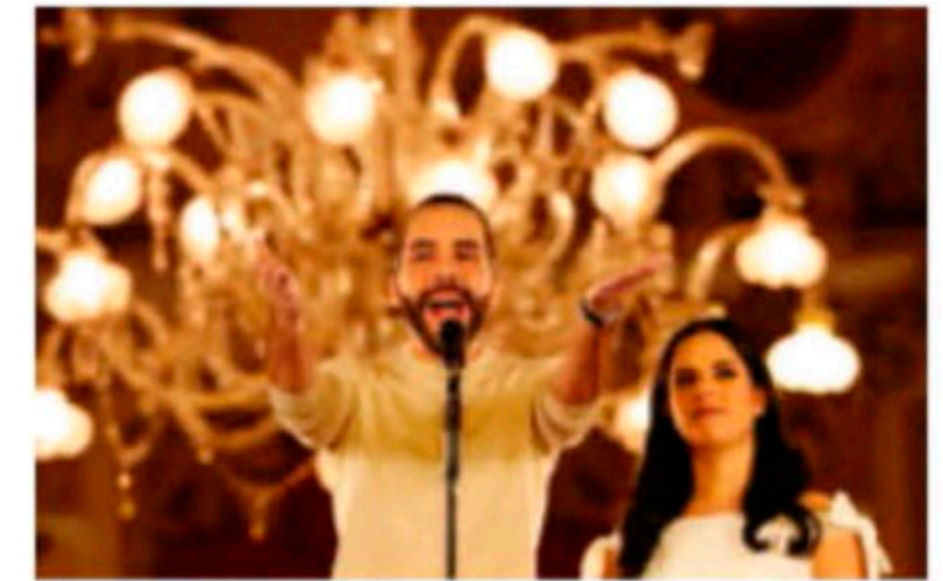
United States

- 19 Reading the polls
- 20 The Congress omniness
- 21 Citizen Trump
- 21 Reducing child poverty
- 22 Abortion in Florida
- 23 State AGs go rogue
- 24 **Lexington** Not about Taylor Swift



The Americas

- 25 The "world's coolest dictator"
- 26 Corruption in Mexico
- 27 A pre-election bonanza



Asia

- 28 Indonesia's election
- 29 South Korean creatives
- 30 Japan's opposition
- 31 Australia and immigration
- 31 India's rule of law
- 32 **Banyan** Singapore and China



China

- 33 Saving the economy
- 34 Workers and protests
- 35 A murky espionage case
- 36 **Chaguan** Xi Jinping's chaos-loving friends



Middle East & Africa

- 37 Blinken's diplomacy
- 38 Why Iran is hard to deter
- 39 Obstructive Israeli settlers
- 40 An African housing crisis
- 42 Senegal's dying democracy



Europe

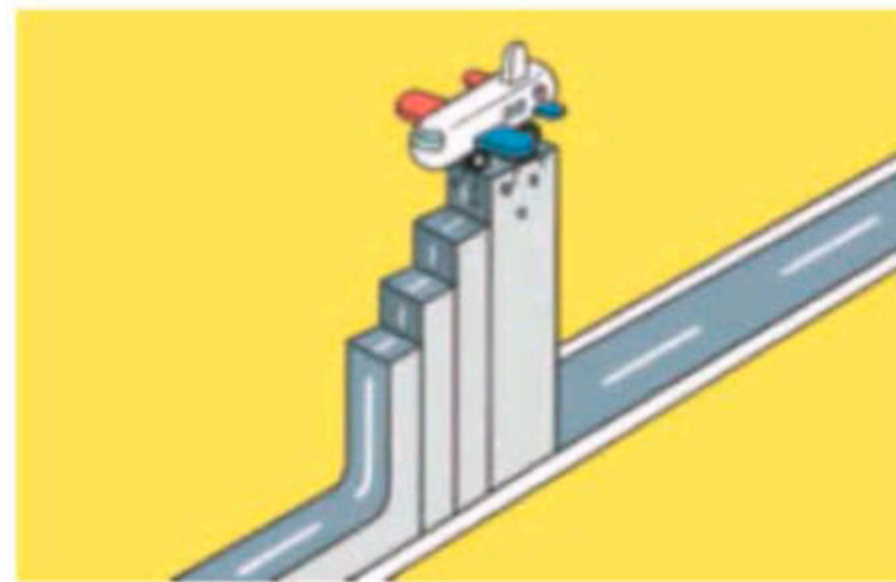
- 43 The SPD's death spiral
- 44 Madrid's moment
- 45 Silencing Putin's critics
- 46 Poland after Pis
- 47 **Charlemagne** The solar boom

**Britain**

- 48 Drugs deaths
- 49 Monarchs and mortality
- 50 **Bagehot** Harold Wilson

**Business**

- 51 America's worried bosses
- 52 Samsung's scion acquitted
- 53 A new sports-streamer
- 54 Can Italy Inc grow again?
- 55 **Bartleby** Fairness at work
- 56 Putin's TsarGPT
- 57 **Schumpeter** Musk v Zuck, round two

**Finance & economics**

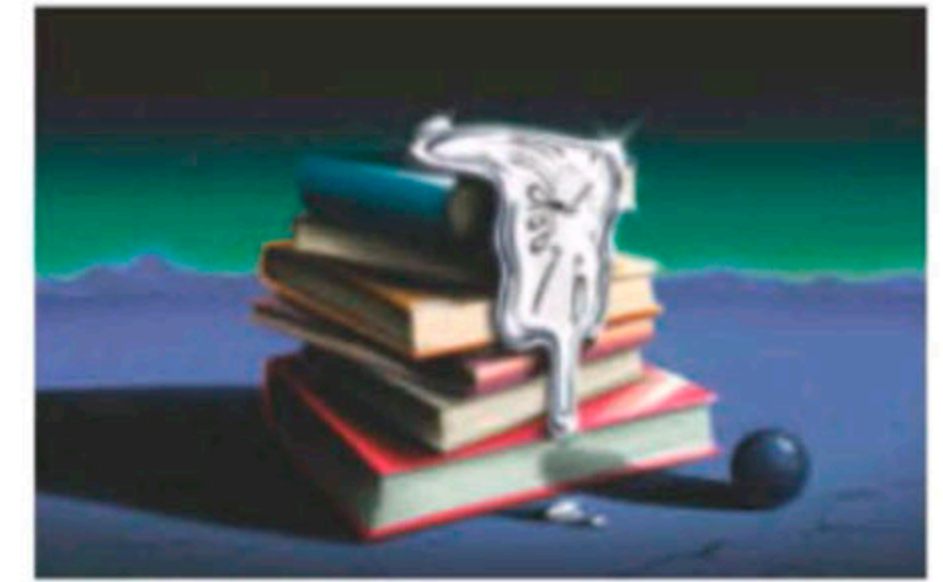
- 59 China's dismal markets
- 61 **Buttonwood** Dividends
- 62 NYCB's troubles
- 63 Trump and banks
- 64 Indonesia's economy
- 65 **Free exchange** Useless ideas from universities

**Science & technology**

- 66 Deadly new drones
- 68 Monitoring aerosols
- 69 Tackling endometriosis
- 70 Ancient scrolls
- 70 Baby AI

**Culture**

- 71 History in a hurry
- 72 The culture of cuteness
- 73 Labour turns 100
- 74 **Back Story** The Swift conspiracies
- 75 Chinese cartoons

**Economic & financial indicators**

- 77 Statistics on 42 economies

Obituary

- 78 Rosemary Smith, first queen of rallying

The Economist

Volume 450 Number 9383

Published since September 1843 to take part in "a severe contest between intelligence, which presses forward, and an unworthy, timid ignorance obstructing our progress."

Editorial offices in London and also: Amsterdam, Beijing, Berlin, Brussels, Chicago, Dakar, Dallas, Dubai, Johannesburg, Madrid, Mexico City, Moscow, Mumbai, New Delhi, New York, Paris, San Francisco, São Paulo, Seoul, Shanghai, Singapore, Tokyo, Washington DC

Subscription service

For our full range of subscription offers, including digital only or print and digital bundled, visit: [Economist.com/offers](https://www.economist.com/offers)

If you are experiencing problems when trying to subscribe, please visit our Help pages at: www.economist.com/help for troubleshooting advice.

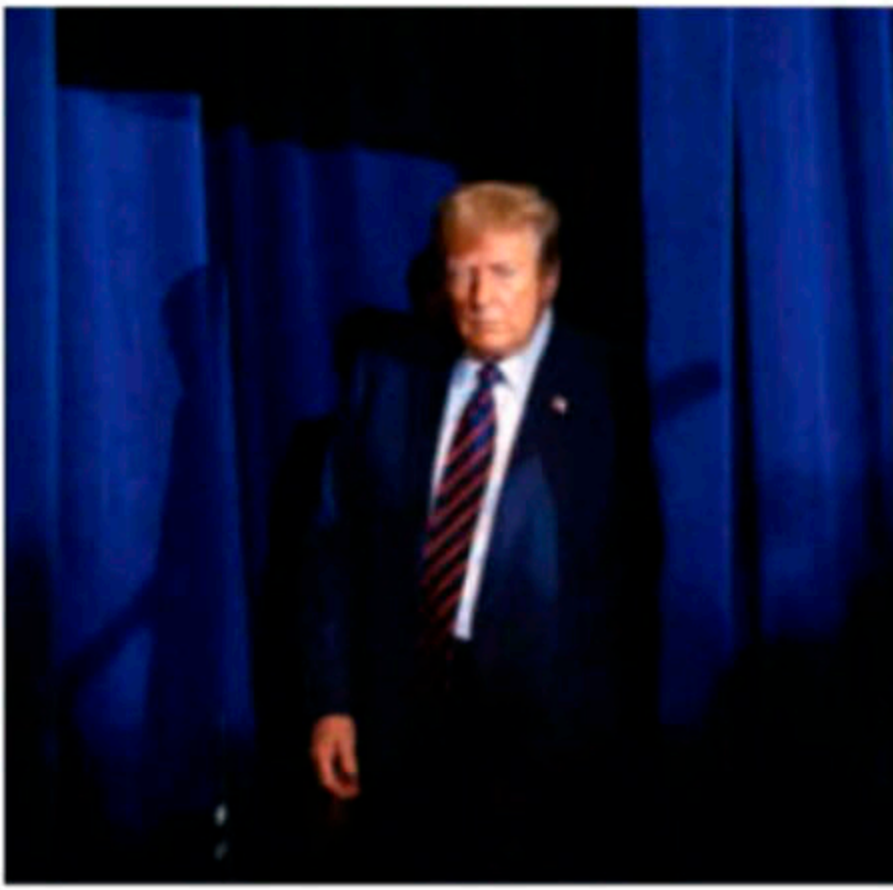
To manage your account online, please visit my.economist.com where you can also access our live chat service which is available 24/7. To call us, contact our dedicated service centre on:

North America: +1 888 815 0215
Latin America & Mexico: +1 646 248 5983

Please recycle



PEFC certified
This copy of *The Economist* is printed on paper sourced from sustainably managed forests certified by PEFC
www.pefc.org



A panel of three judges at the federal appeals court in Washington, DC, rejected **Donald Trump's** claim that he is immune from prosecution for allegedly trying to overturn the result of the election in 2020. Mr Trump had argued that he could only face prosecution in relation to "official acts" if Congress impeached and convicted him first, but the judges ruled that the former president is now merely "citizen Trump". His trial in the case was due to start on March 4th, but the judge overseeing those proceedings has postponed the date indefinitely.

They couldn't run a bath Republicans in the Senate blocked a compromise bill, which they themselves had spent months helping to craft, that tied military aid to Ukraine and Israel to stricter measures on border control. Mr Trump had made it clear that the party should not make a deal with Democrats on the border, as he wants to keep the issue alive for the election. The Democrats then separated the military-aid package into a different bill for a second vote.

In another fiasco, the Republican-controlled House of Representatives rejected a vote to impeach Alejandro Mayorkas, America's secretary of **homeland security**. It was a fruitless gesture that was in essence based on Mr Mayorkas's remarks that the border with Mexico was secure. A few Republicans joined Democrats in opposing the measure. The Republican leadership vowed to hold another vote.

America and its allies struck **Iranian-backed militias** in

Iraq and Syria in retaliation for an attack that had killed three American soldiers at a base in Jordan. The Pentagon said that one of its strikes killed one of the commanders of the Kataib Hizbullah militia who had planned the attack.

Antony Blinken, the American secretary of state, visited Saudi Arabia, **Israel** and elsewhere in the Middle East in an effort to negotiate a hostage deal and ceasefire in **Gaza** between Israel and Hamas. Binyamin Netanyahu, the Israeli prime minister, rejected Hamas's demands as "delusional", but talks continue. Arab states hinted they might be willing to offer security guarantees to Israel if it agreed to the establishment of a Palestinian state.

Senegal's presidential election was postponed for ten months, sparking a constitutional crisis. It was supposed to be held on February 25th. President Macky Sall will remain in power beyond the end of his legal term in office, which finishes on April 2nd.

Hage Geingob, the 82-year-old president of **Namibia**, died weeks after being diagnosed with cancer. Nangolo Mbumba, the vice-president, has taken over as interim head of state until elections are held in November.

The UN called for \$4.1bn in humanitarian aid to support 17.4m people in war-torn **Sudan** and neighbouring countries.

Support for the African National Congress, which has been in power in **South Africa** since the end of apartheid in 1994, has fallen below 40% just months ahead of a general election in which the party is expected to lose its parliamentary majority.

Michelle O'Neill, the leader of Sinn Féin in **Northern Ireland**, became the first-ever Irish-nationalist head of the province's government. She was sworn in as first minister following the decision of the

pro-British Democratic Unionists to return to the power-sharing executive.

It was announced that **King Charles III** of Britain has cancer. He had recently been in hospital for a procedure on his prostate, but "a separate issue of concern" was found. The king has stepped back from making public appearances.

Pakistan suffered a wave of violence ahead of a general election on February 8th. At least 30 people were killed by bomb blasts in two towns close to the border with Afghanistan. And ten policemen died when their station in Khyber Pakhtunkhwa was attacked by around 30 militants. A candidate for the national parliament was shot dead in the province a week earlier.

Five years after being detained in **China** on espionage charges, Yang Hengjun, an **Australian** citizen, was handed a suspended death sentence by a court in Beijing. Mr Yang was born in China and blogged about its affairs. The Australian government said it was "appalled" by the decision. The sentence may be commuted to life imprisonment after two years.



Nayib Bukele, who describes himself as the world's coolest dictator, romped home to re-election in **El Salvador**. Mr Bukele is popular because of his crackdown on crime, though he has retained power by circumventing a one-term limit on the presidency.

At least 130 people were confirmed dead and hundreds were missing after wildfires swept through **Chile's** central

region. Separately, Sebastián Piñera, a two-time president of Chile, died after the helicopter he was piloting crashed in the south of the country.

The governor of Donetsk province in eastern **Ukraine** said that Russia was pounding the area with between 1,500 and 2,500 artillery shells and rockets a day. Meanwhile rumours continued to swirl that Volodymyr Zelensky, Ukraine's president, is about to replace several senior generals and government officials. "A reset is necessary," he said in an interview.

The **farmers' protests** that have swept across Europe spread to Italy and Spain. The farmers have a wide range of complaints, including stringent green targets which they say are hurting their industry. The European Commission said that it would ditch a proposal to halve the use of pesticides, an apparent concession to the farmers. It also removed firm targets for agriculture from an ambitious plan to reduce greenhouse-gas emissions by 2040.

Meanwhile, the European Parliament backed a measure where certain vegetables grown using **new genomic techniques** may be exempted from the EU's strict regulations on genetically modified crops. Supporters of NGTs say the technology reduces the use of fertilisers and pesticides and makes crops more resilient to climate change.

Aliyev and kicking

Ilham Aliyev cruised to victory in **Azerbaijan's** election. The result was never in doubt. The autocratic president brought the poll forward from October 2025 to take advantage of a surge in his popularity following the army's swift victory over Armenian fighters in Nagorno-Karabakh last September. Amnesty International said Azeri authorities had intimidated government critics even more than usual ahead of the election.

The big oil giants reported bumper profits for 2023. **BP's** underlying profit of \$13.8bn was its second-largest in a decade. Murray Auchincloss, the new chief executive, announced that the company would extend its share buy-back programme. **Total-Energies'** net profit of \$21.4bn was a record. **Chevron's** net income, also \$21.4bn, was its second-highest since 2013, as was **ExxonMobil's** \$36bn since 2012. Exxon also claimed a big victory when two activist investors withdrew their proposed shareholder motion for the company to speed up its emissions reductions. Exxon is still ploughing ahead with a lawsuit questioning the investors' motives. **Shell** recently reported a profit of \$28bn.

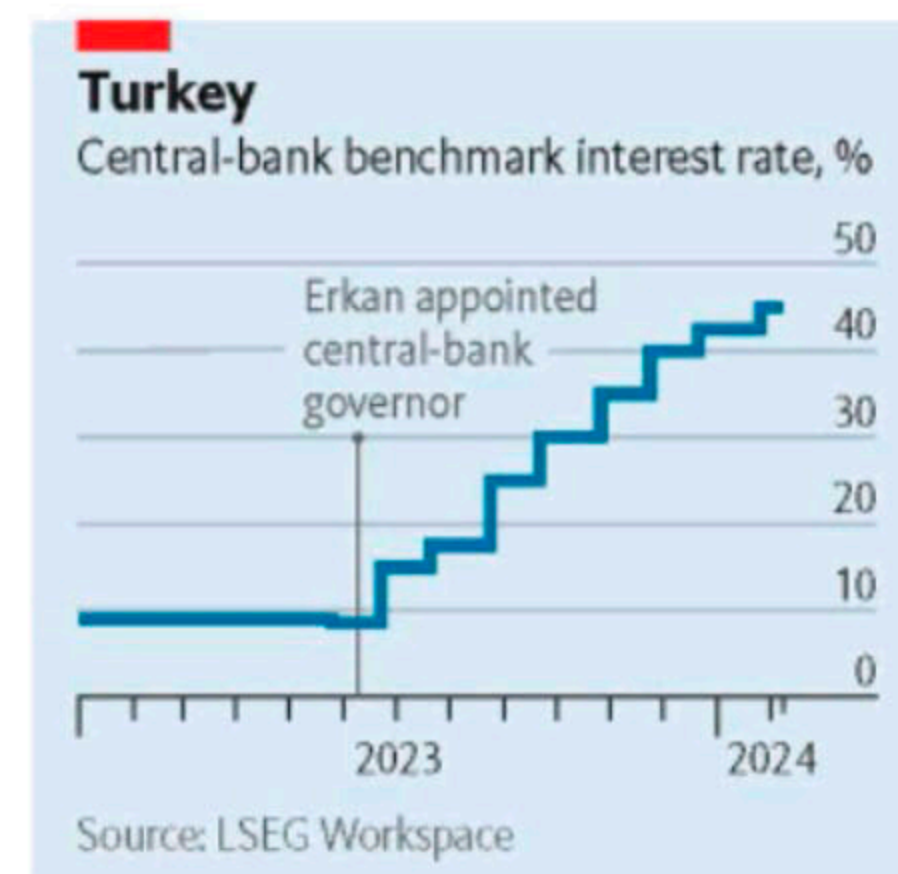
A conflict of interests

War in the Middle East has hurt sales at **McDonald's** in the region. The fast-food retailer said its business in Malaysia, Indonesia and France, which has a large Muslim population, had also been affected. The chain was targeted by protesters after a franchised outlet in Israel offered free meals to soldiers. Starbucks has also reported that similar boycotts are affecting its business.

New York Community Bancorp tried to reassure investors that its business was still sound, after its credit rating was cut to junk status by Moody's. NYCB, which bought the assets of Signature Bank after it went to the wall last year, has spooked investors by reporting a quarterly loss related to its exposure to commercial-property loans. Its share price has since plummeted, wiping 60% off its market value.

China has fallen further into a deflationary spiral. Consumer prices in January were 0.8% lower than in the same month last year, the biggest such drop since 2009. It is another headache for policymakers in Beijing, who are contending with a weak economy, a crashing property market and feeble stockmarkets.

The value of **German exports** plunged by 4.6% in December compared with November, a much sharper drop than had been expected. The value of exports fell to €125bn (\$137bn), the lowest since March 2022; they declined by 1.4% over the whole year. There was some good news for the beleaguered German economy. Industrial orders rose by 8.9% in December, the most since June 2020.



Markets took a positive view of Fatih Karahan's appointment as the new governor of **Turkey's central bank**. Hafize Gaye Erkan abruptly resigned after just eight months in the job, over what she claimed was a "character assassination campaign" against her in sections of the press. Mr Karahan used to work as an economist at both the Federal Reserve Bank of New York and Amazon. With inflation in Turkey running at 65%, he is

expected to continue with the bank's aggressive round of interest-rate rises.

Investors reduced further their expectations of the Federal Reserve making a cut to interest rates in March, after American employers added 353,000 **jobs** in January, double the number that analysts had forecast.

After 18 months of negotiations, the parent company of **Yandex**, Russia's Google, agreed to sell all its business in Russia to a consortium of Yandex managers and Russian investors. The \$5.2bn sale by the Dutch-registered Yandex marks the biggest corporate exit from Russia since the start of its war against Ukraine. Yandex's managers stressed that it would remain "private and independent".

Meta's share price fell back a bit from the 20% jump it registered after reporting solid quarterly results and announcing its first-ever shareholder dividend. The company's revenues from digital ads surged in the last three months of 2023 (as they did at Google and Amazon). Meanwhile, Meta announced that it will encode artificial-intelligence generated images on its plat-

forms with new technological specifications that it hopes will become a labelling standard across the wider social-media industry.

In other earnings news, **Uber** reported its first annual net profit since its IPO. **Snap's** share price took a dive after its results disappointed investors; the operator of Snapchat is cutting about 10% of its 5,000 strong workforce. **Disney** narrowed the losses in its streaming business. And **Toyota's** stock hit a record, after the Japanese carmaker raised its profit forecast; its finance chief said sales of electric-hybrid vehicles were soaring.

The lucky country

The Australian government readied a bill that will give employees the right to **ignore calls and texts** from their bosses outside working hours, with fines for employers who break the rules. The Greens, who pushed for the change, reckon Australians work six weeks unpaid overtime a year. The "right to disconnect" was first introduced in France (of course) and the revolution has spread to around 20 countries. Australia also has an unofficial Go Home on Time Day, first observed in 2009.



Who's in control?

Why investors are losing faith in Xi Jinping

THIS YEAR investors in Chinese stocks have been on a hair-raising ride. Even as America's S&P 500 index reached record highs, markets in China and Hong Kong shed \$1.5trn in January alone. Retail investors have taken to Chinese social media to vent their frustration. So brutal was the slump that on February 6th China's president, Xi Jinping, was reportedly to be briefed; the next day Yi Huiman, the head of China's securities regulator, was sacked. Prices recovered a little as state firms began buying stocks. In the coming days they may rise further still.

Step back, though, and there is no mistaking the dismal bigger picture. The market value of China's and Hong Kong's equities is down by nearly \$7trn since its peak in 2021—a fall of around 35%, even as that of America's stocks has risen by 14%, and India's by 60%. The decline signals a fundamental problem. Investors abroad and at home once saw China's government as a dependable steward of the economy. Now this trust has seeped away, with severe consequences for China's growth.

Less than a decade ago the mood in China's markets was ebullient. Foreign investors were eager to tap into the potential of the world's rising economic star. China was expanding at a steady and impressive clip of over 6% a year. Foreign portfolio investment rushed in as offshore investors were given direct access to Chinese stocks via Hong Kong in 2014. Four years later MSCI, a financial firm, began including mainland stocks in its global indices. China's government, for its part, hoped to professionalise its markets in order to attract foreign capital and expertise, and to build an asset class to supplant property. A cohort of wealthy businesspeople and investors were emerging who had been exhorted by Mr Xi himself to live the China dream.

The implicit understanding was that, whatever China's politics, its officials could be trusted to steer the economy towards prosperity. China would continue to grow at an enviable pace, its citizens would still put wealth and economic stability above political freedoms, and foreign investors would reap handsome returns. Everyone could get rich.

What has gone wrong? One widely noted problem is Mr Xi's skittish policymaking. A regulatory crackdown on tech that began in 2020 knocked investors' confidence. The emergence from zero-covid was a fiasco. The government has vacillated over a property crisis that has sapped savings and sentiment and dragged the economy into deflation, with prices falling in the year to January at their fastest rate since the financial crisis of 2007-09. It rightly wants to avoid reinflating a bubble. But it also wants to avoid handouts and to focus growth on "high quality" sectors that it believes will help China rival America's technological, economic and military might. Profits were down last year even in these sectors, however. And China lacks the stimulus it needs (see China section).

Less appreciated is how much foreign investors have fallen out of love with China. They must contend not only with poor policymaking, but also the risk that its worsening relationship with America could jeopardise their investments. They have been net sellers of mainland stocks for months. Whereas asset

managers once cheered on China's inclusion in global indices, they are now crafting products that leave it out. Instead, investors are eyeing up India, with its large population, and Japan, with its cutting-edge technology. Hong Kong, too, has suffered. Companies from the mainland account for three-quarters of its market capitalisation. On January 22nd India briefly overtook it to become the world's fourth-biggest stockmarket.

Most worrying of all is that investors on the mainland are also losing confidence. After three decades of extraordinary growth, China's wealthy are experiencing a painful reversal in fortunes, as our Briefing this week reports. Both their property and their financial investments are sinking, and surveys indicate that many white-collar workers received pay cuts last year. The evidence suggests that more capital is flowing out of China. Those who cannot get round China's capital controls are moving into safer money-market funds, or fleeing into funds listed on the mainland that track foreign stocks.

All this will deal a blow to China's growth. Our analysis of household surveys suggests that a small but influential group of people hold most of China's financial assets. Their straitened circumstances will have knock-on effects, by reducing consumption and weighing on investment decisions. Investors trapped in the mainland may have little choice but to put some of their hard-earned cash into stocks. Foreigners, by contrast, may be harder to tempt back. That will come at a cost to China, even though foreign investors still own a small share of its equities. Over the years they have provided a useful external check on asset prices. Moreover, their entry into the market a decade ago was associated with more capital spending and investment in research and development by Chinese firms. Their departure, conversely, could hurt innovation.

Mr Xi seems to know that something is going wrong. In addition to sacking Mr Yi, the government has curbed short-selling, and state-owned asset managers have been ordered to buy stocks (see Finance & economics section). This may prop up stock prices for a time. But such meddling only betrays China's mistrust of markets, underlining why investors have left.

Far from embracing the need for broad change, Mr Xi is making things worse. At home, he is cracking down on criticism of the economy. At the same time, China is becoming more suspicious of foreign businesses. Financial data are becoming harder for offshore investors to obtain. In December new rules on the gaming industry were proposed, only to be quietly removed after markets reacted badly. In January the central bank declined to cut interest rates, despite continued deflation, catching out markets. All of this serves only to frighten investors.

The real obstacle to change is Mr Xi's iron belief that he and the Communist Party must be in total control. Regaining investors' trust requires a rethink of the state's role in the economy. But Mr Xi is unlikely to soften his grip. Investors once thought that China's politics need not encroach on their ability to make money. Now that they know there is no escaping politics, they will tread more fearfully. ■



Weapons systems

Killer drones

Pioneered in Ukraine, they are the weapons of the future

PRECISION-GUIDED weapons first appeared in their modern form on the battlefield in Vietnam a little over 50 years ago. As armed forces have strived ever since for accuracy and destructiveness, the cost of such weapons has soared. America's GPS-guided artillery shells cost \$100,000 a time. Because smart weapons are expensive, they are scarce. That is why European countries ran out of them in Libya in 2011. Israel, more eager to conserve its stockpiles than avoid collateral damage, has rained dumb bombs on Gaza. What, though, if you could combine precision and abundance?

For the first time in the history of warfare that question is being answered on the battlefields of Ukraine. Our report this week (see Science & technology section) shows how first-person view (FPV) drones are mushrooming along the front lines. They are small, cheap, explosives-laden aircraft adapted from consumer models, and they are making a soldier's life even more dangerous. These drones slip into tank turrets or dugouts. They loiter and pursue their quarry before going for the kill. They are inflicting a heavy toll on infantry and armour.

The war is also making FPV drones and their maritime cousins ubiquitous. January saw 3,000 verified FPV drone strikes. This week Volodymyr Zelensky, Ukraine's president, created the Unmanned Systems Force, dedicated to drone warfare. In 2024 Ukraine is on track to build 1m-2m drones. Astonishingly, that will match Ukraine's reduced consumption of shells (which is down because Republicans in Congress are shamefully denying Ukraine the supplies it needs—see leader).

The drone is not a wonder weapon—no such thing exists. It matters because it embodies big trends in war: a shift towards small, cheap and disposable weapons; the increasing use of consumer technology; and the drift towards autonomy in battle. Because of these trends, drone technology will spread rapidly from armies to militias, terrorists and criminals. And it will improve not at the budget-cycle pace of the military-industrial complex, but with the break-things urgency of consumer electronics.

Basic FPV drones are revolutionarily simple. The descendants of racing quadcopters, built from off-the-shelf components, they can cost as little as several hundred dollars. FPV drones tend to have short ranges, carry small payloads and struggle in bad weather. For those reasons they will not (yet) replace artillery. But they can still do a lot of damage. In one week last autumn Ukrainian drones helped destroy 75 Russian tanks and 101 big guns, among much else. Russia has its own FPV drones, though they tend to target dugouts, trenches and soldiers. Drones help explain why both sides find it so hard to mount offensives.

The exponential growth in the number of Russian and Ukrainian drones points to a second trend. They are inspired by and adapted from widely available consumer technology. Not only in Ukraine but also in Myanmar, where rebels have routed government forces in recent days, volunteers can use 3D printers to make key components and assemble airframes in small workshops. Unfortunately, criminal groups and terrorists are unlikely to be far behind the militias.

This reflects a broad democratisation of precision weapons. In Yemen the Houthi rebel group has used cheap Iranian guidance kits to build anti-ship missiles that are posing a deadly threat to commercial vessels in the Red Sea. Iran itself has shown how an assortment of long-range strike drones and ballistic missiles can have a geopolitical effect that far outweighs their cost. Even if the kit needed to overcome anti-drone jamming greatly raises the cost of the weapons, as some predict, they will still count as transformationally cheap.

The reason goes back to consumer electronics, which propel innovation at a blistering pace as capabilities accumulate in every product cycle. That poses problems of ethics as well as obsolescence. There will not always be time to subject novel weapons to the testing that Western countries aim for in peacetime and that is required by the Geneva Conventions.

Innovation also leads to the last trend, autonomy. Today, FPV drone use is limited by the supply of skilled pilots and by the effects of jamming, which can sever the connection between a drone and its operator. To overcome these problems, Russia and Ukraine are experimenting with autonomous navigation and target recognition. Artificial intelligence has been available in consumer drones for years and is improving rapidly.

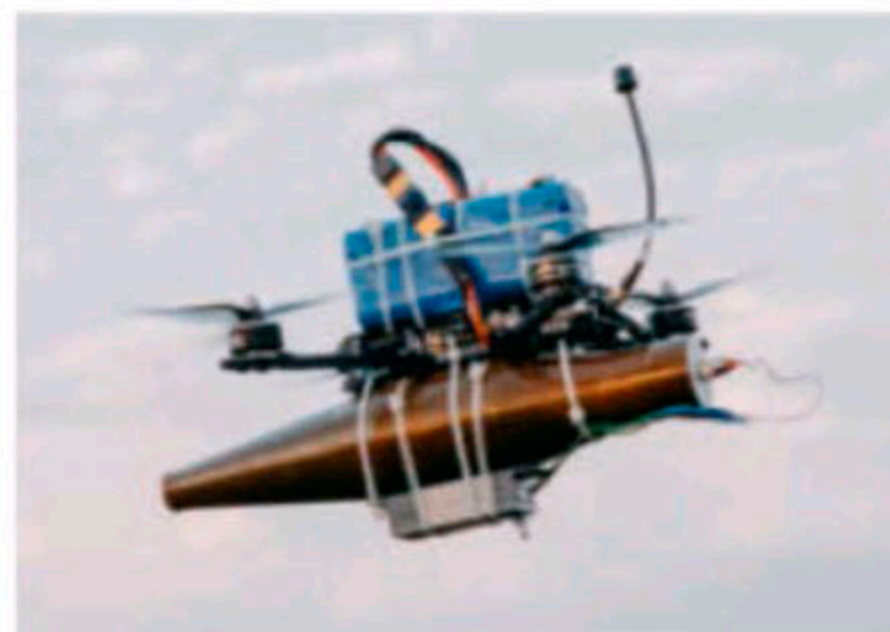
A degree of autonomy has existed on high-end munitions for years and on cruise missiles for decades. The novelty is that cheap microchips and software will let intelligence sit inside millions of low-end munitions that are saturating the battlefield. The side that masters autonomy at scale in Ukraine first could enjoy a temporary but decisive advantage in firepower—a necessary condition for any breakthrough.

Western countries have been slow to absorb these lessons. Simple and cheap weapons will not replace big, high-end platforms, but they will complement them. The Pentagon is belatedly embarking on Replicator, an initiative to build thousands of low-cost drones and munitions able to take on China's enormous forces. Europe is even further behind. Its ministers and generals increasingly believe that they could face another major European war by the end of the decade. If so, investment in low-end drones needs to grow urgently. Moreover, ubiquitous drones will require ubiquitous defences—not just on battlefields but also in cities at peace.

Kalashnikovs in the skies

Intelligent drones will also raise questions about how armies wage war and whether humans can control the battlefield. As drones multiply, self-co-ordinating swarms will become possible. Humans will struggle to monitor and understand their engagements, let alone authorise them.

America and its allies must prepare for a world in which rapidly improving military capabilities spread more quickly and more widely. As the skies over Ukraine fill with expendable weapons that marry precision and firepower, they serve as a warning. Mass-produced hunter-killer aircraft are already reshaping the balance between humans and technology in war. ■



America's Congress

The arsenal of hypocrisy

House Republicans are failing Americans and helping Vladimir Putin

POLITICIANS OFTEN put winning the next election above solving problems. Yet this week Republicans in the House of Representatives went a step further and sabotaged their own policy priorities to hurt President Joe Biden. Their cynicism makes America weaker, and gives comfort to its enemies.

For the past couple of years Republicans have made much of the chaos at the southern border, with good reason. There were 302,000 attempts by irregular migrants to cross in December alone. Knowing that Democrats wanted to pass a bill to supply Ukraine with fresh military aid, the House leadership paired the two issues, thinking that by doing so they could drive a harder bargain on immigration. A bipartisan group of senators went away and worked on a border compromise, the results of which are broadly in line with what Republicans had sought. The proposals would have helped reduce the flow of people coming across the southern border, which is a priority for voters (see United States section).

Rather than take this win, the House leadership then turned around and rejected the very thing they had been asking for. It is no mystery why they did this: Donald Trump wants to win votes by playing up the border chaos. He urged Republicans to kill the deal the Senate had come up with because he would rather keep the border as a livid campaign issue than see the problems there alleviated. After Mr Trump's intervention, Republican senators abandoned it too, burying this latest Senate compromise in the crowded graveyard of failed immigration reforms, and leaving Republicans still complaining about the border and still refusing to do anything about it.

That is bad enough, but the damage Republicans have done goes far beyond America's own shores. By killing the border bill, they have also set back the cause of Ukraine, which urgently

needs more cash and kit to defend itself against invading Russians. Ukrainian soldiers cannot wait while some alternative funding idea percolates through a congressional committee. They need ammunition now. If they do not get it, they may not be able to repel the Russian spring offensive, and they could lose more of their country.

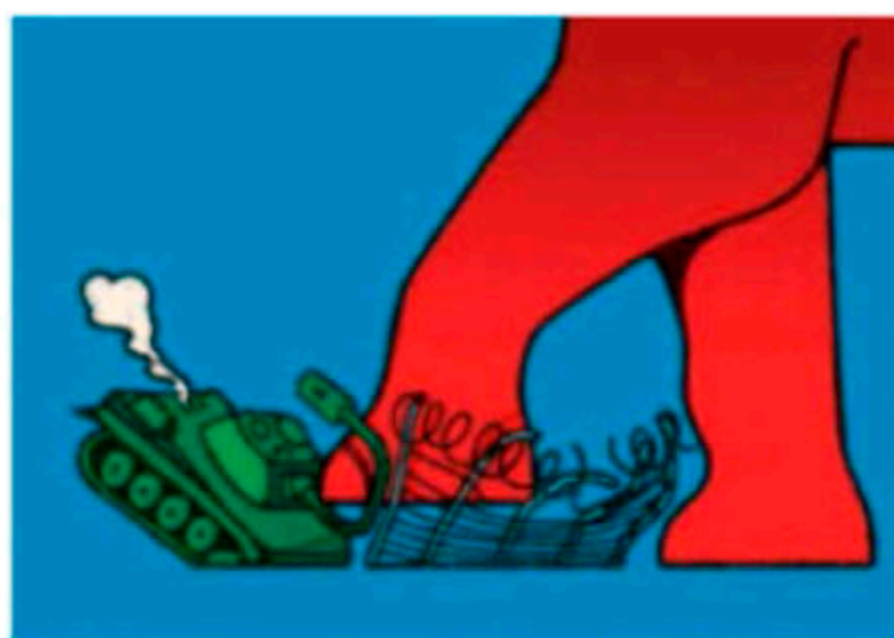
Without new legislation on Ukraine or the border, Mr Biden may tap some other Pentagon budget for a little bit of money—though nothing like enough. He can also tweak immigration enforcement through executive actions. But this will be tinkering to offset the harm caused by a massive political failure in Congress. Domestically, the consequence will be more border chaos,

with tens of thousands of people crossing each month to claim asylum, and then disappearing into an overburdened immigration system. For the world, the fallout could be much worse.

The slowdown of American support is already hurting Ukraine on the battlefield, as can be seen from the dispute between the country's president and the head of its armed forces. America's friends are watching nervously; its

enemies with gleeful anticipation.

If Uncle Sam fails to stand behind a democratic ally defending itself against an unprovoked invasion by a tyrant who is also the West's most belligerent geopolitical foe, what good are American security guarantees in the Baltics or Taiwan or the Middle East? Ukraine has doggedly resisted Vladimir Putin's imperial ambitions without endangering a single American soldier. To cut it loose would embolden aggressors everywhere and make the world less safe for everyone. House Republicans are no doubt congratulating themselves for making life harder for Mr Biden. If they had set out to harm America and help Mr Putin they could hardly have done a better job. ■



Poland's new government

Escaping capture

Repairing the damage done by populists requires grit and patience

WHEN POPULIST parties win power they often try to capture institutions. They appoint their supporters to run the courts, bureaucracy, state-owned firms and public media. The goal is partly to make it easier to ram through decisions and win more elections. But it is also to ensure that if the populists lose power, loyalists lodged within the state can still pursue their agenda. With populism and state capture on the rise, working out how to unwind such control is becoming ever more important. An early test case, Poland, shows how hard it is to get right.

Poland's populist-nationalist government, run by the Law and Justice (Pis) party, was booted out of office by voters in October and replaced by a centrist coalition led by Donald Tusk. Over the years Pis has packed the courts, sidestepped the constitution

and appointed cronies to government firms and broadcasters. Mr Tusk faces a hellish task to undo this harm (see Europe section). He must restore independence and sideline Pis apparatchiks without violating the very rule of law he wants to protect.

In some cases the new government is on the right side of the line. The new justice minister, Adam Bodnar, is Poland's prosecutor-general, too, and he wants to make that post independent. In addition, he wants to take control of the body that appoints judges away from parliament and give it back to judges themselves. Whether you are in favour of that or not, both moves enhance judicial independence and reduce government power. Mr Bodnar also fired the national prosecutor and then ignored an order to reinstate him from a Pis-controlled constitutional tri-▶▶

bunal. He relied upon a technicality: an aggressive move but one that was probably within the law. Such legitimate, but byzantine, struggles over procedures and appointments could play out for years to come.

Regarding the media, however, the new government has gone too far. PIS had turned the public radio and television broadcasters into propaganda megaphones, and created a new (and possibly unconstitutional) media council to control them. It is essential to restore the broadcasters' impartiality. To that end, Mr Tusk's government has fired media firms' senior staff using commercial law. Fair enough: the state is the owner of these businesses.

However, the government has also ignored parts of the constitution dealing with the state media's independence. After a first illegal attempt at reform backfired, the government is putting state media firms into liquidation to restructure them, but it has not explained its plans or opened them up for discussion. News broadcasts on public radio and TV are more neutral than in the past, but the government has not made a clear enough commitment never to exert political influence.

Plenty of other countries, including nearby Hungary, could face the Polish dilemma in the coming years. When considering whether political detoxification efforts are legitimate, benign intent is not enough. Instead a two-part test should apply. First, any change must be within the law. Second, its result should be to disperse power, not concentrate it. Mr Bodnar's actions pass both tests; the media clean-up gets questionable grades on both. As an additional safeguard, Mr Tusk's government should also welcome scrutiny from the European Union, which will help affirm its reforms are sound.

Uncaptured

Poland's struggle will take a long time. Many liberals see Andrzej Duda, Poland's notionally independent president, as a PIS stooge who will use his veto powers to try to block reforms. Rather than trying to circumvent the law, Mr Tusk and his allies should persuade voters to pick a different president in elections next year. In restoring the rule of law over state institutions, liberal governments must respect the law themselves. Otherwise, even when they lose at the polls, the populists will have won. ■

Indonesia's election

Jokowi's inglorious exit

The outgoing president is playing kingmaker to a controversial former general

JOKO WIDODO is leaving Indonesia's presidency less creditably than he entered it. A decade ago the former furniture salesman, popularly known as Jokowi, swept to power on a promise to defy the elites who had stage-managed the world's third-biggest democracy since the fall of the dictator Suharto in 1998. But instead of beating the power brokers, Jokowi has joined them.

In the run-up to an election due on February 14th, the outgoing president has thrown his weight behind Prabowo Subianto, a former general and son-in-law of Suharto, who has an appalling human-rights record and a professed ambivalence towards democracy. Jokowi's eldest son is Mr Prabowo's running-mate—courtesy of Jokowi's brother-in-law, who, as chief justice of Indonesia's highest court, lifted an age limit standing in his 36-year-old nephew's way.

Jokowi's endorsement has made Mr Prabowo the favourite to win the presidency at the third attempt (he lost elections in 2014 and 2019, then falsely claimed they were stolen). His main rivals, Anies Baswedan and Ganjar Pranowo, both competent former governors, claim their rallies have been disrupted or cancelled by shadowy officials. This is a worrying augury for Indonesia, and an unworthy end to Jokowi's tenure.

Though he has not overseen the tearaway growth he also promised, his economic management has helped make Indonesia one of the best-performing economies in recent years. Its vulnerability to a strong dollar and shifts in global capital flows once made it a member of the "Fragile Five" emerging markets. Thanks to prudent management, the public finances have improved and the economy is more stable. Indonesia has grown at around 5% a year pretty consistently.

Infrastructure has been overhauled, with thousands of miles of road and rail added. A package of reforms passed last year

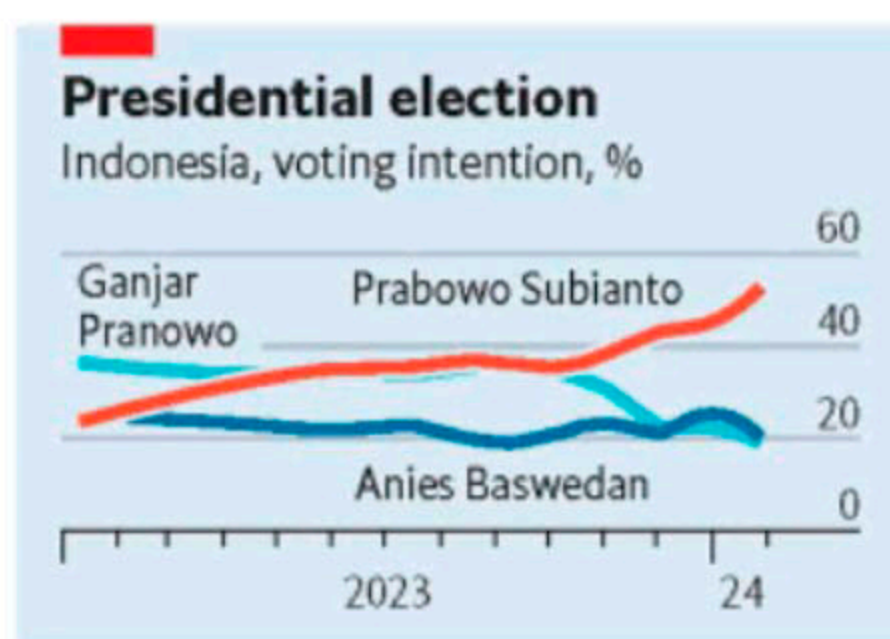
eased restrictions on foreign investment. By pressing firms to process nickel domestically, Jokowi has supported the development of an industry responsible for half the world's output. Improved governance has contributed, among other things, to a fall in the rampant deforestation that has long made Indonesia one of the biggest emitters of greenhouse gases. The country's traditional "non-aligned" foreign policy has put it safely between America and China on most issues.

Mr Prabowo has vowed to continue most of Jokowi's policies, reassuring investors. They are too complacent. The recent progress has come about in spite of Jokowi's authoritarian instincts and delusions of grandeur, which Mr Prabowo seems likelier to emulate.

The former general backs an epic white-elephant scheme of Jokowi's to carve a new \$34bn capital city out of the Bornean rainforest. He appears keen to extend protectionist nickel policies—which will pay off only if demand for the metal remains high—to less promising sectors. Tarnished by his alleged Suharto-era abuses—on account of which America and Australia once barred him—he remains

prone to clumsy outbursts, including a speech last year in which he floated a Putin-friendly peace plan for Ukraine. Jokowi's support for him has reportedly alienated the president's technocratic colleagues, including Sri Mulyani Indrawati, the finance minister behind much of the progress.

Mr Prabowo's victory need not be the end of liberal politics in Indonesia: the advances that 200m voters have enjoyed may make them more demanding in future. Nonetheless the cronyism so evident in his campaign is dispiriting. Jokowi arrived in 2014 as a breath of fresh air. But by failing to entrench Indonesia's democracy, even as he has strengthened its economy, he leaves behind a rotten smell. ■



Are you unlocking the full value of your supply chain?

Learn how to reduce your scope 3 emissions

The truth is hard but clear. Small, incremental improvements cannot decarbonise the economy fast enough. So how do leaders rapidly reinvent their business models to deliver sustainable growth?

Much of the answer lies in new capabilities to cut scope 3 emissions, which became a major theme of the Economist Impact event "Emission Impossible" on the sidelines of the World Economic Forum annual meeting this year.

Scope 3 emissions can account for up to 95% of an organisation's carbon footprint, yet most net-zero strategies omit them because they occur outside the organisation's direct control.

However, emerging technologies and solutions are reshaping our perceptions of scope 3 emissions. Organisations can now measure indirect emissions more accurately and drive profitable change within their business models.

Economist Impact, supported by Infosys, is helping organisations to capitalise on this new era with the **Value Chain Navigator**. This free online resource provides a powerful self-assessment tool that generates a bespoke action plan for high-value reductions.

You can also explore findings from over 1,200 companies, read about successful net-zero approaches and track the latest global conversations about scope 3 emissions.



Many companies are leading the way through a **focus on innovation and tackling scope 3 emissions across the value chain.**

Jonathan Birdwell
Global head, policy and insights
Economist Impact



31% less energy consumption can be achieved without harming economic output. That's about \$2trn dollars of savings every year.

Ashiss Kumar Dash
Executive vice-president and global head of services, utilities, resources and energy
Infosys



Visit the **Value Chain Navigator** to unlock the scope 3 potential of your own net-zero journey

economistimpact.com/vcn

**ECONOMIST
IMPACT**

The Sustainability Project

Infosys

DIGITAL INNOVATION PARTNER

China's claims on Taiwan

It is certainly true, as Chaguan observed, that the obsession of China's Communist Party with Taiwan is a political choice, one that actually contradicts the party's original position (January 20th). In the party's first couple of decades it did not view the people of Taiwan as Chinese to be reunified, and it supported the Taiwanese Communist Party's demands for the island's independence from Japan (not reunification with China). In the 1930s, Mao Zedong himself saw Taiwan as no different from Korea, Vietnam, or other imperialist possessions that deserved self-determination. In fact, neither the Chinese Communist Party nor its rival Kuomintang of China began to view Taiwan through the lens of Chinese reunification until well into the 1940s.

One other consequential choice by Beijing was to decide that there could be only one China. However, by asserting that the People's Republic of China is this one China, the Communist Party just makes it easier for those who reject the PRC to reject also any political connection to any China, regardless of who is ruling. Rather than reflexively blame Taiwan's people or America for the cross-strait dispute's longevity and intractability, the Communist Party ought to engage in a little reflection and self-criticism.

BRIAN C. CHAO

Assistant professor
National Security Affairs
Department
Naval War College
Newport, Rhode Island

The royal appendage

Charlemagne unfairly derides the human appendix by comparing it to Europe's royal highnesses, who are "essentially vestigial" and "serve little obvious purpose" (January 20th). In fact, recent research has shown that the appendix has a valuable role in human health by providing a haven for bacteria to repopulate the bowel following a diarrheal

illness. Yet before scientists recognised these benefits, generations of doctors were taught that the appendix was better out than in.

The same goes for the crowned heads of Europe. If a hereditary monarch wants to follow the path of the appendix from scorn to admiration, then he or she needs to do a better job of advertising their benefits to society.

MICHAEL PHILLIPS
Messana Research
Fort Lee, New Jersey

Tracking AI fakery

Plaudits for your leader on defending against fake content generated by artificial intelligence ("Pics and it didn't happen" January 20th). You concluded that attributing trusted sources is the best way to avoid being misled. However, "assuming trustworthy sources can continue to identify themselves securely" just shifts the problem. AI is already skilled at impersonation. Strong authentication of creators will be the key to stopping AI fakes. AI may not be able to detect AI content, but it will continue to detect AI-generated faces trying to fool biometric authentication. When we set the rules that the AI fakes have to dance to, we can spot them stumble.

ANDREW BUD
Chief executive
iProov
London

I agree that the AI hype-cycle is probably now shifting downwards as people realise that ChatGPT and related technologies have a long way to go before consistently hitting professional levels of output ("The missing investment boom", January 13th). However, we may be using the wrong measure and therefore drawing the wrong conclusions. Most firms interested in harnessing the power of AI won't be buying graphics processing units or ramping up investment in data-centre hardware in response to the hype. This is because they will consume or modify ready-made solutions

from vendors that will show up on balance-sheets as additional operational expenditures. And most of that spending will go to suppliers that already have contracts with these firms (Amazon, Google and Microsoft).

Most of the contacts that I have across industries are intending to increase investment in these technologies and harness them in a firm's products and services in the coming year. If that's the case, the hype-cycle may be waning, but the investment will trend upwards from here.

ZACH ARNOLD
Executive director
MSCI
Raleigh, North Carolina

Constructivism delivers

There is certainly a time and a place for activist investors like Bill Ackman to take more public, assertive approaches with their targets and stick to their guns on their demands (Buttonwood, January 13th). However, evidence from the past six years suggests that a more flexible strategy delivers the best results.

Data from Europe and America show that, two years after being targeted by an activist, company share prices outperformed the market by an average of 5.5%, if the activists' demands were met in full. When only some activist demands were met, however, the average share price performance over the market rose to 8.8%. This demonstrates that constructive compromise, or "constructivism", where the company board and activist investor work productively together, delivers the best result for all. No one has a monopoly on good ideas.

ANDRÉ MEDEIROS
Managing director
Alvarez & Marsal
London

You're never too old

Bartleby wrote about the dangers of retiring, giving us the examples of some highly successful octo- and nonagenarian outliers who still work

(January 27th). The problem for many successful (or mildly so) professionals who achieve some authority in the later stages of their professions is that they kid themselves into believing people genuinely appreciate their point of view, rather than the authority granted with long service.

Most of us aren't really so gifted that our advice is really sought after. I'd like to offer an alternative view: embrace the later stages of life, have a purpose, be it a hobby or voluntary support to a cause, and let the next generation do things unencumbered by your suggestions and "wisdom".

JONATHAN TOTTMAN
Nakhon Si Thammarat
Province
Thailand

For those of us not blessed with 89-year-old Giorgio Armani's role as head of a multi-billion-dollar company (a rare counterfactual), the prospect of an eternity ingesting the soul-sapping gruel of corporate life is truly horrific. Endless meetings, ghastly hotels, budget reviews, office politics, technical committees, audit reviews, performance appraisals, terrible IT, wearying travel, egregious management, awaydays, policy forums, marketing initiatives, programme boards, risk sessions, customer complaints; all these combine to rinse out any joy or meaning you may experience from Monday to Friday (and frequently Saturdays and Sundays too).

I am retired and spent 35 minutes this afternoon staring at a large and majestic acacia tree in my garden, because I could and wanted to. I gained more spiritual nourishment from this episode than anything that had occurred in my 40 years in corporate life.

WILL MOSS
Bury St Edmunds, Suffolk

Letters are welcome and should be addressed to the Editor at
The Economist, The Adelphi Building,
1-11 John Adam Street, London WC2N 6HT
Email: letters@economist.com
More letters are available at:
[Economist.com/letters](https://www.economist.com/letters)



Dissipating dreams

SHANGHAI

Markets are pummeling China's well-to-do. Their agonies will reshape the Chinese economy

IT WAS A year ago that the woman who asked to be referred to as Xue Li entered the minefield, although she did not know it at the time. It was only when a mine detonated that she realised the risk she had been running—and by then it was too late.

Chinese call an investment that has gone bad a “landmine explosion”. In Ms Xue’s case, the blast came from a wealth-management product that had promised an annual return of about 8%. It had been recommended by a friend and was sold by Hywin, a big firm based in Shanghai but listed in both Hong Kong and New York. She put in 300,000 yuan (\$42,000) last February and a further 500,000 a few

months later. In December, however, it became clear that the firm was struggling to meet its obligations. It is uncertain how much of her original investment, if any, Ms Xue will ever see again.

Across China hundreds of thousands of the well-to-do have suffered landmine injuries in recent months. Zhongzhi, an investment firm which went bust in December, owes its 150,000 clients \$36bn. And explosions are not confined to wealth-management firms. By far the most common investment in China is property, and property values have been falling for almost three years. The stockmarket, too, is sliding: the Shanghai Composite, one of the

most prominent indices, has dropped by over 20% since its peak in 2021. And whereas the government has in the past stepped in to help investors hit by plunging asset prices, this time it shows little inclination for a bail-out. Ms Xue will have to try to stanch the bleeding on her own.

China publishes almost no official data about the distribution of wealth, perhaps for fear of revealing just how unequal it is. But *The Economist* has analysed nationwide surveys from 2018 and 2020 that asked participants about their income and investments, weighting the responses to reflect China’s demography. That has yielded a rough breakdown of who owns most of the financial assets that are losing value so fast, and so allowed us to infer what the swooning markets might mean for China’s economy and society.

Year of the drubbing

A huge share of the country’s wealth, it turns out, is in the hands of people like Ms Xue. The drubbing the markets have been giving them, and the government’s apparent indifference, is reshaping their investment preferences, in all likelihood for years to come. That, in turn, will impede the authorities’ plans to develop the financial system and thus slow China’s future growth. Ms Xue and investors like her will suffer the most, but China’s economy will also end up scarred by the detonations.

The survey data suggest that about 50% of China’s wealth is in the hands of the 13m or so people with a net worth of 1m-10m yuan. This cohort—just 8% of the population—has even more influence over financial markets than their wealth would suggest. They own 64% of all publicly traded shares, for instance, and 61% of investment funds (see chart 1 on next page).

The group are the main beneficiaries of China’s 40-odd years of booming growth. Born in the 1960s, 1970s and early 1980s, they were some of the first to return to university after schools were closed during the Cultural Revolution. They were the first group to start small, private businesses. When the Shanghai stock exchange opened in 1990, they were among the first retail investors on the scene. They also propelled China’s property market since the first mortgage was issued by a state bank in 1986. Many will have cashed in on the privatisation of housing in the 1990s, buying flats for meagre sums that are now worth a fortune. They have experienced a miraculous shift in living standards over their working lives, from communal kitchens to holiday homes. Deng Xiaoping declared in the late 1970s that China would reject Maoism and “let some people get rich first”, and these are the people who did.

Ms Xue appears to be a typical member of the “got-rich-first” group. She is a Bei-▶▶

► jinger in her late 40s, eyeing an early retirement after 25 years in advertising. She has saved and invested widely. In addition to the detonated wealth-management product, she owns a residential investment property and some commercial property that she rents out. About 20% of her savings are in the stockmarket. All of these investments are now losing value. It is not obvious where to turn. China's strict capital controls make it difficult and prohibitively expensive to move money abroad; the closest she has come to that is an insurance policy from Macau, a "special administrative region" with different financial regulations and its own currency. Ms Xue's only other form of diversification has been to stash away some gold.

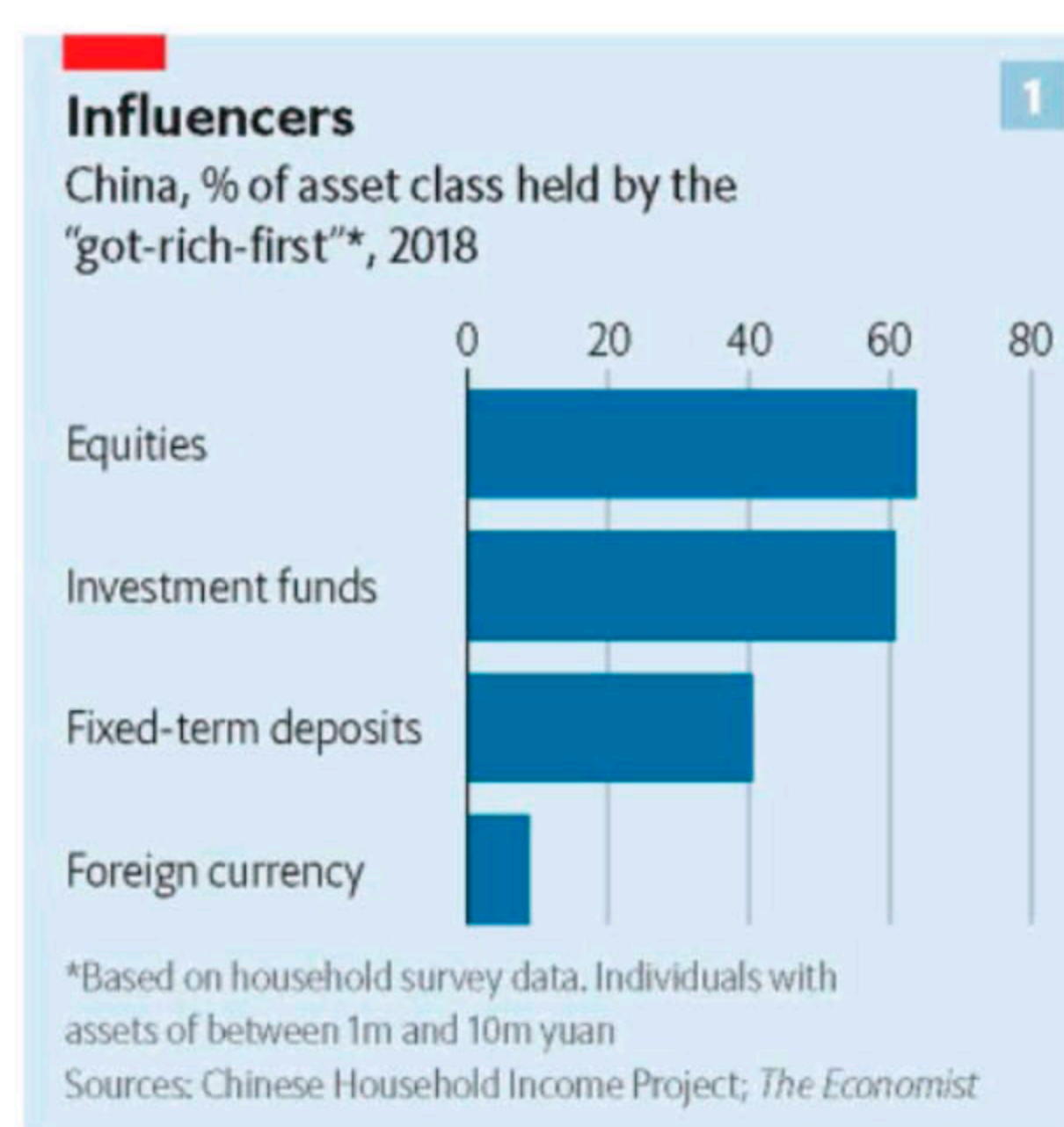
For China's wealthy, the present market turmoil is unprecedented and disorienting. Property prices had risen steadily for decades, with only a tiny blip in 2008. Although the stockmarket has been more volatile, the state has typically intervened to prevent big routs. Investors in more esoteric wealth-management products have also benefited from bail-outs when things went wrong, while receiving high yields in the meantime. A recent survey of affluent Chinese by Charles Schwab, an American asset manager, found that more than half expected 20-40% annual returns.

Dragon mire

Such expectations are looking ever less plausible. During Xi Jinping's first term as China's leader, in 2013-18, the average annual growth in personal income from investments was 10.8%. That fell during Mr Xi's second term to 7%. Over the past two years it has sunk below 5%.

In part, this reflects Mr Xi's determination to prevent bubbles and thus make the financial system more stable. To that end, he has tried to dispel the assumption that the state will come to the rescue of any struggling financial firm. In 2018, for example, he instigated a crackdown on online-lending platforms, wiping out an industry with 1trn yuan in outstanding loans. That was part of a broader campaign to restrict lending outside banks, which has shrunk by more than half since 2016.

The authorities still seem keen to shield the poor from turmoil in the financial system. This year, for instance, the central government will attempt to merge more than 2,000 rural banks with more than \$6trn in assets, to strengthen institutions catering mainly to people on the lowest rung of China's economic ladder. But the rich are a different story. When several small banks collapsed in 2022, deposits in excess of 500,000 yuan were not reimbursed by the state. By the same token, as property developers have gone bust the state has dragged its feet about rescuing those who paid for apartments that were



never built, many of whom are relatively affluent. Wealthier investors, the logic runs, can afford to absorb the losses and should understand the risks.

But the risks are often opaque, and different investments more closely related than they at first appear. A search for "landmine investment" on Chinese social media reveals endless posts about trusts and other wealth-management products. These typically funnel cash from China's rich to risky borrowers willing to pay high interest rates. The trust industry alone has raised \$2.9trn from 1.3m people and companies. About 30% of its loans are used to buy bonds, equities and investment funds. Another quarter is lending to conventional businesses. More than 7% has gone to property developers, almost all of whom are on the ropes.

Wang Yong's parents, who are got-rich-first types, were assured they were not investing in property when they bought a trust product last year. The family lives in a prosperous coastal port city. Mr Wang's father has long invested in stocks. His mother in recent years has dabbled in wealth-management products, often taking the recommendations of an adviser at an asset-management company. Last year she went big, buying a 3m yuan trust product

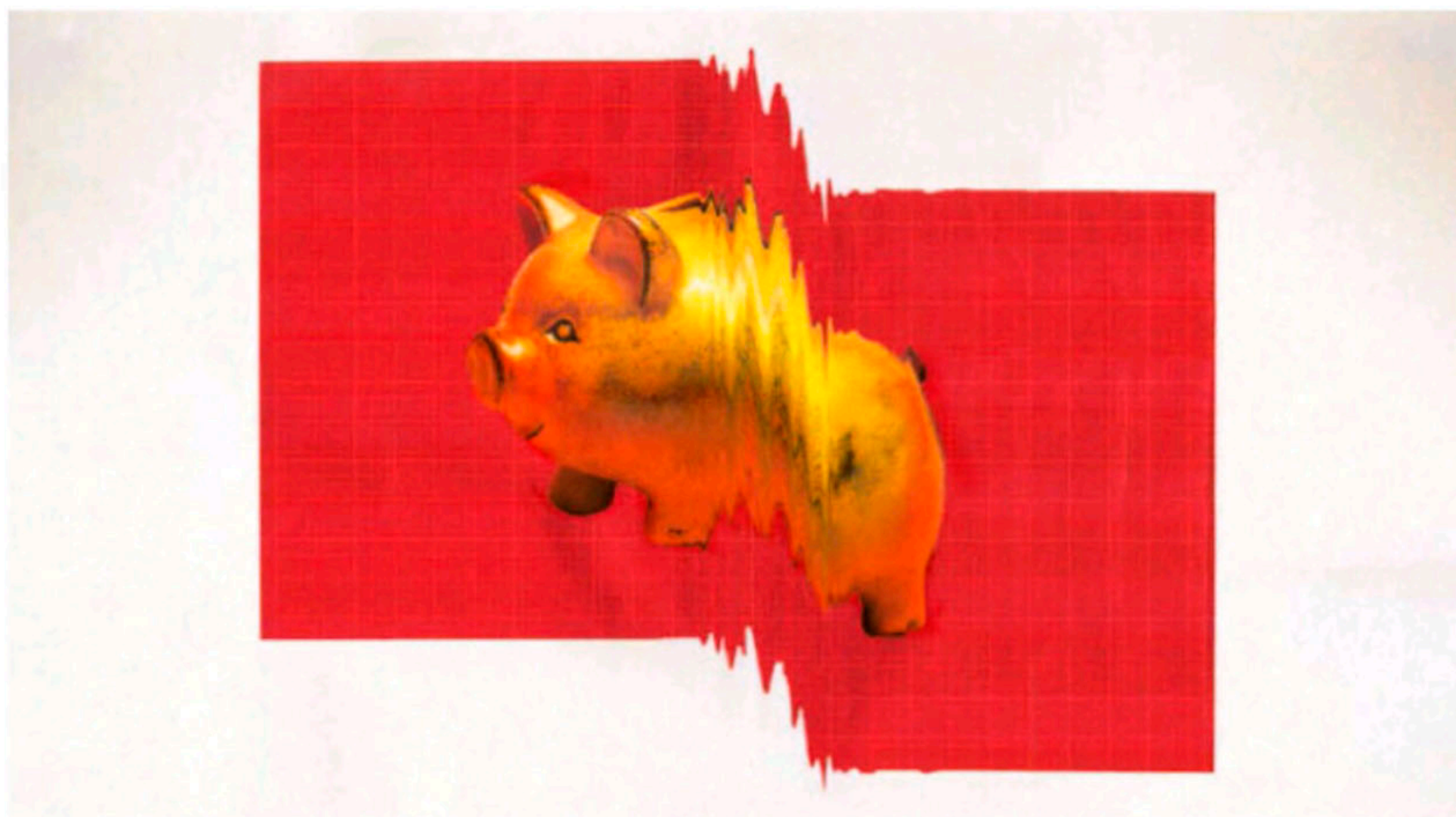
issued by a state-owned industrial enterprise. She later discovered that her money had been lent to a property developer that had defaulted. The state firm said the problem would be resolved in 60 days. That deadline came and went in early January. That's when Mr Wang (a pseudonym) began posting complaints on social media.

Tens of thousands are doing the same. Trust defaults are rising at an alarming rate. The product Mr Wang bought was issued by a firm with about 740bn yuan (\$100bn) in assets. Many other trust firms are expected to miss payments in the coming months. The government has so far refused to bail them out. Most clients have no way to recoup their money. Lawyers tend to advise that lawsuits are futile.

Property has also become a landmine for many investors. For years Chinese media celebrated the "explosive expansion" of urban apartment prices and urged people to cash in. Ms Xu, a finance executive in her 50s who did not want her full name published, made sure that she did. She moved to Shanghai 20 years ago but often returns to her hometown inland, where she bought two investment flats. (Her parents live in one of them.) By 2021 their value had more than doubled. Last year, as the downturn deepened, she put both flats on the market in the hope of realising some gains before prices fell further. But she has not been able to sell them. Developers have cut the prices of new flats in her city by more than 10%. Potential buyers are holding back in expectation of further drops. She fears all her gains will be wiped out.

Half of China's housing wealth belongs to the got-rich-first. There are no nationwide data on house prices and the official figures for individual cities seem to understate falling prices. The government's numbers claim that prices have barely budged in Shanghai. Local economists, in contrast, reckon they have crashed by 20-30% in some central districts and could fall further in 2024. People in smaller cities talk of 30-40% "discounts" on new flats. ►►





▶ Chinese spent about 16.3trn yuan buying homes in 2021. Analysts believe that up until that year about 30% of residential property was purchased as an investment, rather than to live in. That means punters pumped some 5trn yuan into investment properties at the top of the market and will have lost a big part of their savings.

Again, the government does not seem too concerned. The central bank declined to cut rates in January, despite months of deflation. The authorities have long wanted to quell speculation in property and prevent bubbles forming. They worry that too much of China's household wealth—some 80%—is concentrated in housing, compared with about 30% in America, for example. There is little systemic risk: banks are well capitalised and mortgages form a relatively small share of their assets. Local governments, meanwhile, see a chance to acquire lots of apartments on the cheap, to be used as low-income housing.

But this blasé view disregards the gloom that is spreading fast among the got-rich-first. On top of everything else, many are seeing their wages fall. About a third of white-collar workers say their salaries were cut last year, the highest proportion for several years, according to Zhaopin, a job-search firm. Many senior bankers' pay has been slashed by 30%, one claims, as part of Mr Xi's push to rid the financial industry of Western-style extravagance. Wage growth in the private sector slowed to just 3.7% in 2022, down from double digits just a few years ago, the National Bureau of Statistics reports.

Financial reversals among the rich tend to reverberate through the economy. In an article entitled "My middle-class dream died in wealth management", published late last year in a local newspaper, a 40-year-old woman named Zhou Ning described how she had lost millions of yuan to landmines. She explained how she has gone from holidaying in Europe and America to asking relatives for money. She has

been forced to sell her luxury handbags and find part-time work. She can no longer pay for her mother-in-law's cancer treatment. She has moved her child from a fancy international kindergarten to one with nearly triple the number of pupils.

As their income declines and their assets atrophy, the got-rich-first are becoming more cautious about spending. This "negative wealth effect" is hurting the economy. Oxford Economics, a research firm, estimates that household savings jumped to 32.4% of disposable income in the last quarter of 2023. Excess savings that could be used to consume or invest probably hit around 4trn yuan, or 3.2% of GDP.

As they become more cautious, the got-rich-first are reshaping China's markets. An executive at one of China's biggest asset-management firms says the collapse of Zhongzhi has been catastrophic for his industry. Clients used to grill him about the returns products would earn, he says; "Now they want proof we're not a scam." Mutual funds, which invest in stocks and are hard to redeem, saw their smallest inflows in a decade last year. Money-market funds, which can be sold instantly, grew from 8.1trn yuan in 2020 to 12.3trn in July (see chart 2 on previous page).

It is into safe and liquid assets that China's wealth is moving like never before, says Philip Leung of Bain, a consulting firm. Fixed-term deposits at banks, one of the safest investments available, grew faster last year than at any point since they were introduced in 2015. By the same token, the few funds that are allowed to invest abroad grew fourfold to 400bn yuan in assets under management between 2020 and last July. And sales of insurance policies like Ms Xue's reportedly soared last year in Macau and Hong Kong, another special administrative region with its own currency and financial regulation.

All this will have a baleful effect on the financial system and the broader economy. Retail investors' hitherto growing interest

in stocks, bonds and investment funds, which the government had hoped would reduce Chinese savers' fixation with property, has reversed. In the long run, that will reduce the flow of capital to business. The got-rich-first will also be more cautious about investing in their own businesses. Li Wei of Cheung Kong Graduate School of Business (CKGSB) in Beijing says entrepreneurs born in the 1960s and 1970s have been the driving force of company formation and wealth creation for decades. But a survey of business confidence conducted by CKGSB has found declining expectations for profits for seven consecutive months—a first in the survey's 12-year history, excluding the pandemic.

The landmines are also creating protesters among a previously apolitical group. The got-rich-first tended to look favourably on the government, which helped them to so massively improve their lot over the years. But Ms Xue and Mr Wang, at least, have been transformed into activists, hoping to bring attention to their causes. After posting a video on social media about her landmine injury, Ms Xue began receiving messages from people in different cities who had lost money on the same product. She has urged them to go to the police. She has also led small groups to the offices of Hywin in Beijing. Mr Wang, too, has linked up with fellow investors. They have visited the bank branches in their cities to complain. This appears to be a growing trend among wealthy Chinese who have experienced financial losses. *The Economist* has spoken to several well-off investors over the past two years who have taken to the streets and even clashed with police in the hopes of spurring the authorities to action.

None of these efforts has been successful. Ms Xue's visits to the police have resulted only in a warning not to "incite" others to complain. Mr Xi is keen to make financial markets more stable, but he does not want the Communist Party to be blamed when they malfunction. Protesters are usually safe if they stick to complaining about deadbeat firms, but if their actions could be construed as criticism of the government, they risk detention.

Dragon's denigrators

Even if most got-rich-first keep quiet, however, the current turmoil is unwinding decades of goodwill between the government and its most productive citizens. Whereas previously China's thriving strivers and the authorities appeared to be on the same side, often in contrast to pampered young people, the state now appears indifferent if not hostile to the problems of the well-to-do. The got-rich-first, says an investment manager, "are just starting to realise that they have become the enemy". That is a shift that will have grim consequences not just for them, but for all of China. ■

THE UAE CONSENSUS:

A BREAKTHROUGH ON FOSSIL FUELS

Following a year of record-breaking temperatures, COP28 closed 2023 by delivering a groundbreaking, and in many cases unprecedented, set of outcomes across the climate agenda.

At the Dubai summit, world leaders and policymakers came together and committed to transition away from fossil fuels "in an orderly and equitable manner". Although this represented an historic breakthrough, it only marked the beginning of the progress made at COP28.

Global leaders also agreed an unprecedented goal to triple renewable energy capacity and double energy efficiency by 2030. In addition, they committed to rapidly reduce methane and other non-CO₂ climate-altering gasses during the coming decade. These landmark agreements set out the ambitious actions needed to keep within reach the target of restricting the rise in global temperatures to 1.5°C above pre-industrial levels.



COP28
UAE



RETARY

COP PRESID



The 2024 election

Poll positions

WASHINGTON, DC

Trump’s lead over Biden in national polls may be smaller than it looks

IF AMERICA WERE to hold its presidential election tomorrow, Donald Trump would be picking out curtains for the Oval Office. *The Economist’s* polling average puts him up by 2.3 points over Joe Biden nationwide (see top chart on next page). And across the six swing states expected to decide the election—Arizona, Georgia, Michigan, Nevada, Pennsylvania and Wisconsin—he leads by an average of 3.8 points. Betting markets list Mr Trump as a clear favourite. Never in his past two campaigns were his general-election polls this strong. Is it time for the world to brace itself for a second Trump presidency?

The election is still nine months away. Historically, polls taken before the summer of an election year have been poor predictors of results. But no former president has sought to return to office since the advent of modern polling. Opinions about the omnipresent Mr Trump are much firmer than they are about typical challenger candidates, who at this stage of the race are usually still fighting to secure their party’s nomination. As a result, even though Mr Trump is not yet the presumptive Republi-

can nominee, current head-to-head polls between him and Mr Biden may be unusually informative.

Nationwide surveys over the past month have varied widely, ranging from an eight-point lead for Mr Trump to a six-point edge for Mr Biden. Polling averages, which blunt the effect of such outliers, suggest that Mr Trump holds a clear lead. But the polls that comprise such averages differ in their methods and degree of rigour. Democrats hunting for a silver lining can take solace in one clear pattern: pollsters with the best records of accuracy show better results for Mr Biden. Lower-

quality pollsters are kinder to Mr Trump.

Public trust in polling has weakened following the industry’s high-profile underestimates of Mr Trump’s support in 2016 and 2020 (although polling before the 2018 and 2022 midterm elections was accurate). Reliably estimating pollsters’ accuracy—measured by the size of their historical errors and whether they consistently exaggerate support for a particular party—requires a large sample of surveys across many elections. FiveThirtyEight, a data-journalism outfit, recently updated its ratings of American pollsters. It assesses them on a combination of their records and their methodological transparency.

Some pollsters are consistently more accurate than the field. But there are many ways to judge quality. *The Economist’s* general-election polling average weights polls solely by sample size and recency, so larger and newer polls contribute a greater share to the overall score. On this basis, Mr Trump leads Mr Biden in national polls by 2.3 points. That compares with a 0.2-point lead for Mr Biden in an unweighted average that gives polls from six months ago the same weight as those from this past week.

The size of Mr Trump’s lead varies widely by the quality of pollster, as assessed by FiveThirtyEight (see bottom chart on next page). This early in the election cycle, the pollsters in its highest tier have run polls only sporadically. (An exception is a weekly survey by YouGov, an online pollster, for *The Economist*.) However, in total, 13 polls have been conducted in 2024 by firms in ▶▶

→ Also in this section

- 20 The Congress omniness
- 21 Citizen Trump
- 21 Reducing child poverty
- 22 Florida’s abortion referendum
- 23 State AGs go rogue
- 24 Lexington: Not about Taylor Swift

▶ this group. On average, they show a virtual tie between Mr Trump and Mr Biden.

By contrast, most polls released in January 2024 have come from firms with good but not exceptional records. Polls in these (“good” and “decent”) tiers show Mr Trump with a 2.4-point and 1.7-point lead respectively. Meanwhile, pollsters with a poor record or no previous published results show Mr Trump with an average lead of around six percentage points.

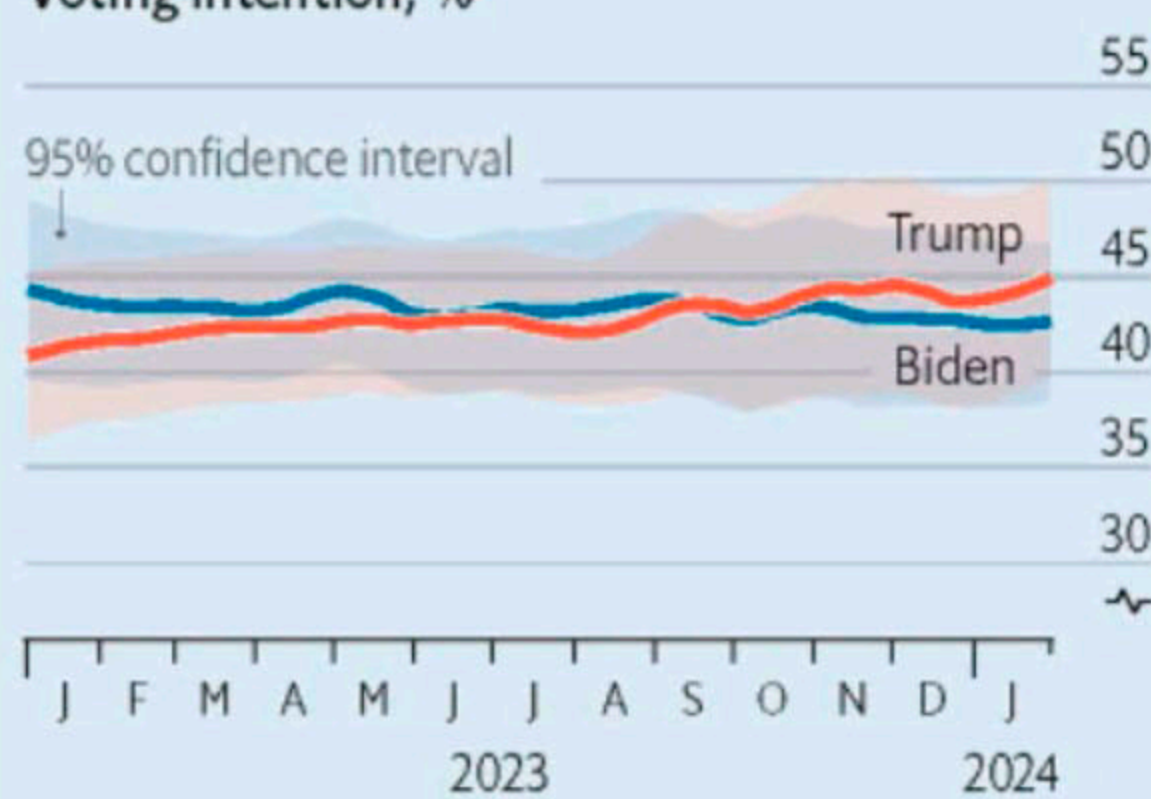
National polls reflect the general mood, and correspond to the popular vote. But thanks to the electoral-college system, winning the popular vote is no guarantee of electoral victory. In 2000 and 2016, for example, Republican nominees won the presidency despite losing the popular vote. In recent decades the electoral college has benefited Republican candidates. If Mr Trump were to win the popular vote by a six-point margin, he would almost certainly win at least 358 electoral-college votes, giving him the largest Republican victory since George H.W. Bush’s in 1988. This would bring into play even states that Mr Biden won comfortably in 2020, such as Maine, Minnesota, New Hampshire, New Mexico and Virginia.

To those who think that all polls are created equal, Mr Trump has opened a modest but growing lead nationwide. But to those who insist that pollsters’ historical accuracy predicts future accuracy, the candidates are in a dead heat. ■

Quality control

United States, 2024 presidential election

Voting intention, %



Donald Trump's margin in national general-election polls, percentage points

By quality of pollster*, January 2024



*FiveThirtyEight pollster-rating category
Sources: FiveThirtyEight; national polls; *The Economist*

Immigration

Deliberative or disgraced?

LOS ANGELES

What the border bill's death reveals about toxic congressional politics

THE LIFE of the Senate's bill to increase border security in exchange for sending aid to Ukraine was wretched and short. Its three main negotiators released the text on Sunday. On Monday it had the support of Mitch McConnell, the chamber's top Republican. By Tuesday it was dead. “It looks to me, and to most of our members, as if we have no real chance here to make a law,” Mr McConnell conceded.

But that is only because of the petulant actions of those members. Republicans' negative reactions in both chambers of Congress were overwhelming and swift—considering the bill is 370 pages long. Mike Johnson, the Republican speaker of the House of Representatives, posted on X (formerly Twitter) that the bill would be “dead on arrival” in the lower chamber. That is despite voters' approval: a recent poll from YouGov suggests that a narrow plurality of Americans support the compromise.

Senators used to be more willing to do the hard work of governing than House members. They were supposed to be the grown-ups. Indeed, the willingness of the bill's chief negotiators to try to craft a bipartisan compromise on an issue as toxic as immigration in an equally toxic political environment was something of a throwback to a more congenial time. But that distinction has faded as the Republican Party writ large has come under the thumb of Donald Trump, who has delighted in campaigning on border chaos, and who would not be denied the opportunity to keep doing so. “Only a fool, or a Radical Left Democrat, would vote for this horrendous Border Bill,” the former president wrote on his social-media platform, Truth Social.

Republican senators quickly fell into line. James Lankford, a senator for Oklahoma who had spent months as the lead Republican negotiating the bill, delivered a defiant message to his party on the Senate floor. “You can do press conferences without the other side,” he said, “but you can't make law without the other side.”

The bill's death is a blow to President Joe Biden, who supported it in large part because he needs to secure the border to help his electoral prospects. In a non-election year, the bill's border provisions would be a Republican dream. It is far more conservative than any attempt at bipartisan immigration reform in this century. It would grant the Department of Homeland Security (DHS) the power to shut down the

asylum system to those crossing illegally if the number of people trying to cross exceeds a certain threshold. But there would be limits on how long the emergency power could be used, and the small number of migrants who show up at a port of entry with an appointment would still be processed. The bill would make it harder for migrants to pass their preliminary asylum interviews, limit parole at the border—a presidential authority that Republicans say the Biden administration has used too liberally—and expand detention.

The bill contains some carrots for the many Democrats squeamish about restricting asylum. It would create a path to residency for Afghans who had helped American forces prior to their disastrous withdrawal from Afghanistan in 2021. It would slightly expand legal immigration by offering 50,000 additional immigrant visas each year for five years, and protect the children of long-term visa holders from deportation. But it notably does not contain a pathway to citizenship for undocumented immigrants, nor relief for migrants brought to America as children.

More than border security is at stake. The \$118bn bill included \$60bn to support Ukraine in its fight against Russia, \$20bn for border enforcement and the immigration system, \$14bn for Israel and \$10bn for humanitarian aid to be spread across Gaza, the West Bank and Ukraine, among other things. How the president can accomplish these objectives without funds appropriated by Congress is now unclear. Mr Biden can tweak the immigration system using executive action. But America needs a lot more asylum officers and Border Patrol agents, and that takes a lot of cash.

Also unclear is Congress's ability to accomplish anything at all. Chuck Schumer, the Senate majority leader, is pushing for a foreign-aid package for Ukraine, Israel and Taiwan. It is in effect the border bill minus the border provisions. Such a bill might get 60 votes in the Senate, where support for Ukraine among Republicans is stronger than in the House.

But any one House member can call a vote for Mr Johnson's removal as speaker. Marjorie Taylor Greene, a MAGA congresswoman from Georgia, has threatened to do so should he move to fund Ukraine. The mutiny against former speaker Kevin McCarthy last year proves that is not an empty threat. Even with a speaker, and that is a low bar, the House is flailing. On February 6th Mr Johnson failed to convince his slim majority to impeach Alejandro Mayorkas, the DHS secretary, and to pass aid for Israel.

The approaching election, Mr Trump's long shadow and the intransigence of the House Republican caucus mean that little governing will happen on Capitol Hill this year. The only thing Americans can be sure to expect is more political theatre. ■

Presidential immunity

Citizen Trump

NEW YORK

The former president will now take his outlandish plea to the Supreme Court

ON THE CAMPAIGN trail, Donald Trump has been saying he would be a “dictator” on the first day of his second presidency. Mr Trump may be half-joking when he announces this plan to cheering throngs. But the Republican front-runner has a track record of swelling presidential power past its traditional limits, from declaring a national emergency to build a wall on the southern border, to withholding his financial records and White House communications related to the January 6th riot.

On February 6th Mr Trump’s latest pretension—that years after leaving office he is immune from criminal prosecution for actions he took as president—met with thorough rejection by a federal appeals court in Washington, DC. “Former President Trump has become citizen Trump,” the ruling read, “with all of the defences of any other criminal defendant.” The three-judge panel that dismantled Mr Trump’s case included two appointed by Joe Biden and a staunch conservative appointed by George H.W. Bush.

Mr Trump’s pitch for immunity stems from the federal case brought by Jack Smith, the special counsel, concerning the former president’s attempt to overturn the results of the 2020 election. The appeals-court hearing, which began on January 9th after a district-court judge also ruled that Mr Trump did not enjoy the “divine right of kings”, exposed the extraordinary nature of the argument. When asked whether, for example, a president who had a political rival assassinated by SEAL Team Six could face a legal reckoning after leaving office, Mr Trump’s lawyer answered no—unless Congress had impeached and convicted him first. The judges were unimpressed. Making former presidents wholly immune from criminal exposure, they wrote, would abrogate “the primary constitutional duty of the judicial branch to do justice in criminal prosecutions”.

Mr Trump’s lawyers had argued that presidents might be “chilled” into inaction if a blanket of immunity does not await them upon leaving office (a claim Mr Trump repeated after the ruling). And yet, wrote the judges, past presidents have always “understood themselves to be subject to impeachment and criminal liability”, so any purported chilling effect has been in place throughout American history.

Gerald Ford, for example, pardoned Richard Nixon after he resigned—which

was necessary only because both men knew that Nixon faced criminal prosecution for his involvement in the Watergate scandal. And Bill Clinton “agreed to a five-year suspension of his law licence and a \$25,000 fine” to avoid having criminal charges filed against him after his presidency. Even if some presidents were to temper their actions through fear of “vexatious litigation”, the court wrote, that risk is outweighed by the public interest in holding former chief executives responsible for criminal misdeeds.

After expediting the briefing and oral argument, the DC circuit took nearly a month to issue its ruling. That has delayed Mr Trump’s trial for election interference, originally due to begin on March 4th. Yet the 57-page decision—presented by a united front of ideologically diverse judges—may ultimately help get the trial started in time for a verdict before the presidential election in November.

One more tribunal could stand in the way, however. The DC circuit panel put its ruling on hold until February 12th to give Mr Trump time to request a stay, and ask for full review, by the Supreme Court. If the justices decline, the case will return to the district court and the trial could begin in the spring. But more likely, in a season rife with fraught election-year battles, is an accelerated trip to the Supreme Court. ■

Congress

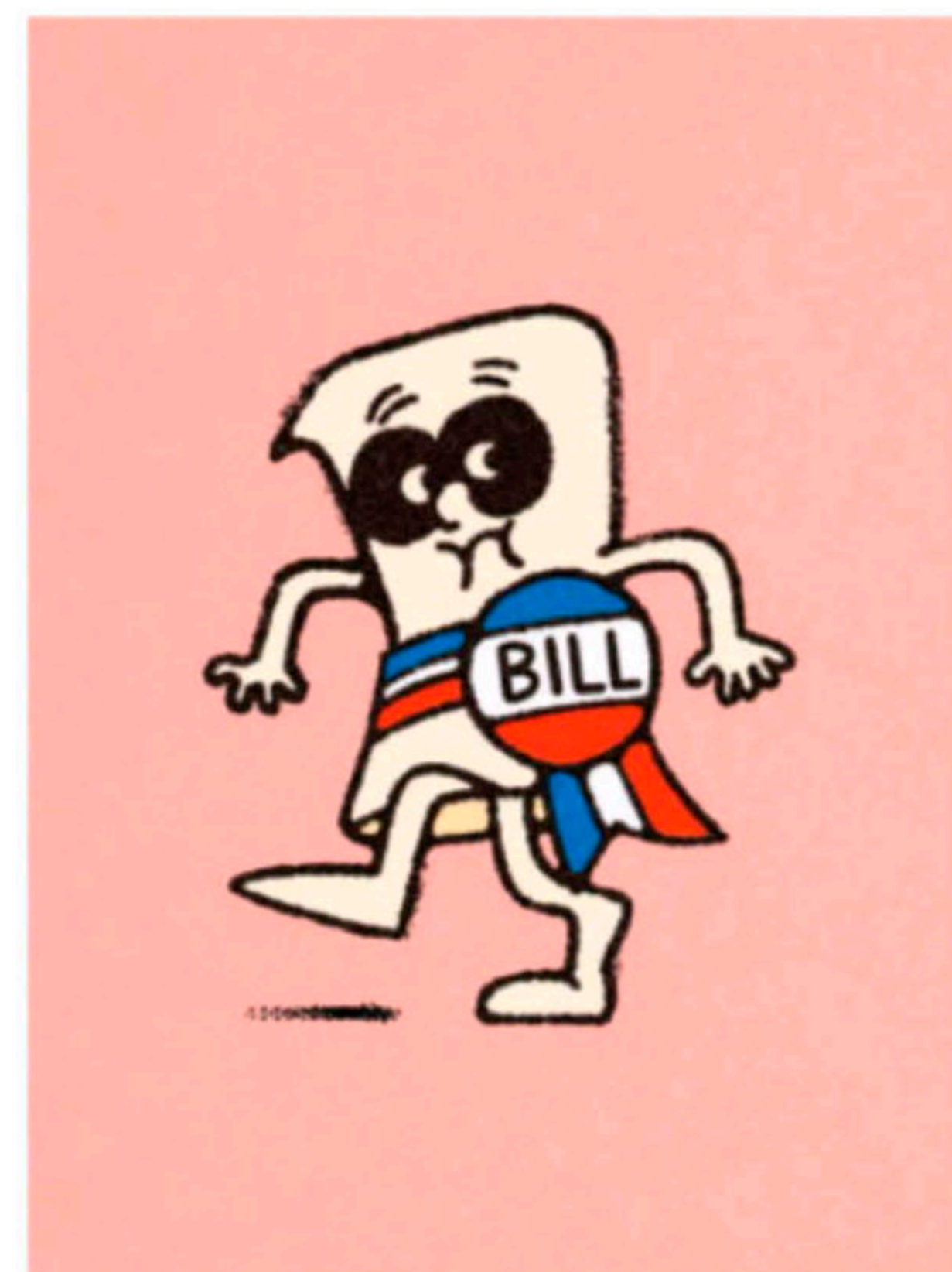
Shh! Legislation in progress

WASHINGTON, DC

An astonishingly sensible tax deal might just become law

THE “SECRET CONGRESS” theory holds that bills which attract public attention are born to partisan rancour, endure a life of torture and usually die a miserable death. For a recent example, look only to the much-hyped bipartisan deal that sought to patch up America’s broken immigration system and steer much-needed funds to Ukraine. It took months of work to craft the compromise; when it was unveiled on February 4th it barely lasted one business day before being left for dead (see obituary, previous page). But the theory also holds that successful compromises happen all the time as long as no one makes a fuss over it.

It is with some trepidation, then, that we mention the rather good bipartisan tax deal that the House of Representatives passed by an overwhelming margin of 357-70 on January 31st. (This article will be short to avoid attracting too much additional attention.) The \$78bn package



trades something Democrats want—more generous tax credits for families with children—for something Republicans want: more generous tax credits for businesses. It plans to completely pay for this by eliminating a tax credit unloved by anyone, a covid-era relief programme for firms that kept employees on staff that was notoriously abused by fraudsters (95% of the time, according to one whistleblower).

If the bill actually became law there would be plenty to crow about. Capital and labour would split the spoils almost equally. Businesses would be able to immediately deduct their research and development costs. (Under current law, these must be amortised over five years.) They would also be able to deduct more aggressively some capital and, less justifiably, interest expenses. The revision of the child-tax credit would ensure that families at the bottom of the income distribution receive greater sums. (Because benefit levels scale down at low levels of income, middle-income families are currently more likely to receive the maximum credit amount of \$2,000 per child than poor families.)

This proposal would not be as generous (or as expensive) as the brief policy experiment conducted in 2021, when the child-tax credit was converted into a de facto monthly child allowance, which had the effect of reducing child poverty by as much as 40%. But it would still be significant. The Centre on Budget and Policy Priorities, a left-leaning think-tank, calculates that the changes would increase benefits for 16m children in poor families and that 400,000 of them would be pulled above the official poverty line in the first year.

Some objections are already being voiced above a whisper. A handful of Republican senators have complained that the more generous child-tax credits do not come with enough work requirements on ►►

▶ parents. There are technical reasons to think that their objections could be assuaged. The proposed redesign still preserves the “phase-in” structure whereby poor taxpayers earn more of the credit as their income increases, creating an incentive to work. A study by the Joint Committee on Taxation, the non-partisan research body in Congress, pointed out that “the proposed expansion of the child tax credit on net increases labour supply.”

What could really scupper the deal is even more attention to it. The White House called it a “welcome step forward” and urged its passage. But one side endorsing a bill often risks greater opposition by the other. “Passing a tax bill that makes the president look good—mailing out cheques before the election—means he could be re-elected,” Chuck Grassley, a nonagenarian Republican senator from Iowa, admitted a bit too truthfully to reporters. If the deal is to pass, future discussions might have to happen *sotto voce*. ■

Voters and judges

Who decides about abortion?

TALLAHASSEE

Florida may have an abortion referendum in November

AS A PROTEST slogan, “Stop Political Interference” does not trip lightly off the tongue. But to abortion-rights activists brandishing signs with the phrase on the steps of Florida’s Supreme Court on February 7th, it cut to the heart of their precarious campaign. Inside the court that morning, judges were debating whether to allow Florida voters to decide a ballot question in November that would codify a right to abortion in the state constitution. Campaigners collected more than a million signatures to qualify the initiative, but it remains uncertain whether voters will be permitted to have a say.

Florida is one of 13 states considering ballot measures related to abortion this year. National attention is likely to turn to those in Arizona and Nevada, where Democrats hope the initiatives will bolster turnout in the swing states. A successful referendum in Florida would have a greater impact on abortion access. Currently, the procedure is legal in the state up to 15 weeks of pregnancy—the most liberal regime in the Deep South. Florida has become a destination for women living in more restrictive nearby states and is now third in the country for number of abortions, according to the Society of Family Planning, a non-profit group.

Florida’s abortion law is likely to

change this year, one way or another. Last April, Governor Ron DeSantis signed a law banning abortion after six weeks, stopping access to the procedure before many women know they are pregnant. The law is tied up in the courts, but is expected to take effect at some point this year. A quite different regime would take hold if the proposed ballot initiative were to pass. It would establish a state right to abortion until viability—generally around 23 weeks—and after that time if the life and health of the mother were at stake.

Since June 2022, when the Supreme Court overturned *Roe v Wade* and ended a federal constitutional right to abortion, seven states have held ballot initiatives on the issue. Each time, abortion rights have won out, including in deep-red Kansas and ruddy Ohio. Florida, however, has one of the most challenging environments for ballot initiatives, says Jonathan Marshfield of the University of Florida’s law school. He compares the process to a freshwater fish in the ocean: it is hard to survive, but “it could be worse and totally out of the water,” since Florida at least allows ballot initiatives, unlike some states.

Collecting the signatures to qualify required 10,000 volunteers as well as paid collectors. Now the ballot language must be approved by the state Supreme Court. It has leeway to decide whether the wording will be sufficiently comprehensible to a typical voter.

Florida’s high court judges are not sympathetic to abortion rights. Mr DeSantis appointed five of the seven who heard the arguments, in no small part because they held dependably pro-life views. One of the other two judges introduced a restrictive abortion law while serving previously in the US House of Representatives.

Florida’s attorney-general, Ashley Moo-

dy, argued against the proposed amendment, saying that its language “vastly understates [its] potentially sweeping scope”. The judges seemed sceptical that voters would be misled, with the state’s chief justice, Carlos Muñoz, calling the language, “self-evidently broad”. He added, “The people of Florida aren’t stupid. They can figure this out.” Abortion-rights campaigners are playing it cool, assuring nervous supporters that the language was designed to withstand expected legal challenges. Court watchers are more cautious and give the referendum even odds of appearing on the ballot in November.

If it does go forward, it will require heavy support to prevail. Florida ballot initiatives must earn a 60% supermajority to succeed. Aaron DiPietro of the Florida Family Planning Council, which is campaigning against the amendment, cites this high threshold as the chief difference with earlier anti-abortion amendment campaigns in other states. “No red or purple-leaning state in any of these abortion amendments has received over 60% support,” he points out. Abortion-rights campaigners did come close, however, attracting 59% support in Kansas and just under 57% in Ohio and Michigan.

Florida’s voters have occasionally met the supermajority requirement, including in a ballot initiative that returned voting rights to felons. However, that result was subsequently undermined by a determinedly conservative state government. Former felons now have to pay fees before they can vote, disqualifying nearly 80% of them. Similarly, after medical marijuana was made legal at the ballot box, the state house banned smoking it. Even if the latest initiative is adopted, the struggle over access to abortion in Florida is all but certain to continue. ■



Hurricanes ahead

Activist prosecutors

Generalising

AUSTIN

State attorneys-general are increasingly shaping national policy

TO FOREIGNERS LOOKING in, it is unusual enough that America elects most of its top prosecutors. More shocking is the amount of money going into political campaigns. Now the two have come together in a way that would make even the least wonky American curious. Between 2008 and 2022 the cost of state attorney-general races rose from \$17m to \$222m. Over that period governors' contests became only eight—rather than 12—times pricier and those of state senators merely doubled.

The cashflow reflects something much bigger: the role of state attorney-general has been recast. The job used to be about defending state laws and prosecuting cheats, fraudsters and corporate bullies. Today attorneys-general shape nationwide politics and policy by pushing strategic lawsuits through their favourite courts. Their quiet rise to power has made the states' top lawyers some of America's most unchecked partisan players.

Two attorneys-general, one a Republican and one a Democrat, exemplify the new breed. First there is Ken Paxton of Texas. Between 2021 and 2023 he refused to represent state agencies in court at least 75 times, according to *ProPublica* and the *Texas Tribune*, both news outlets—often seemingly for ideological reasons. He has dropped child-sexual-assault cases after losing track of the plaintiffs, let payments to crime victims lapse and taken decreasing interest in catching Medicaid cheats. Instead he chose to energise his Trumpian base by relentlessly suing the Biden administration. Mr Paxton has blocked vaccine mandates and banned abortion when it was still protected under the federal constitution. Most recently he brought the country's attention to a bitter row over whether Texas can enforce its own immigration regime at the southern border.

"I am sickened by his disregard for the safety of Americans," Letitia James wrote after one such case. Though Ms James is Mr Paxton's ideological opposite, as New York's attorney-general she goes about her job in rather similar fashion. An Empire State judge will soon decide whether to side with her and strip Donald Trump of his property business for lying to lenders about his finances. Her case alleging that the bosses of the National Rifle Association, a gun lobby, schemed to enrich themselves is on trial in Manhattan. These charges may have more legal merit than some

of Mr Paxton's. But they have also given progressives reason to swoon over her. When asked last summer to represent the state's more centrist Democratic governor—in theory her primary client—on immigration issues she recused herself, telling *Politico*, a news website, that this was due to "a philosophical difference".

New York and Texas are not isolated examples. How did the attorney-general's office come to be held by partisans who pursue flashy lawsuits rather than defending the laws of their states? The story dates back to a Supreme Court case on environmentalism. In the early 2000s non-profit groups, cities and states teamed up against the Bush administration for not regulating greenhouse gases. They argued that pollutants were a health risk and that the Clean Air Act required the feds to do something. The plaintiffs' argument was strong; the question was who had standing to sue. The Supreme Court ruled that due to the threat of rising sea-levels the Massachusetts attorney-general could lead the charge.

Massachusetts v EPA set the precedent for a single state to challenge the federal government in court. That drastically expanded the reach of attorneys-general—Republicans soon raced to sue Barack Obama when he took office. Over time attorneys-general realised that if they banded together with like-minded colleagues across the country, they could handpick the district with the most sympathetic judges in which to bring their case. One federal judge's injunction in their favour, and against Washington, could shut down a policy for the whole country until a higher court ruled on its appeal. "Not only can they play on their home-turf, they can now choose the referee," says Steve Vladeck of the University of Texas at Austin.

The strategy took off when Mr Trump

became president. Democratic attorneys-general sued the federal government more times in four years than they had in the previous 16, says Paul Nolette, a political scientist. Republicans took it a step further under Joe Biden, aiming their litigation not just at Democratic policies but at the administrative state itself. Today these lawsuits are masterfully co-ordinated to maximise partisan wins, says James Tierney, a former attorney-general of Maine who teaches at Harvard University. With that in mind it is less surprising that Mr Trump's Muslim travel ban was halted by a judge in Honolulu and mifepristone, an abortion pill, was temporarily outlawed by a judge in the Texas Panhandle.

Follow the money

Dark-money groups caught on to the fact that attorneys-general had sway and that their races were cheaper to influence than congressional ones. The Concord Fund, a conservative one, has pumped at least \$9.5m into the contests since 2020. That cash no doubt helped unseat moderates: a five-term Republican attorney-general of Idaho who refused to be a political activist was booted out in 2022. The left is no more tolerant of impartiality. The Democratic Attorneys General Association, which funds candidates, announced in 2019 that it would no longer back Democrats who were not explicitly pro-choice. For aspiring attorneys-general the calculus has become clear: get more political, get elected.

To those who fear too much power is concentrated in the executive, activist attorneys-general are perhaps a good check. Yet according to a YouGov/*Economist* poll, most Americans would prefer their attorney-general to stick to bread-and-butter law enforcement. Voters elect lawmakers, not litigators, to craft national policy. ■



Paxton Texana

Lexington | Love story

The sources of the news-media meltdown over the pop star, the tight end and the Super Bowl



THIS IS NOT a column about Taylor Swift. It is possibly something more ridiculous, a column about all the columns about Taylor Swift. And yet attention must be paid, because so much attention is being paid. That is the ineluctable logic of the media-politics complex, a philosophical school of which Donald Trump is the American Aristotle. Ms Swift is no slouch, either.

Any news organisation would be deceiving readers about the reality of American life by ignoring the national convulsion over the relationship between Ms Swift and Travis Kelce, a tight end for the Kansas City Chiefs, an American-football team competing in the Super Bowl on February 11th. And yet any news organisation must also reckon with the complexity that this reality has its basis in unreality, not in fact-free lies about a stolen election but in fact-free speculation about whether the romance is a real love affair, or a cross-branding triumph by two marketing savants, or, darker yet, a “psychological operation” hatched by the Pentagon to reelect President Joe Biden. (The Pentagon has denied this.)

Having described that basic background, your news organisation approaches a fork in the road. Down one route lies further credulous or cynical conspiracy theorising. This is the route chosen by some stars of Fox News. Down the other, news organisations can poke at those who traffic in conspiracies while not ruling out the cross-branding theory, and speculating about if and with what effect Ms Swift might endorse Mr Biden, as she did in 2020.

As these news organisations intensify and prolong the attention to the artist and the athlete, they are doing their jobs: they are covering what has come to be defined as news. They are also harvesting the fruits of the fascination with Ms Swift, a subject all Americans appear to think about even more frequently than the males do the Roman empire. (Small wonder, by the way, that Super Bowls are gassily enumerated in Latin. This one is LVIII.)

There is a third branching from this particular fork, down which the self-loathing columnist, racked (yet also tickled) at the prospect of writing about Ms Swift and Mr Kelce, might venture in search of a high-minded rationale. Inevitably, that columnist will collide with Daniel J. Boorstin. Boorstin, a historian, set out to understand what had led Americans “to create the thicket of unreality which stands between us and the facts of life”.

In “The Image”, a book he published in 1961, Boorstin concluded that “we expect too much from the world.” When we pick up the newspaper, we anticipate learning of momentous events. Yet the real world does not supply spectacular novelty very often. This imbalance was not obvious when the first newspaper published in America, *Publick Occurrences Both Forreign and Domestick*, appeared in Boston in 1690, promising news just once a month. But then came advances in technology—the rotary press in the 19th century, followed by radio and television in the 20th—and the definition of “news” began to inflate to fill all that space and, with it, all that yearning for something new, something interesting.

Boorstin argued that the imbalance between demand and supply was corrected by the invention of the “pseudo-event”. This was a happening or statement that did not arise spontaneously, out of the natural flow of events in the world, but was created, often by a canny public-relations agent. This kind of news now so defines the daily representation of reality beyond our direct experience that it is hard to imagine apprehending the world without it.

To Boorstin, the pseudo-event was a potentially dangerous means of distortion, a way to shape perception by exploiting the thirst for novelty. Joseph McCarthy, the red-baiting senator from Wisconsin, was “a natural genius” at generating pseudo-events, turning journalists into “reluctantly grateful” consumers and purveyors of his product: “Many hated him; all helped him.” Sound familiar? Boorstin was writing in what now seems a leisurely age, before the internet stretched the canvas for news to infinity while wrecking the economics of the industry, rewarding ceaseless nattering while discouraging costly reporting. These developments amplified the power of pseudo-events, as Mr Trump, always his own best publicist, has shown.

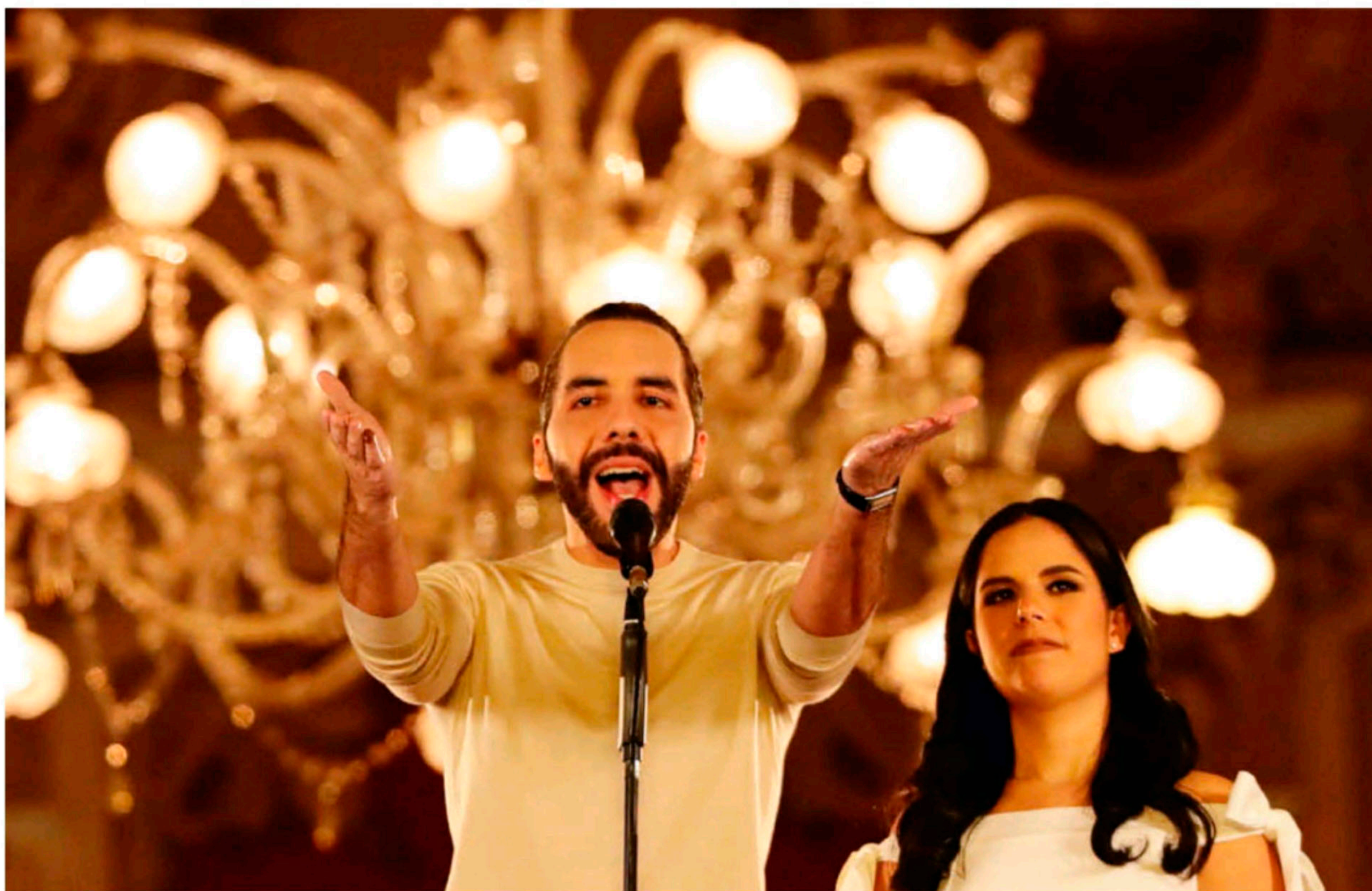
Does Mr Trump mean it when he says that if elected president again he might impose tariffs of more than 60% on imports from China? It is possible that even he does not know the answer. It may matter someday, but it does not matter now, not for the ephemeral needs of news and politics. What matters is whatever next hyperbole will briefly sate those same ephemeral needs. Provided it keeps spinning, the process is accretive: the more attention Mr Trump gets, the more attention he will get.

Anti hero

One result of all the artificial novelty, according to Boorstin, was the debasement of achievement. People could become famous without doing anything heroic. The celebrity, Boorstin wrote, “is the human pseudo-event. He has been fabricated on purpose to satisfy our exaggerated expectations of human greatness.”

Ms Swift’s music is a mighty achievement, one that has made her not merely a celebrity but a hero to her hundreds of millions of fans, whatever pseudo-events she has confected along the way. She has courted publicity by appearing at Mr Kelce’s games, rather than privately cheering over nachos and chicken wings at home. Yet even Fox News interviewed a “body-language expert” who concluded that the feelings between the two were real.

It remains possible that the romance is staged to be vivid and dramatic; that it has, in Boorstin’s terms, only an ambiguous relation to the underlying reality. But maybe all this coverage is a perfect, self-satirising crystallisation of this media era: a pseudo-pseudo-event, not devised by a publicist but created by media speculation itself—not something shallow being exaggerated into significance, in other words, but something profound being turned into something silly. One can hope. ■



El Salvador

The “world’s coolest dictator” wins a second term

IZALCO AND SAN SALVADOR

After Nayib Bukele’s crushing, unconstitutional victory, what next?

EL SALVADOR’S PRESIDENT reacted to his re-election victory on February 4th with his usual understatement. Before any official results were announced, Nayib Bukele claimed to have won at least 85% of the vote. In a speech from the presidential palace he called this “the record in the entire democratic history of the world”.

Mr Bukele has indeed won with a landslide. With 70% of the votes tallied, he had 83%. His party, New Ideas, has probably won a majority in the slimmed-down national legislature, too, though perhaps not to the degree he claims. A problem with the electronic system means the votes for lawmakers now need to be counted by hand.

Sticklers for the rule of law noted that it was unconstitutional for Mr Bukele to run for a second consecutive term. But in 2021 he got the top court to rule that he could run again if he took a six-month leave of absence, which he did, at least on paper. He insists that voters should be able to decide

whether they want him to remain in office. “Why discard the path if it’s working?” he asked when announcing his run.

The immaculately coiffed, jeans-clad leader is popular largely thanks to his crackdown on crime. Before he took office in 2019, Salvadoreans lived in terror of gangsters, who extorted money from local businesses with impunity and fought deadly turf wars with each other. Gang crime used to cost a staggering 16% of GDP, by one estimate.

Mr Bukele first tried negotiating with the gangs. Then he switched to a *mano dura* (iron fist) approach. He let the police arrest anyone they suspected of gang ties. More than 74,000 people—equivalent to over 8%

of the young male population of the country—have been locked up. Few have had trials yet, though they may eventually get “collective” ones, with hundreds of suspects judged simultaneously.

With so many gangsters behind bars, previously dangerous neighbourhoods have been transformed. The national homicide rate fell from 51 per 100,000 in 2018 to three last year. Shops and restaurants that previously had to pay protection money—a huge drain on their livelihoods—no longer have to. Ordinary folk can walk the streets without fear.

Eyes on the prize

“We lived through 50 horrible years of wars and killings and everything has changed,” says Ana Rodríguez, a 70-year-old leaving a polling station in Izalco, an hour to the west of San Salvador, the capital. The country is now a much safer place to live in: the number of Salvadoreans trying to cross the border from Mexico into the United States fell by a third in the last fiscal year.

Mr Bukele shunned traditional campaigning for PR stunts. He hosted the Miss Universe contest, shook hands with Lionel Messi and presided over a mighty communications machine, including trolls who steamrolled critics and drowned out unfavourable narratives. His public-relations push has helped change the international

→ Also in this section

26 Corruption allegations in Mexico

27 Mexico’s pre-election bonanza

▶ image of his country of 6.3m, too. He has marketed it as a surfers' paradise riding the wave of the future. In 2021 El Salvador was the first country to make bitcoin legal tender. (Shopkeepers are much less impressed by this than by his gang crackdown.)

Critics worry about Mr Bukele's appetite for power and scorn for checks and balances. From the start he has lavished benefits on the police and army to secure their loyalty. He is also doubling the size of the army, from 20,000 to 40,000. In 2020 he marched troops into the legislature to intimidate lawmakers into approving funds for his security plan. A year later his party won a super-majority in the assembly, and he moved to increase his sway over the courts. He ousted the attorney-general and the judges of the constitutional court, and forcibly retired a third of the country's regular judges, replacing them with loyalists. His inner circle consists of his brothers.

Before the election he changed the rules to favour his own party and made it easier for Salvadoreans who live abroad to vote. Ballots cast by the diaspora—740,000 of the 6.2m registered voters—all go to San Salvador, where the number of undecided seats is highest.

So what will Mr Bukele decide to do with a second term? Félix Ulloa, the vice-president, says now the administration has "cleaned the house" of crime, the focus will be on education, health and infrastructure. He says that El Salvador is for the first time spending annually over 5% of GDP on education and has distributed laptops and tablets to all students. This fits with a push to turn the country into a tech hub, he says, pointing to the adoption of bitcoin and to laws encouraging investment by tech firms. He touts future infrastructure projects such as airports, a train along the Pacific coast and a cable car.

Bitcoin bro meets Miss Universe

Rather than worry about crime, Salvadoreans now see the economy as the country's biggest problem, according to a survey in January by the University of Central America in San Salvador. As public safety has improved, the economy has somewhat, too. The price of the country's government debt, which had collapsed to distressed levels in 2022, has bounced back. JPMorgan, a bank, reckons El Salvador's potential annual growth rate has risen from 2% to about 3%. But figures remain lacklustre: annual growth in GDP is forecast to remain lower than in Honduras and Guatemala for at least the next three years. No doubt Mr Bukele will want to secure a much-ballyhooed deal with the IMF.

The government hopes to attract further cash from China, which paid for a fancy national library that opened in November. And El Salvador is offering a "freedom visa" and a ten-year tax holiday to anyone

who invests \$1m of cryptocurrency in the country. Mr Ulloa says the government will soon issue bitcoin bonds. But Lourdes Molina, an economist, frets that the increased use of bitcoin could turn El Salvador into a money-laundering paradise.

A state of exception (ie, emergency) to fight crime was first declared in March 2022 and has since been renewed 22 times. Mr Bukele asked voters to give him a super-majority in the assembly so he can keep renewing it. This would hand him a potent tool to scare his remaining critics. It has already been used against union members

and environmental campaigners, notes Ruth López of Cristosal, a human-rights group. Only a few civil-society organisations and journalists remain active, says Bertha Deleón, formerly one of the president's lawyers. Mr Bukele cites their continued existence as proof that El Salvador is a democracy. But in 2021 he tried to pass a bill to class some civil-society organisations and journalists as foreign agents, similar to laws in Nicaragua and Russia.

Not all Salvadoreans are cheering their strongman's victory. Families of the arrested are furious. In a poor, rural area a couple ▶▶

Corruption in Mexico

The C word

MEXICO CITY

As elections approach, scandalous allegations swirl around the president

MEXICO'S PRESIDENT, Andrés Manuel López Obrador, has long railed against corruption. But on January 30th a consortium of news outlets reported that in 2006 his campaign team had accepted \$2m from drug gangs in return for favours. The reports, based on information from the US Drug Enforcement Administration, do not show that the president knew what was going on. But a close aide did, they allege. Mr López Obrador completely rejects the allegations, calling them slander.

These reports follow others. A recent article on a local news site alleged that Mr López Obrador's third son, Gonzalo López Beltrán, ran a network overcharging contractors supplying materials for the Tren Maya, a tourist train that is one of his father's pet projects. In 2022 his eldest, José Ramón, was revealed to have been living in a luxury pad in Houston connected to a contractor for Pemex, the

state oil company. Mr López Obrador and his family have denied any wrongdoing in all of these cases.

Some scorn the credibility of the allegations surrounding Mr López Obrador's 2006 campaign. They put them down to political skulduggery ahead of elections in June. Though he cannot run again, wounding him would also harm his preferred successor, Claudia Sheinbaum of the ruling party, Morena. She is almost certain to win. But others, like Fernando Nieto of the College of Mexico in Mexico City, think the latest reports need further investigation.

Overall Mr López Obrador's management of corruption has been appalling, whatever else he claims. Surveys reveal that 86% of Mexicans say acts of corruption are frequent when dealing with the government. The biggest reported case of embezzlement by a government agency, involving more than \$800m, happened on Mr López Obrador's watch. Functionaries at Segalmex, an agricultural agency, used fake contracts to siphon off cash. But there have been a "very low number of complaints of corruption and an extraordinarily low number of investigations," says Issa Luna Pla of the Autonomous University of Mexico.

State processes hardly help. Fully 80% of public contracts are still awarded without tendering, despite the president's promises of change. He has also cut funding for the transparency body which looks into impropriety, and has just introduced a bill, albeit one unlikely to pass, to get rid of it entirely.

The president enjoys an approval rating of over 60%. And the new allegations are meagre compared with those hurled at the previous government. Nonetheless a grubby new phase in the presidential race may have begun.



And he's still smiling

▶ in their 50s weep as they describe how three of their four sons, aged 15, 17 and 25, and a grandson, aged 15, were taken in November. Their kids were not gang members, they say; one worked for the government until he fell ill and the other two were at school all day. “We are now scared of the police and army,” they say. In the UCA poll, 63% of respondents said they were “being more careful” about whom they discuss their political opinions with. Diego, a 19-year-old soldier, says he admires the president but worries: “It’s not good that one party has all the power.”

Transparency and accountability are dismal under Mr Bukele, critics charge. Before he was sacked, a former attorney-general was investigating members of the government for misdirecting funds during the pandemic, among other things. If a regime can lock people up indefinitely without charge, officials may one day demand pay-offs not to do so, some fear.

Meanwhile, a third term is already being discussed. Mr Bukele has said that the law doesn’t “currently” allow for one. But he added that every generation has the right to decide its own laws. ■

support people during the pandemic. Yet he has not so much cut as rejigged the budget to suit his populist priorities. He spurns spending on government machinery, hollowing out the civil service. Too little is spent on health care and education. Mexico shells out only 0.6% of GDP a year on domestic security, the lowest level in Latin America and the Caribbean.

Yet the president keeps the tab open for infrastructure projects, says Mr Aparicio. They have consumed billions of dollars. Just one, the Tren Maya, a tourist train for the south-east, will cost at least \$28bn, up from its original budget of \$7.5bn. He has also propped up Pemex, the state oil company. It has received at least \$70bn since 2018 in transfers and tax breaks, says Vanessa Rubio, a former opposition senator now at the London School of Economics.

All this will put the next president in a bind, even if Congress refuses to splurge on pensions. Claudia Sheinbaum, the candidate for Morena, the ruling party, looks set to win. Both she and Xóchitl Gálvez, the candidate for an opposition coalition, say they will keep paying for cash transfers. Even if Mr López Obrador’s mega-projects are completed before he leaves office, his successor will need to reassign money to neglected roads and ports.

Fiscal reform is becoming inevitable. Mexico’s annual tax take is only around 17% of GDP; in Chile it is 24%. Income taxes are already high, but the government could incentivise workers to move from the informal sector into the formal one, where they pay tax. Value-added and property taxes could probably raise more cash. Meanwhile Pemex also needs reform.

Mexico’s multidimensional measure of poverty shows clearly where cash should be spent, says Ms Rubio. Mexico has many old people who need more help, but a lot of its younger people do, too. ■

Mexico’s government spending

Splashing the cash around

MEXICO CITY

The trouble is the country can’t possibly afford to foot the bill

ON FEBRUARY 5TH Mexico’s outgoing president, Andrés Manuel López Obrador, sent a package of 20 reforms to Congress. Most are previously rejected ideas, such as electing judges by popular vote and abolishing independent regulators. The opposition will find one measure harder to block in the run-up to elections in June: the president wants workers’ pensions to equal their final salary, up to a limit of 16,777 pesos (\$984) a month.

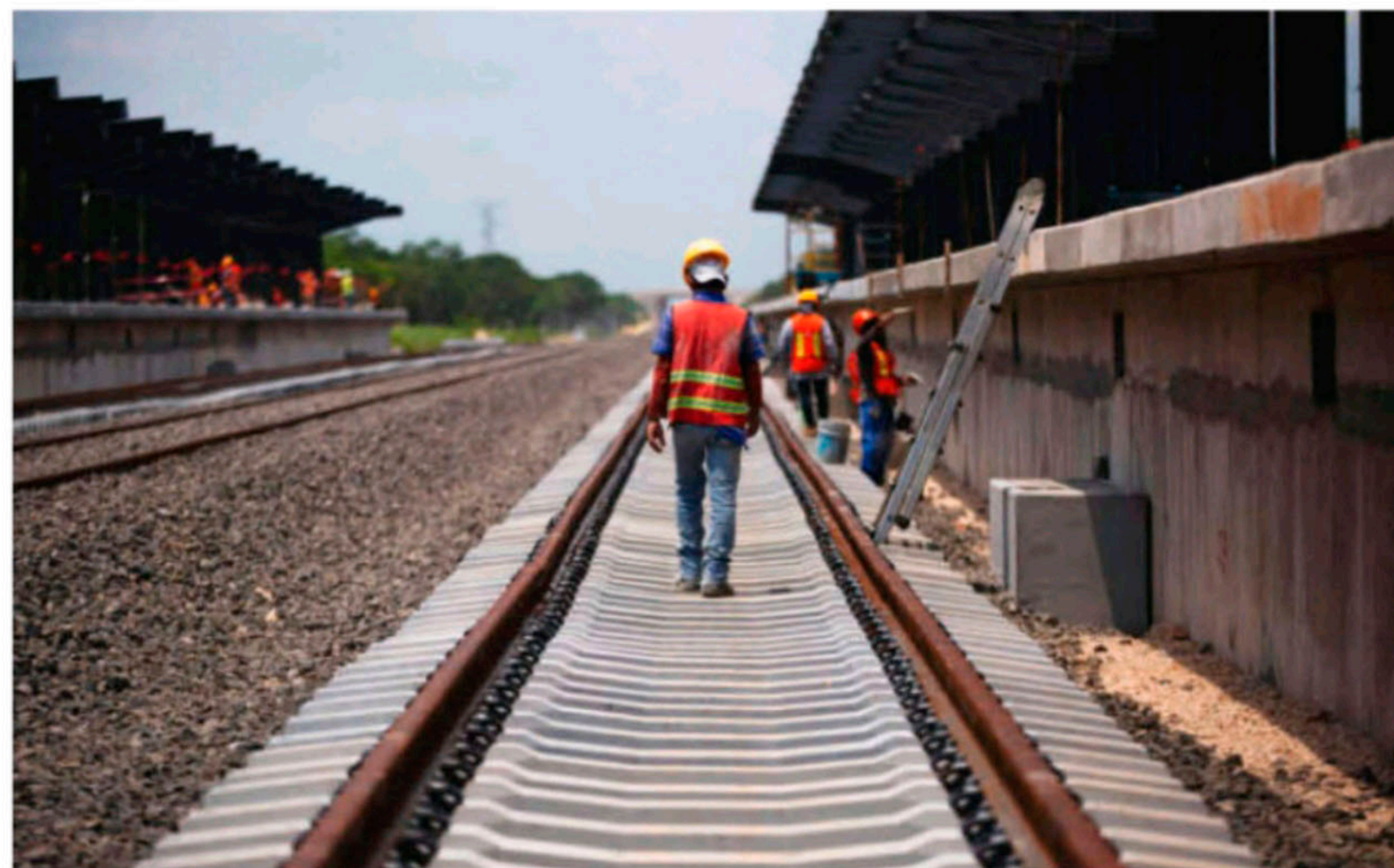
Presumably he thinks this massive bung to the relatively well-off will win votes. It only applies to workers with formal jobs—under half the total. (The government also gives a “well-being pension”—a cash transfer—to everyone over 65.) The private pension funds to which formal workers and their employers contribute cannot afford to pay 100%-of-salary pensions. Somehow the government would have to make up the difference.

That will be hard. The average pension replacement rate (combining public and private pensions) in the OECD, a rich-country club, is 61% of the wage. Public spending on Mexico’s pensions has already risen from 18% of the budget in 2018 to 22% this year. Citibanamex, a bank, says the measure would cost 1.5% of GDP a year by 2025, rising to 2% in a decade as Mexico ages.

Mr López Obrador has lately proved willing to splash out, even if it harms both Mexico and his successor. Take cash transfers. By slashing administrative costs, initially he gave more to households than his predecessors had without significantly raising the budget. But in 2023 he upped the budget for them by 8% in real terms. The well-being pension’s value has jumped more than three-fold in real terms since 2018, to 6,000 pesos every two months.

Citibanamex bluntly describes Mexico’s budget for this year as “designed to win the elections”. Given Mexico’s history of fiscal irresponsibility, it is risky. The net debt-to-GDP ratio is expected to rise this year from 46% to 48% and weighs more heavily than it did for much of the 2010s because of higher interest rates. The fiscal deficit will widen from 3.5% to 5% of GDP: ratings agencies warn that the country may risk a credit downgrade. “A red flag” is being waved because this year part of the borrowing is going on current spending rather than investment, says Javier Aparicio of CIDE, a university in Mexico City.

Mr López Obrador had long been seen as a peso-pincher, partly because of his campaign of “republican austerity” and partly because he spent less than 2% of GDP to



Keeping spending on track



Indonesian politics

Growing pains in the archipelago

JAKARTA AND MADURA

A controversial former general looks set to win Indonesia's presidency

AT FIRST BLUSH, it did not seem too alarming. At Asia's leading security conference last year, held in a glitzy ballroom at the Shangri-La hotel in Singapore, Indonesia's defence minister, Prabowo Subianto, proposed a peace plan for Ukraine. Clad in a western suit and traditional *peci* cap, he then argued for an immediate ceasefire to establish a demilitarised buffer zone. Both Russia and Ukraine would withdraw 15km from their forward positions. The United Nations would send peacekeepers and organise a referendum to decide which country owned the disputed territory. China, a big investor in Indonesia in recent years, lauded Mr Prabowo's vision. Ukraine's defence minister labelled it "a Russian plan" and "strange".

The oddest part of Mr Prabowo's speech was not that it appeared to constitute impromptu support for Vladimir Putin. It was that it contradicted the official policy of Indonesia, which had voted to denounce Russia's invasion of Ukraine at the UN. Mr Prabowo, who is the favourite to win a presidential election on February 14th, had

consulted neither the current president, Joko Widodo ("Jokowi"), nor Indonesia's foreign ministry. For some Asia strategists, his outburst was a promise of volatile new leadership in the world's fourth-most populous country.

The former general's record is troubling. A former son-in-law of Suharto, a dictator toppled in 1998, Mr Prabowo stands accused of committing atrocities during his decades in the army—including, at the helm of its special forces, in Indonesia's former territory of East Timor. He is also alleged to have ordered the kidnapping of more than 20 pro-democracy

activists in 1998, of whom 13 remain missing. (He denies any wrongdoing.) He was at one time barred from entering America and Australia because of these allegations.

After losing the past two presidential elections to Jokowi, Mr Prabowo falsely claimed that the vote had been stolen. In 2019 eight people were killed after he urged his supporters to protest against the election result. He has also tried to abolish the direct election of regional leaders and has said Indonesia needs an authoritarian leader. This raises a more worrying question about Indonesia's future under a probable Prabowo presidency. Will the world's third-largest democracy continue the broadly successful rise of the post-Suharto period, or return to authoritarianism?

Mr Prabowo owes his strong footing in the race to support from Jokowi, who is extremely popular. The president's eldest son, Gibran Rakabuming, is Mr Prabowo's running-mate. There are rumours of a deal between Mr Prabowo and Jokowi that would allow the outgoing president to wield influence behind the scenes after his term ends in October. Jokowi's popularity is based in part on his solid economic record (see Finance section). During a decade in power he has presided over annual growth of 5%, liberalising reforms and a policy of resource nationalism that has helped develop a nickel-mining industry responsible for nearly half of global output. At the same time, he has weakened Indonesia's nascent democratic institutions. ▶▶

→ Also in this section

29 South Korean creatives

30 Japan's opposition

31 Australia and immigration

31 India's rule of law

32 Banyan: Singapore and China

▶ Last October the country's constitutional court, whose chief justice is Jokowi's brother-in-law, delivered a ruling that in effect made the president's 36-year-old son an exception to a rule that bars anyone under the age of 40 from running for president or vice-president. Jokowi is also alleged to have suborned the once independent anti-corruption commission. He now faces mounting criticism that he is interfering in the election. Rival campaign teams accuse state agencies of arbitrarily cancelling their rallies and intimidating Jokowi's critics. Prominent Indonesian academics say the president is showing disregard for democracy.

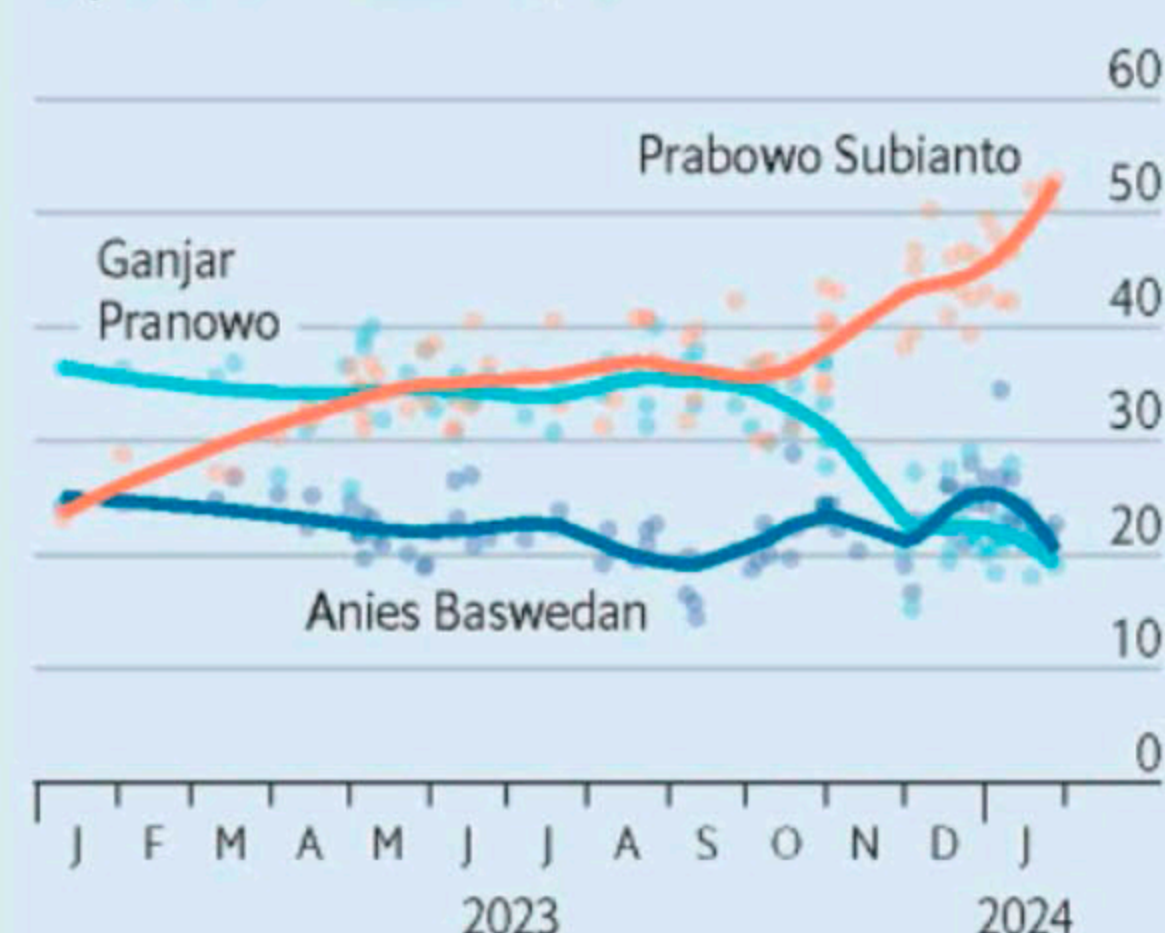
If no candidate secures over 50% of the vote on February 14th, the election will go to a run-off in late June. That would allow the anti-Prabowo vote to unite, reducing the general's chance of victory. Mr Prabowo's two main opponents, Anies Baswedan, a former education minister and governor of Jakarta, and Ganjar Pranowo, a former governor of Central Java province, are both better qualified and more competent than he is. But their lacklustre campaigns have failed to convince many that a Prabowo presidency would be dangerous. According to *The Economist's* aggregate of recent opinion polls, Mr Prabowo currently has around 53% of the vote. Mr Anies, who was sacked from Jokowi's cabinet, has 20% and Mr Ganjar, the candidate of Indonesia's largest political party, 19%.

TikTok politics

Indonesian elections tend to be decided by personality, not policy. Sure enough, Mr Prabowo's team has revamped his image by posting short videos of the former general dancing goofily on TikTok, which has more subscribers in Indonesia than any country except America. Such gimmicks have helped divert younger voters, who mostly favour Mr Prabowo, from his unsavoury past. Many consider his military record a plus. Indonesia's army is its most trusted public institution, surveys suggest.

Oh no Prabowo!

Indonesia, voting intention in presidential election, %



Sources: National polls; *The Economist*



It is unclear what Mr Prabowo would do with the power he has long sought. He has pledged to maintain Jokowi's measures, including a nickel-centred industrial policy and a plan to relocate the capital from Jakarta to a site in the jungles of Borneo. But given his explosive temper and erratic behaviour, there is little reason to think Mr Prabowo would defer to Jokowi if elected. His other big ideas are mostly impractical or ruinously expensive.

Mr Prabowo has said double-digit growth is possible. His team says it aims to deliver 6-7% annual growth, in order to prevent Indonesia falling into the middle-income trap. Yet its economy has not grown at 7% since 1996, before the Asian financial crisis. And Mr Prabowo has given few details on how he would make it grow faster. His stump speeches are packed with fiery nationalism. "Some would have us sell raw materials to foreigners at cheap prices. I say: all our wealth must undergo domestic downstream processing!" he recently declared, referring to a policy that forces foreign commodity firms to add value to their products in Indonesia.

Mr Prabowo also says he wants to lessen Indonesia's reliance on imported food. As defence minister, he has overseen the destruction of thousands of acres of forest in a failed attempt to boost rice production. He says he will give free milk and lunch to all Indonesian schoolchildren to curb the malnourishment that affects one in five. This programme will cost around \$83m a day, estimates a spokesman for Mr Prabowo, Burhanuddin Abdullah, a former governor of Indonesia's central bank. Mr Prabowo's rivals argue that policies to reduce stunting should instead be aimed at pregnant mothers and newborn babies, not school-age children. No candidate has said anything of significance on foreign policy, beyond attempting to woo the 9m Indonesian voters who work overseas, many of them as maids, nannies and labourers on building sites.

The election has had a couple of positives. Five televised candidate debates were each watched by around 100m people. The vote count is expected to be credible. And across the world's biggest archipelago, voters appear to cherish their suffrage. On

a recent day on the campaign trail, tens of thousands travelled, sometimes for hours, on foot, by motorbike or by lorry to catch a glimpse of Mr Anies canvassing support on the island of Madura in east Java. He has held over 20 open forums across Indonesia, known as *Desak Anies* or "Challenge Anies", in which voters are invited to fire impromptu questions at him.

Villagers in northern Sumatra questioned Mr Anies about land rights. Younger Indonesians wanted to know if he would legalise marijuana. This kind of campaigning is a break from the past, where politicians would pay dancers and musicians to entertain voters at rallies. It is also "a better way to compete", says Mr Anies. It is rather hard to imagine this vision of a more serious Indonesian democracy being realised under Mr Prabowo. ■

South Korean creatives

Pay the writers

SEOUL

The people behind a tv boom are not profiting from it

IN "SQUID GAME", a South Korean TV mega-hit from 2021, 456 desperate contestants compete in a series of deadly challenges. A prize of 45.6bn won (\$34m) awaits the sole survivor. Working in the country's entertainment industry can feel similarly rapacious. Scriptwriters and directors fight feverishly against long odds to get their projects made. But in contrast to "Squid Game", success is unlikely to be lucrative for them.

Shows like "Squid Game", which became Netflix's most popular offering and is said to have netted the company almost \$900m, have earned the South Korean entertainment industry global accolades. Yet Hwang Dong-hyuk, its creator, says the show made him only enough "to put food on the table". Yoon Je-kyoon, head of the Directors Guild of Korea, says its members earn on average 18m won a year, while writers make only about 10m. The guild, and 24 other bodies that represent South Korean creatives, are lobbying for changes to the law to ensure that they are better paid.

Last year America's creative industries were paralysed by weeks-long strikes by writers over the reduced royalties, or residuals, that streaming services pay compared with television networks. South Korean creatives often get none at all. They are typically hired by a production house for a one-off fee, for which they forgo rights to any future profits from their work. Only established stars of the industry can generally insist on a better deal. ▶▶

▶ The relative decline of cinema and television companies has made that negotiation harder. Writers' bargaining power was underpinned by box-office numbers and TV ratings. By contrast, creatives say, streaming services release less detailed viewership numbers. And they are increasingly the go-to source of money for big-budget productions in South Korea. In May Netflix, which claims to pay "fair, highly competitive rates", promised to invest \$2.5bn in South Korean content. Disney+ said in September it was hoping to "gradually increase" its spending in the country.

The strikes in America won writers and directors a better deal. That approach is unlikely to work in South Korea, argues Kim Byung-in, head of the Screenwriters Guild of Korea. Not only does the industry lack Hollywood's century-long union history, but South Korea's complex labour laws and the fact that creatives tend to be freelancers rather than employees make striking difficult.

South Korean creatives are therefore fighting to change the country's copyright law, to include a "right to remuneration". This would guarantee them a payout from the end-user, such as a broadcaster or streaming company, if their creations are successful. Several amendments are being considered in South Korea's parliament. Many creatives hope Yu In-chon, a former actor who became minister for culture in October, will back one of them.

There is opposition. The Media Platform Alliance for Copyrights Issues, an outfit that represents broadcasters and streamers, says the change would cripple the industry. Yet if pay doesn't increase, South Korean TV and cinema "could all vanish like fog", says Mr Kim. He worries that young storytellers could shift to better-paying media, such as webtoons. ■



For love of the game

Japan's opposition

Can the centre-left be revived?

TOKYO

An interview with Izumi Kenta

IZUMI KENTA, the leader of Japan's main opposition Constitutional Democratic Party (CDP), is itching for change. In an interview with *The Economist*, the self-declared progressive laments the country's slow growth and demographic woes. The culprit, he reckons, is the conservative rule of the Liberal Democratic Party (LDP), which has endured for most of the past seven decades. "Old values have kept sucking the country's vitality," says Mr Izumi. "We want to change things."

In theory, he has a rare opportunity. The LDP is beset by a financial scandal. Its leader, Kishida Fumio, Japan's prime minister, is very unpopular. Yet Mr Izumi's party is struggling to take advantage. The CDP's net approval rating is around 5% in most polls, while the LDP garners between 15% and 35%. This reflects the opposition party's genesis. The party it emerged from in 2017, the Democratic Party of Japan (DPJ), had the misfortune to be in power when a massive tsunami hit in 2011. Many blamed the painful aftermath on DPJ incompetence, badly damaging the party's reputation.

Some of the criticism was warranted. Having antagonised Japan's powerful bureaucracy, the DPJ was also unable to implement much of the reform it had promised. "The DPJ tried too hard to come up with an alternative system," says Makihara Izuru of the University of Tokyo. Still, the degree to which the centre-left remains stained by this failure is hard to fathom.

Mr Izumi—who took the helm of the CDP in 2021—hopes to fix this weakness, in part by directing the party to adopt more "realistic" and popular policies. He took over from Edano Yukio, a former DPJ secretary-general, who was especially associated with the party's wretched spell in power. Most Japanese recall Mr Edano appearing on television in a blue jumpsuit following the tsunami and subsequent meltdown of the Fukushima nuclear power plant. Mr Izumi, who at 49 is young by the standard of Japanese politicians, represents an opportunity to reset. Yet, having also served in the DPJ administration, he still has his work cut out to reassure sceptical voters that his party is fit to govern.

Born of an inveterate opposition party, the CDP is often accused of lacking a positive vision. Mr Izumi, who likens his party to the Democrats in America and the Labour Party in Britain, does have ideas. They include socially liberal policies such as le-

galising gay marriage and allowing married couples to use different surnames, which a majority of the public supports. Yet Mr Izumi is struggling to get much of a spotlight on his party. He admits it lacks social-media savvy, yet also expresses frustration with how fixated the Japanese media are on the ruling party. Many political scientists support that analysis. "The media are so accepting of the idea that the LDP is the only game in town," says Nakano Koichi of Sophia University.

Mr Izumi warrants more attention, if only for a change that he is already bringing to Japanese politics. Centre-left parties such as the CDP have traditionally taken a more sceptical view of Japan's alliance with America and clung to the country's post-war pacifist identity. Thus the ill-fated DPJ government—"for the sake of presenting a grand, alternative vision", as Mr Izumi puts it—sought to moderate the LDP's more hawkish security policies, alarming America. By contrast, he supports Mr Kishida's effort to bolster defence. This echoes public opinion, which has become more security-minded since Russia's invasion of Ukraine in 2022.

Mr Izumi has also shown a willingness to revise the centre-left's long-standing opposition to nuclear energy. Besides being sensible in itself, this is also in step with public opinion. The meltdown at Fukushima caused a furious anti-nuclear backlash that led to the government shutting down nuclear plants across Japan. But high energy prices have weakened the anti-nuclear lobby; and without nuclear power Japan will struggle to achieve its decarbonisation goals. Mr Izumi has shown measured support for restarting nuclear power stations. He still has much to do to revive the centre-left opposition. But the pragmatism he is demonstrating makes it seem possible. ■



Only one way for Izumi

▶ Australia and immigration

G'day, goodbye

SYDNEY

The country is trying to slash immigration

AUSTRALIA HAS long claimed to be the world's most successful multicultural country. Immigrants have increased its population by more than a third this century, to over 26m. The promise of sunshine and well-paid work first drew European migrants; now more come from China and India. This has never triggered a major populist backlash: most Australians have welcomed the newcomers with open arms. But now their tolerance is being tested.

The cause is a massive recent influx. Net migration, a measure of immigrants minus emigrants, passed 500,000 in the year to July 2023. That was double the pre-pandemic level—and added more than the population of Canberra, Australia's capital, to the national total. The huge increase has coincided with a housing crisis, which is being widely blamed on immigrants. The “social licence” for migration is fraying, admits the centre-left Labor government of Anthony Albanese. In December it pledged to halve the annual immigration rate over the next two years.

The social licence rests on a trade-off. For two decades both major parties have pushed border security as a means to stop asylum-seekers, or “boat people”, while letting in ever-more skilled workers and students. Net migration more than doubled between 2000 and 2019, fuelling some of the fastest rates of population growth in the OECD, a club mainly of rich countries. That fuelled a growth spurt—until a long covid-19 lockdown triggered a recession and left Australia short of workers.

After it threw open its borders in November 2021, the influx resumed. And Australians have started to grumble. They are not throwing up fences, exactly. In a survey last year 78% said immigration made their country stronger. But most of them would prefer less of it: two polls in December found that around 60% think the current intake is too high. The percentage of Australians who rank immigration as their biggest worry more than doubled, to 13%, between September and December, according to Freshwater Strategy, a pollster.

The cost of housing is a big reason. Property prices have soared despite high borrowing costs, and Australia faces a chronic shortage of rentals. A lack of building is the main cause, but both major parties concede that high immigration is exacerbating the problem. “We've got a generation of Australians who can't even get into

a rental...it is not the time to be running very large migration programmes,” said the home-affairs minister, Clare O'Neil.

Mr Albanese pledges to cut immigration to a “sustainable level”. His government plans to reduce net migration to a roughly pre-pandemic level of 235,000 by 2027. According to Abul Rizvi, a former deputy secretary of Australia's Department of Immigration, this is the first time an Australian government has set such a target in spite of the obvious risk to growth.

The cuts may be less drastic than they sound. Immigration was in line to fall anyway, as a backlog of pandemic-era applications is cleared. Still, the government promises a “crackdown”, particularly on visas for students, the biggest migrant cohort. The government says many are gaming the system by enrolling in dud courses.

Is a more populist debate brewing? That is unlikely, says Nick Biddle of the Australian National University. Australia's skills-based migration system gives priority to people with the qualifications it needs. That lessens the usual griping about wage competition from low-skilled migrants. Politicians are also wary of alienating the third of Australians who were born outside the country. Both parties maintain that Australia is a “beautiful multicultural country”, as Ms O'Neil puts it. For now, this still sets Australia apart. ■

Corruption in India**Rule of Modi**

DELHI

Money-laundering raids, many on the opposition, have increased 27-fold

THE ENFORCEMENT DIRECTORATE used to be a sleepy corner of India's finance ministry. Mandated to investigate money-laundering and foreign-exchange violations, it rarely made headlines under the previous government, a coalition led by the Congress party, which ruled from 2004 to 2014. Its record on money-laundering—a big problem in India—was particularly lacklustre: it conducted only 112 raids and failed to achieve a single conviction.

Under Narendra Modi, the ED (as it is known) has become one of India's most feared agencies. Since he became prime minister in 2014 it has conducted more than 3,000 money-laundering raids and secured 54 convictions. Most controversially, especially in the run-up to a general election due by May, it has targeted dozens of opposition politicians, including at least five party leaders—while largely steering clear of bigwigs in Mr Modi's Bharatiya Janata Party (BJP). On January 31st ED

**A visit from Modi's Enforcers**

officers arrested Hemant Soren, chief minister of the eastern state of Jharkhand, on suspicion of money-laundering. Mr Soren, who denies wrongdoing, leads one of the 27 parties in the main opposition alliance.

Opposition leaders have characterised the ED's activities as a malign effort by Mr Modi to stifle dissent and engineer his re-election. Mr Soren's was the first arrest of a sitting chief minister in India's history (although he had technically resigned a few hours earlier). He is also the first leader of the anti-BJP alliance to have been arrested. He may not be the last. The same day, the ED issued a fifth summons to a more powerful opposition leader, Arvind Kejriwal, who is Delhi's chief minister and heads the Aam Aadmi party. He is wanted for questioning in another money-laundering case. Mr Kejriwal, whose deputy is already in jail awaiting trial in the case, has denied any wrongdoing and refused to comply.

The ED's targets also include senior figures in Congress, the BJP's main national rival. Among them are Sonia Gandhi, the party's former leader, and her son, Rahul. In a post on X (formerly Twitter) after Mr Soren's arrest, Mr Gandhi claimed that the ED and other investigative agencies were being used to eliminate the opposition. “The BJP, itself steeped in corruption, is running a campaign to destroy democracy in its obsession with power,” he said.

The BJP claims to be tackling corruption that became endemic under Congress. BJP officials also accuse Congress of having used state bodies, especially the Central Bureau of Investigation (CBI), to harass opponents when it was in power. “Corruption is in their nature,” Amit Shah, the BJP home minister, said in December after tax raids on a Congress MP uncovered 2bn rupees (\$24m) in cash. “Now I understand why a campaign was run against PM Modi that ▶▶

► agencies are being misused.”

Graft was rife during Congress's rule. And it sometimes misused investigative agencies—but to nothing like the degree seen under Mr Modi. Under the previous government, the proportion of cases against politicians that targeted the opposition was 54% for the ED and 60% for the CBI, according to an investigation by the *Indian Express* newspaper. In Mr Modi's first eight years in power, that figure rose to 95% for both agencies, it found.

Graft investigators have targeted some BJP figures in the past decade, but no party

leaders, cabinet members or chief ministers. They also dropped or eased probes into several opposition politicians after they defected to the BJP. As for Mr Modi's claim to have cut corruption overall, activists and academics say low-level graft has declined, largely thanks to new digital payment and ID systems, which allow direct welfare payments, cutting out corrupt officials. But some say the BJP's policy of pouring cash into infrastructure projects, often through well-connected firms, has increased opportunities for big-ticket graft.

It has also hindered proper oversight by

haranguing India's increasingly buttoned-up media outlets and NGOs, which have also been subjected to more graft and tax investigations. In a recent annual survey by Transparency International, a global corruption watchdog, India slipped eight places, to 93 out of 180 countries. Its score on a scale from 0 (highly corrupt) to 100 (very clean) dropped by one to 39.

That was too small a change to conclude whether the country had grown more or less corrupt, the watchdog said. But it noted a “further narrowing of civic space” ahead of the general election. ■

Banyan A Chinese chicken hunt



Singapore is cracking down on Chinese influence operations

“FESTIVE FEVER” is how the Singapore Chinese Cultural Centre describes the national mood in the run-up to Chinese New Year on February 10th. A different fever troubles the government of Singapore: how to deal with China's allegedly extensive influence operations in the city-state. This month a sweeping new law against foreign interference was invoked for the first time, against a Hong Kong-born Singaporean, Philip Chan.

Shadowy Chinese operations are not a new development. In 2018 Huang Jing, an academic at the Lee Kuan Yew school at the National University of Singapore, was expelled from the country for his ties to China's security ministry. And misinformation and propaganda has long coursed through Singaporean social media. There are laws in place to regulate that. But the Foreign Interference (Countermeasures) Act, passed in 2021 and known as FICA, grants the home minister, K. Shanmugam, new powers to investigate individuals suspected of engaging in information campaigns by a hostile state. Mr Chan, the government declared, “has shown susceptibility to be influenced by foreign actors and willingness to advance their interests.”

Mr Chan is a property investor with interests in both Singapore and Hong Kong. He is forever popping up in photos of dignitaries visiting business associations. There is no harm in that. Nor is there in crooning a duet with a Singaporean minister at a charity event, as he has also been seen to be doing.

Mr Chan is however a member of the Chinese People's Political Consultative Conference (CPPCC), an organ of the Chinese Communist Party. He appears to have crossed a line by trumpeting China's interests. Last year, in Beijing, he declared that the Chinese diaspora was

duty-bound to “tell China's story well”. He added that “if you want to have a future, you must stand with the country that represents the future.” Similar messaging comes through in Mr Chan's various writings in *Lianhe Zaobao*, Singapore's Chinese-language daily.

Not surprisingly, this has annoyed Mr Shanmugam and his colleagues. They are loth to see their tiny if prosperous state bend to the will of the regional hegemon. Yet Xi Jinping, China's supreme ruler, has instructed the Communist Party to recruit ethnic-Chinese nationals of other countries in a quest to build international support and stymie political enemies. In 2018 responsibility for relations with the Chinese diaspora was handed to the same united front department that oversees the CPPCC. In South-East Asia above all, Chinese embassies and state-security organs reach out to ethnic-Chinese businessmen, clan associations and grassroots organisations. Mr Xi's approach confers primacy to blood rather than to citizenship: no matter how long ago their forebears left China, ethnic Chinese are considered to have a

duty to their ancestral land.

Distinguishing little between the Chinese state, Chinese culture and Chinese ethnicity is bound to sow questions about the loyalty and identity of the tens of millions of ethnic-Chinese citizens of South-East Asian countries. This causes especially serious worries for Singapore. It is the region's only majority-Chinese state, with ethnic Malays, Indians and others in the minority. It is a rare state founded on multiracial principles. Racial identities are celebrated but racial harmony is demanded and policed.

Chinese interference, as Singapore's ruling party sees it, poses a threat to the very idea of Singapore because it challenges that multiracial compact. No surprise, then, that the Singapore Chinese Cultural Centre, which contains a cornucopia of interactive exhibits, emphasises both the uniquely local dimensions of Chinese culture and the paramount importance of loyalty to Singapore. It was set up in 2017 after the Chinese embassy sponsored a cultural centre of its own.

Yet questions arise about the government's approach to Mr Chan, notes Ian Chong of the National University of Singapore. What measures will be taken against him? Or is the point to scare people away from dealing with him (he has already resigned some of his association positions)? Or is he a case, in Chinese parlance, of killing the chicken to scare the monkeys—that is, more significant figures inclined to be in cahoots with China? More influential Singaporean businessfolk than Mr Chan are members of the CPPCC. Nobody has suggested they be FICA-ed. Come to that, Singapore has not named China as the offending country in Mr Chan's case. China has a way of making everyone chicken.





The economy

Spend more, please

HONG KONG

Can China's consumers save its economy? Our number-crunching suggests economic "rebalancing" will be exceptionally hard

MOST EMERGING economies struggle to live within their means. China, however, struggles to live up to them. Even in the best of times, the combined spending of its households, firms and government is not enough to buy all that it can produce, leaving a surplus that must be exported. The country has run a trade surplus for 34 of the past 40 years. And these are not the best of times. China is enduring its longest spell of deflation since the Asian crisis over a quarter of a century ago. An epic stock-market rout since late 2022 has seen investors lose \$2trn.

Behind that panic lies a deeper fear among investors and officials, namely that China no longer has a reliable engine of growth. The country's property boom is over. Cash-strapped developers are afraid to start building flats and people are afraid to buy them. The infrastructure mania has run out of road: indebted local governments lack the funds. Exporting goods to the rest of the world, which China relied on for decades to escape poverty, is getting

harder as protectionism rises and Western countries become increasingly wary of relying on authoritarian states.

Much therefore rests on one remaining source of growth: boosting the spending of China's 1.4bn people. "The Chinese market, with its vast space and growing depth, will play an important role in boosting aggregate global demand," Li Qiang, China's prime minister, told the World Economic Forum in Davos last month. A new IMF review of China's prospects published on February 2nd contains 61 references to the word "consumption".

The goal of raising it makes sense. China's stingy consumers often prefer to save, not spend. Consumption accounts for 53%

of GDP, compared with 72% for the world. On this measure China ranks 156th out of 168 countries. Its resulting lopsided contribution to the world economy is stark. It accounts for 32% of global investment and 18% of GDP, but only 13% of consumption, according to Michael Pettis, an economist. Even among emerging economies, China stands out: it consumed 7% less per person than Brazil in 2022, though it produced about 40% more.

What are the prospects of rising consumption bailing China out? The good news is that 2023 showed some recovery as the end of pandemic-era restrictions allowed people to return to restaurants, shops and travel. As a result, consumption accounted for over 80% of growth, the biggest share since 1999. The bad news is that the prospects of a step change appear slight, based on the public mood, cross-country maths and China's own history.

Start with the public mood. The turmoil in the property market has damaged the income, assets and morale of ordinary Chinese. Take Mr Chen, a construction worker from Jiangsu province. He has struggled to find work—and is not always paid when he does (see next story). He ploughed his savings into a flat for his children in a town near his village, where many homes cannot find buyers. "What's frightening is not the past, but the future," he says. The mood is mirrored in forecasts: the IMF expects consumption growth to slow during 2024. ▶▶

→ Also in this section

34 Workers and protests

35 A murky espionage case

36 Chaguan: Xi's chaos-loving friends

▶ Then consider the cross-country maths. Even if China escapes deflation this year, the long-term pivot required is daunting. For China to rebalance its economy successfully, consumption would need to rise by about ten percentage points of GDP, according to calculations by Mr Pettis. *The Economist* has examined how often this sort of shift has occurred around the world, looking at the experience of 181 countries since 1960 and dividing their economic history into rolling ten-year intervals. We found that only in 11% of cases did consumption rise by more than ten percentage points in the space of a decade (see chart). Some of these examples are not encouraging. Albania had a consumption mania in the early 1990s but also experienced hyperinflation. Taiwan managed a ten-point shift from 1986 to 1996, but the consumer boom was associated with a big stockmarket bubble.

Finally, consider China's own history. Its policymakers have talked about rebalancing the economy towards consumption, and away from exports and investment, for almost 20 years, since an economic conference at the end of 2004. Back then, consumption's share of GDP was around 55%—about the same as today. Rebalancing is easier said than done.

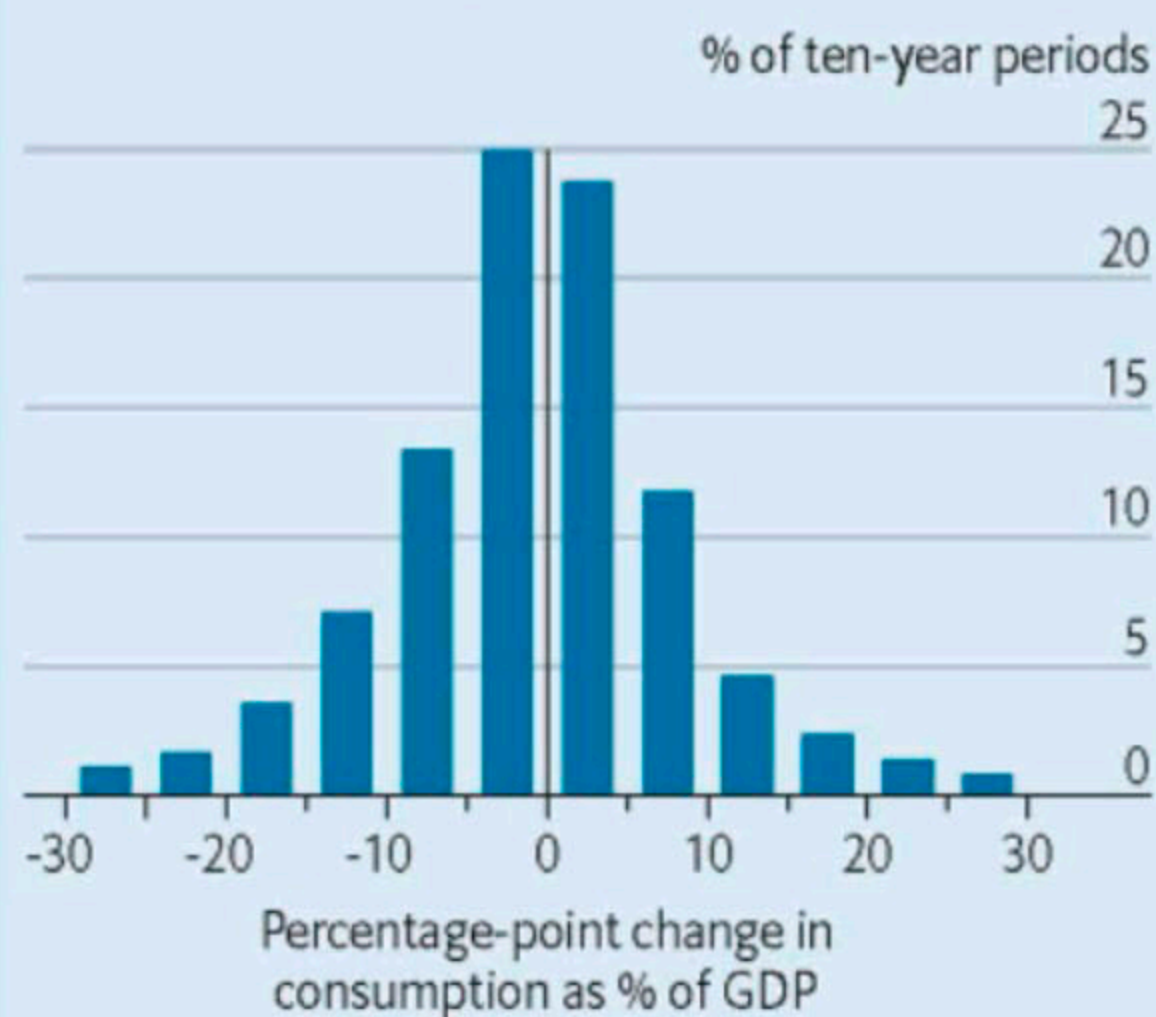
Despite this, China has little choice but to try. One option is to promote a new consumer culture. Mr Li, in his Davos speech, spoke of rapidly unlocking China's "super-size market" and "upgrading consumption" towards new products such as electric vehicles, smart homes and "green lifestyle" services. But social change cuts both ways. Even as they say they want to promote spending, officials are on guard against the wrong kind. Draft regulations on the video-gaming industry, issued in December and then withdrawn, instructed companies to punctuate their games with pop-up warnings against "irrational consumption behaviour". China's leaders could, alternatively, stimulate consumption through short-term handouts to households. But they seem to view such giveaways as ineffective, wasteful or worse: an invitation to laziness.

That means the most plausible lever is to make citizens feel more financially secure, so that they save less and splurge more. Expanding health care and pension provision is important in the long run. Citizens like Mr Chen might feel relaxed about spending more if it were easier for them to settle in the cities in which they

We are hiring a correspondent to strengthen our China coverage. Candidates should be willing to be based in mainland China. A knowledge of geopolitics and economics is helpful. Applicants should send a cv, a cover letter and an unpublished article of 600 words suitable for publication in *The Economist* to chinawriter@economist.com. The deadline is February 23rd 2024.

Balance bars

Distribution of change in consumption*
181 countries, 1960-2022†



Sources: World Bank; *The Economist* *General government and household †Moving ten-year periods

work. Under China's *hukou* system, a household registry, Mr Chen is officially a resident of his home village. That makes it harder for him to access schools and hospitals in the cities where he earns a living.

Cai Fang of the Chinese Academy of Social Sciences thinks giving migrant workers urban *hukou* could raise their consumption by as much as 30%, although other studies report less dramatic results.

Workers and unrest

Pay up

BEIJING

Protests are soaring, as migrant workers demand their unpaid wages

“WHETHER YOU’VE got money or not, do go home for lunar new year.” So goes a sentimental Chinese pop song. This year’s Spring Festival, as the occasion is also known, begins on February 10th. In recent weeks millions of China’s migrant workers, who spend most of the year toiling in cities, have been travelling back to their villages to celebrate with their families. Some are returning with hard-earned cash, which they might stuff into red envelopes (per tradition) and give to their children. Others, though, are coming home empty-handed—not because they are lazy, but because they have not been paid.

Unpaid wages are a chronic problem in China. Migrant workers are rarely given formal employment contracts. China’s state-run labour unions (independent ones are banned) often side with management in disputes. So companies are under little pressure to pay workers in a timely manner. Sometimes, when business is bad, they refuse to pay them at all. Tensions typically come to a head in the period

A study by economists at Southwestern University of Finance and Economics in Chengdu found that rural migrants who obtain urban *hukou* spend about as much as native city-dwellers, but do so more conspicuously. The end of the housing bubble could also liberate consumers. The cost of saving for a down-payment and servicing a mortgage was 11% of city-dwellers’ disposable income in 2021, according to rough estimates by Goldman Sachs, a bank. That figure could fall to about 6% in a decade, it estimates.

Yet for now China’s approach to *hukou* reform is timid and piecemeal, any dividend from the housing pivot is years away, and there is little sign of comprehensive welfare reform. Consumption will probably increase somewhat as a share of GDP, as a large cohort of retiring workers keeps spending but stops producing. The associated demographic drag, however, is hardly positive for growth. For economically insecure citizens like Mr Chen, the equation points only one way. At 51 he is just nine years from the customary retirement age for blue-collar workers. But he must look after his parents as well as his youngest child. “It all depends on me. I don’t dare do the maths.” For China’s government the calculations are similarly daunting. ■

before the Spring Festival, when migrant workers scramble to get months of back pay before going home.

This year, as China’s economy sputters, things are worse than usual. Protests over unpaid wages in the period before the Spring Festival have doubled compared with last year, according to data from China Labour Bulletin, a watchdog organisation in Hong Kong (see chart on next page). Several local governments have voiced concerns. The “severity and complexity of the situation cannot be ignored”, said the Communist Party boss of Huaibei, a city in the eastern province of Anhui, last month.

Many of those demanding back pay are construction workers, of which China has about 52m. Four years ago the government introduced policies designed to cool an overheating property market. But the measures proved too effective, sending the industry into crisis. Meanwhile, the uncertainty of the pandemic caused potential buyers to save their money instead. As a result of all this, many developers halted big ▶▶

Unhappy holiday

China, protests over unpaid wages in the three months leading to the Spring Festival



▶ projects—and many workers on those projects have not been paid.

One of them is Zhang Yongyin, who is from Guizhou, a poor province in the south-west of China. Last summer he worked on a project by Evergrande, a property behemoth that has been crippled by debt. Mr Zhang says he is still owed 30,000 yuan (\$4,220) by one of the subcontractors. He needs the money to pay his mortgage and buy his child new clothes. “Everyone doing construction work has lost heart,” he says.

Unpaid workers often band together to put pressure on companies. Some block roads. Others are more creative. In January a group of workers at a factory in Zhejiang province threatened to jump off a government building unless they were paid. Such stunts are usually posted online to drum up support. (The group did not jump.)

The central government says it wants to help. In December officials launched a campaign to “eradicate” the problem of unpaid wages, threatening to punish recalcitrant firms. But previous efforts have had little effect. Although the government can force state-owned companies to cough up, it has little sway over the private contractors that are at the heart of the problem, says Aidan Chau of China Labour Bulletin.

In any case, the government is more concerned about social stability. That means it often targets workers, too. Officials fume about “illegal gatherings” aimed at shaming companies. A county in the western province of Gansu has threatened to punish workers for the dangerous act of displaying banners during protests.

At an informal labour market in southern Beijing, two dozen workers recently waited in the cold, hoping to earn a little extra money before heading home for the holiday. Few jobs are on offer, though. It has been a tough year, they say. The workers at least take some comfort in their shared hardship. Going home with no money would usually be humiliating. But this year, says Mr Zhang, many of his neighbours have no money either. ■

Australia and China

So much for rapprochement

BEIJING

An espionage case sends a chill through bilateral relations

IN NOVEMBER Anthony Albanese, Australia’s prime minister, met Xi Jinping, China’s leader, in Beijing. Mr Xi declared that China and Australia had “embarked on the right path of improving relations” after years of estrangement. Just over two months later that path has a big pothole. On February 5th Yang Hengjun, an Australian citizen (pictured), was given a suspended death sentence by a Chinese court, after facing charges of espionage.

Mr Yang’s story is murky. Born in China, he may once have had ties to the country’s foreign or security ministries, though the foreign ministry says it never employed him. He was better known as a writer, publishing spy novels online and posting about democracy and human-rights abuses. He was detained in the city of Guangzhou in 2019. Two years later his trial began—behind closed doors. His death sentence could be commuted to life imprisonment after two years of good behaviour.

Australia’s foreign minister, Penny Wong, said her government was “appalled” by the decision. The bilateral relationship has been fragile for years. Chinese leaders did not like Australia’s deepening security co-operation with America, its call for an inquiry into the origins of covid-19 and its decision to bar Huawei, a telecoms giant. China froze ministerial exchanges and embargoed some Australian exports. The intimidation tactics did not work and the arrival of Mr Albanese’s government in Australia in 2022 offered China a face-saving op-

portunity to back down.

One interpretation of Mr Yang’s sentence is that he is guilty. But China “would be rubbing Australia’s face” in the evidence, if they had any, says Dominic Meagher of the John Curtin Research Centre in Australia. Another theory is that China’s government is split. The resolution of a case similar to that of Mr Yang helped clear the way for better relations. In 2020 a Chinese-born Australian citizen called Cheng Lei was arrested in China. She had been working as an anchor on Chinese state television. Convicted of espionage (with few details given), Ms Cheng spent three years in prison before being released in October.

Mr Yang’s sentence cuts against this precedent. It would have been approved by Communist Party leaders. Perhaps it indicates a struggle between competing bureaucracies. China’s diplomats seem to favour friendlier ties with Australia, while security officials are keen to show that Chinese who acquire foreign citizenship are not beyond their reach (China does not allow dual nationality).

The most obvious lesson is that the extent of any rapprochement was always going to be limited, given Australia’s alliance with America. That means even polite Chinese diplomacy is accompanied by a note of menace. Just after the conciliatory meeting between Mr Albanese and Mr Xi, the Chinese navy approached an Australian frigate in international waters, emitting sonar pulses that may have injured Australian divers.



Accused of doing something

Chaguan | Xi Jinping's disruptive friends

Why is stability-obsessed China aligned with Iran, North Korea and Russia?



TURMOIL FASCINATED Mao Zedong, a revolutionary who enthused that when “there is great chaos under heaven, the situation is excellent”. Today China is the indispensable patron of regimes with a Maoist relish for disorder and for terrorising neighbours, including Iran, North Korea and Russia. Without China as a trading partner and diplomatic defender—notably at the UN, when sanctions are on the agenda—those troublemakers would pay a higher price for their lawless, aggressive ways.

China’s embrace of disruptive powers is something of a puzzle. Chairman Mao’s China was poor, paranoid and largely closed to the world. Today’s Communist Party chief, Xi Jinping, presides over a country whose prosperity and strength rely on globalised commerce. China’s economy is slowing, and would suffer greatly if the Middle East, North-East Asia or Russia and its backyard were to descend into wider conflict. Nor is Mr Xi a revolutionary. He is obsessed by order and stability.

Officially, China deplores the turbulent state of the world. China insists that it does not endorse the invasion of Ukraine or North Korea’s development of nuclear weapons. Instead China sees the frustrations of disruptive powers as vindicating its worldview. While talking of peace and of the just cause of creating a Palestinian state, China’s preferred order seeks security by coldly balancing the interests of rival states, with no nonsense about universal values or individual rights. Its diplomats duly accuse the American-led West of stoking tensions by ignoring the “legitimate security concerns” of countries like Iran, North Korea and Russia.

Does chaos suit China, then? Chaguan can report a striking lack of consensus among foreign governments. Some voices argue that China sees opportunities in a degree of “controlled chaos”. In that view, crises are welcome that divide the West, distract America or—in China’s immediate neighbourhood—advance Mr Xi’s stated goal that “Asian security should be maintained by Asians” (ie, that America should retreat to its shore of the Pacific).

A second camp insists that China’s mood is one of fatalism rather than glee. In this telling, China did not choose this world of chaos and only pretends to align itself with disruptive powers for propaganda purposes. Still another camp, which comprises some foreign governments and Chinese scholars, argues that China is

reluctant to put pressure on turmoil-seeking partners, even when they do something unwelcome, as long as those countries, like China, face pressure from America. Solidarity does not add up to an identical worldview, though. “Russia really wants bloc politics, and wants China and Russia to stand in one bloc against the West. That is not what China wants. We would like a stable world in which the US is not the only superpower,” says a Chinese scholar.

Debating China’s view of chaos is more than an academic exercise. Lots of governments are now asking China to use its leverage to rein in disruptive partners. Their argument is usually an appeal to China’s self-interest. It is unclear whether China is convinced.

Take tensions caused by North Korea. In the past few months it has forged closer ties with Russia, shipping missiles and other weapons to Russian forces in Ukraine. It has also tested ballistic missiles capable of hitting anywhere in America. Some hopeful sorts detect signs of Chinese dismay over these North Korean provocations. They note for instance that Russia may see an interest in helping North Korea improve its missiles, now that it is using them in Ukraine. Such Russian aid would give South Korea another reason to strengthen defence ties with America and Japan: the last thing China wants. Optimists note that China’s rhetoric has changed, a bit. In recent times Chinese officials have called for the security concerns of all relevant parties on the Korean peninsula to be heeded, rather than North Korea’s alone. Pessimists note that China continues to block new sanctions on North Korea at the UN. China would prefer to have friendly rather than hostile relations with a nuclear-armed neighbour, gloomy voices conclude.

As for Iran, foreign governments tell China that its interests suffer when Iran and its proxies create trouble, as when Houthi rebels fire missiles at ships in the Red Sea. In reply, it is said, Chinese officials question whether there is evidence that Iran controls the Houthis, or knew in advance about last October’s Hamas attacks on Israel. Some observers wonder whether China had convinced itself, naively, that Iran is a rational power that sees economic development as its path to greater regional clout. Now China is learning that Iran is radical and dangerous, not least after watching the country’s Revolutionary Guards shoot missiles at militants based in Pakistan, a nuclear-armed friend of China’s. Either way, despite buying lots of Iranian oil, China is forging far deeper commercial ties with Saudi Arabia and Gulf Arab states that fear Iran.

China hails Putin as a force for stability

Then there is Russia. Western leaders tell Mr Xi that warm ties with Russia’s dictator, Vladimir Putin, have harmed European views of China. Mr Xi is said to retort that China does not support war in Ukraine, but that it took centuries to establish lasting peace along the 4,300km-long Sino-Russian border and this achievement cannot be jeopardised. China’s messaging to Russia is rather different. According to Russian state media, China’s defence minister told his Russian counterpart on January 31st: “We have supported you on the Ukrainian issue despite the fact that the US and Europe continue to put pressure on the Chinese side.” In China’s account of the same call, its minister agreed—apparently without blushing—to work with Russia on “global security and stability”.

Perhaps China is best understood as a cynical, opportunist power, concludes an observer. “They don’t want to see instability and terrorism. But if America is humiliated in the Middle East, that works well for them. So they wait, and in the meantime they will do a lot of business.” Much about today’s Communist Party would startle Mao. Cynicism, he would recognise. ■



Shuttle diplomacy

Blinken's hard journey

JERUSALEM AND RIYADH

Arab states weigh unprecedented "security assurances" to Israel. But Binyamin Netanyahu is scornful

ISRAEL'S TRIUMPH in the Six Day War of 1967 was met by the "three nos" at an Arab summit in Khartoum: no peace with Israel, no recognition, no negotiations. The war in Gaza seems to be having the opposite effect, American officials say. Saudi Arabia, the most important Arab state, is saying yes to peace, negotiations and recognition of the Jewish state—if Israel agrees to a "clear and credible pathway" to the creation of a Palestinian state in the West Bank and Gaza Strip, which it occupied in 1967. There may be two more yeses on offer: yes to Arab security assurances to Israel, beyond diplomatic relations; and yes to Arab states' help with reforming the Palestinian Authority (PA) so it is fit to run Gaza.

Such is the message carried to Israel this week by Antony Blinken, America's secretary of state, after criss-crossing the Arabian peninsula—his fifth regional tour since Hamas's attack of October 7th. But to judge from the scornful reaction of Israel's prime minister, Binyamin Netanyahu, Israel is now the naysayer.

The outlook in the Middle East seems dire. Iran's allies in Lebanon are exchanging regular fire with Israel; and those in Syria, Iraq and Yemen have been attacking American forces, provoking rounds of retaliation, before and during his trip (see next story). More than 27,000 Palestinians are reported dead in Gaza. Most of the territory's population is displaced and facing disease and hunger. Israel stands accused of genocide in the International Court of Justice. In the eyes of many, America's reputation has also been stained by President Joe Biden's support for Israel.

Yet Mr Blinken is seeking to turn the horror of Gaza into a chance for peace. And

→ Also in this section

38 Why Iran is hard to deter

39 Israel's obstructive settlers

40 Africa's housing crisis

42 Democracy under attack in Senegal

American officials seemed elated by their talks with Saudi Arabia's crown prince and de facto ruler, Muhammad bin Salman.

Once treated as a "pariah", in the past words of Mr Biden, Saudi Arabia has become central to America's ambitious diplomatic strategy. This involves securing an "extended" pause in the fighting in Gaza with a hostage and prisoner exchange, followed by a permanent ceasefire, Israeli acceptance of a Palestinian state, Saudi Arabia's recognition of Israel and new American security commitments. Mr Blinken seems convinced that, rather than 1967, the moment in Israel today is more akin to the aftermath of the Arab-Israeli war of 1973 and the Palestinian intifada (uprising) of 1987-93. Then, the pain of conflict led to the peace treaty with Egypt in 1979 and the Oslo accords of 1993 that created the PA.

Even so, the path to a regional deal is far from assured. The hostage deal—the essential first step in America's plan—rests on a man whom the Israelis are determined to kill: Yahya Sinwar, the leader of Gaza in Hamas. He is thought to be hiding with hostages in tunnels under Gaza.

That said, Mr Blinken brought hopeful news. On February 6th the emir of Qatar told him Hamas had responded to a hostage deal drafted by Israel, America, Egypt and Qatar. The answer was deemed "positive" by Qatar and promising by Mr Blinken (albeit with some "non-starters"). Yet Mr Netanyahu dismissed it as "delusional". ▶▶

▶ The sticking point is whether the fighting will continue after the pause, as Israel wants. Hamas insists on an eventual permanent ceasefire and Israel's withdrawal from Gaza. The likeliest compromise is a deal that unfolds in phases. America's hope is that even a temporary pause will change the mindset of both sides, allowing them to consider the "day after".

This turns the spotlight on Mr Netanyahu, who has declared his intention to fight for "absolute victory" and his opposition to a Palestinian state. "The day after is the day after Hamas. All of Hamas," he said. Arab leaders want America to exert more pressure on him. The Biden administration thinks that halting the flow of weapons to Israel would encourage Hamas and the rest of Iran's "axis of resistance". Instead Mr Blinken chastised Israel for a death toll that was "too high", pushed for more humanitarian aid and insisted that it "put civilians first and foremost in mind". On February 1st America also imposed sanctions on four Jewish settlers accused of violence against Palestinians, irking Mr Netanyahu.

Mr Blinken thinks the region is at a fork. One way lies salvation, with a "future for the better for Israelis, for Arabs, for Palestinians". The other way leads to damnation, with "an endless cycle of violence and destruction and despair". Mr Blinken also seems worried about Israeli forces pushing on to Rafah at the southern end of Gaza. Palestinians are increasingly concentrated there and the risk is of their being pushed across the border into Sinai. Seeking to reassure Egypt's president, Abdel-Fattah el-Sisi, Mr Blinken earlier expressed America's "rejection of any forced displacement of Palestinians from Gaza".

America wants Israel to agree to "a practical, timebound, irreversible path to a Palestinian state" as part of an agreement between America, Israel, the PA and Saudi Arabia. America would offer a defence treaty with Saudi Arabia and civilian nuclear technology. The PA would agree to reform.

To sweeten the deal, Mr Blinken said, Arab states were offering Israel unspecified "security guarantees". These are unlikely to involve a formal defence treaty; Gulf states do not have big armies, nor do they want to be at the forefront of an American-Israel confrontation with Iran. But informed sources suggest options might include more intelligence-sharing, a common air-defence zone and joint military exercises. Some of this already takes place, but the aim would be to make it more visible and institutionalised. Mr Blinken said Arab states were ready "to do things with and for Israel that they were never prepared to do in the past"; America, too, would agree to do the same.

Moreover, Arab states seem ready to help the PA reform. Foreign ministers from Saudi Arabia, the United Arab Emirates

(UAE), Qatar, Egypt and Jordan are set to meet PA officials in Riyadh on February 8th to discuss governance. Some Arab sources suggest Jordan could help train Palestinian security forces, and the UAE could help improve the PA's administration.

Arab states have made clear they will not send peacekeepers to Gaza if and when the Israelis leave; nor will they pay to rebuild it unless there is an Israeli commitment to Palestinian statehood. Nevertheless, they seem to understand that they must take greater charge of settling the question of Palestine, or risk Iran and other radicals exploiting it to their advantage.

In private Mr Netanyahu is said to be more flexible than he lets on. Can he bring himself to say yes to the Saudis? And if he refuses, would those who replace him be more willing? Neither Mr Blinken nor anyone else is certain. ■

America in the Middle East

Why Iran is so hard to intimidate

DUBAI

Putting off Iran and its proxies is a fiendishly difficult task

DETERRENCE IS A simple concept: using the threat of force to stop an enemy from doing something. America ought to have no trouble restraining Iran thus. The former has a globe-striding army; the latter relies on warships and fighter jets that predate the Moon landing. In practice, though, Iran has proved devilishly difficult to deter. It is hard to put off insurgents and militias with air campaigns; their goals are attrition and survival, not well-ordered governance, and they are willing to take casual-



Within striking distance

ties. Full-scale invasion may be the only sure way to deter them but the history of such interventions is salutary.

Since October the Islamic Republic's proxy militias in Syria and Iraq have carried out more than 160 attacks on American troops. Some were harmless—more theatre than threat—but not the one on January 28th, which killed three American soldiers at a base in north-eastern Jordan. The Houthis, meanwhile, an Iranian-backed militia in Yemen, have for months waged a campaign of missile and drone attacks against commercial ships in the Red Sea, choking off a waterway that handles perhaps 30% of global container trade.

America has begun to hit back. On February 3rd it bombed more than 85 targets in Iraq and Syria, the first round of what Joe Biden, America's president, promised would be a multi-stage response to the drone attack in Jordan. It struck the Houthis the next day and again on February 5th. Two days later an American strike in Baghdad killed a leader of Kataib Hizbullah, an Iranian-backed militia in Iraq. Yet the attacks from Iran's proxies continue.

Mr Biden's hawkish critics think they know why: American threats are not credible because America is unwilling to strike Iran itself. They point to Operation Praying Mantis, during the "tanker wars" of the 1980s, in which America sank five of Iran's warships and destroyed two of its oil platforms in the Persian Gulf.

Critics on the left make a different argument. They see talk of deterrence as misguided warmongering and instead offer what they say is a simple solution: end the war in Gaza. If Israel stops killing Palestinians, Iranian-backed militias might stop their own violent acts.

Both arguments miss the mark. It is true that hitting Iran's navy in 1988 compelled it to reduce its attacks on oil tankers (and to stop targeting Americans altogether). But the Iran of 1988 was exhausted from a ruinous eight-year war against Saddam Hussein's Iraq and bereft of strong allies. It had no choice but to back down. The Iran of today, by contrast, has a powerful network of proxies and a degree of support from both Russia and China. A round of American strikes might make it even more inclined to use those proxies—and, perhaps, to dash for a nuclear bomb as insurance against future attacks.

As for the Gaza war, many of Iran's proxies cite the conflict as justification for their acts. But history did not start on October 7th. Militias in Syria and Iraq have carried out dozens of attacks against American troops in the past decade. The Houthis, too, have a record of attacks on shipping; the war is merely an excuse to escalate what they were already doing.

America's struggle to deter Iran stems from deeper contradictions in its Middle ▶▶

▶ East policy, namely its desire to pivot away from the region while still keeping troops in it, leaving a military presence big enough to present a menu of targets but too small actually to constrain Iran.

This reverse-Goldilocks arrangement had deadly consequences on January 28th. The drone attack in Jordan hit an outpost known as Tower 22, a logistics hub for nearby al-Tanf, a remote American garrison in Syria. Established during the campaign against Islamic State, no one can quite explain why al-Tanf still exists. American officials cite a range of missions, but in practice it mostly serves as a bull's-eye for Iranian-backed groups whenever they want to lash out at America.

The Iranian regime views its proxies as vital for its survival: they are fighting a long war of attrition to drive American troops from the Middle East and hobble Israel and America's allies in the Gulf. Deterrence can work only if that perception changes.

Perhaps Iran could be dissuaded from using its proxies if it thought America was prepared to topple its regime. After two decades of failed American adventures in the Middle East, though, neither Americans nor Iranians believe that is on the cards.

America's allies in the region do not believe it either. A decade ago, Israel and some Gulf states might have cheered American strikes on Iranian proxies. Then as now, the region was ablaze: Iran was helping Bashar al-Assad turn Syria into a charnel house, and the Houthis were sweeping down from their northern redoubts to seize control of most of Yemen's population centres. A sustained campaign of American strikes might have changed the course of civil wars in both countries.

Today, though, those wars are basically settled—in favour of Iran's allies. The regime has its hooks deep in four Arab countries. A few scattered sorties will not dislodge it. That is why Saudi Arabia and the United Arab Emirates have tried to improve their relations with Iran: if America cannot protect its partners, they reckon detente via diplomatic engagement and economic incentives is a safer alternative.

In a briefing with reporters after the strikes in Syria and Iraq, American officials talked not of deterrence but of trying to "degrade" the capabilities of Iranian-backed groups. That might be more realistic: if America blows up enough Houthi anti-ship missiles, they will have to stop firing (at least until Iran can deliver more).

But that would require a prolonged campaign of the sort that Mr Biden may wish to avoid, which gets back to the crux of the problem. In the Middle East, America is torn between leaving and staying and cannot decide what to do with the forces it still has in the region. The status quo is not working—and, paradoxically, it is Iran that has deterred America from changing it. ■

Israel's settlers

Hard to peg back

JERUSALEM
The settlers' power shows no sign of waning

AT FIRST THE Israeli settlers in the West Bank tried to laugh off the executive order signed by Joe Biden, America's president, on February 1st imposing sanctions on "persons undermining peace, security and stability in the West Bank". The editor of a popular far-right website posted a cartoon of a Jewish shepherd in the West Bank. "What am I going to do now with all my assets in New York?" said the caption.

The laughter faded when Israeli banks began blocking the accounts of the settlers targeted by America's sanctions regime. Bezalel Smotrich, the finance minister and himself an ultra-nationalist settler, vowed to prevent financial institutions from implementing the sanctions. But his power in this matter is negligible. "If anyone thinks that for the sake of a few settlers' accounts Israeli banks are about to jeopardise their access to the global financial system controlled by the Americans, they're in for a rude awakening," said a senior banker.

Mr Biden is a self-proclaimed Zionist who has backed Israel to the hilt since Hamas's attack last year. But the order is a sign that his patience with Binyamin Netanyahu's hardline coalition is wearing thin.

The Jewish settlers in the West Bank, the heart of a future Palestinian state, are among the biggest obstacles to America's ambitious plans for peace. So far the sanctions have hit only four fairly minor settler activists, who are accused of violence against Palestinians. But the wording of



the presidential order leaves little doubt that bigger figures, including cabinet ministers, could be affected. "It's a warning shot and the target is Netanyahu," says an Israeli official involved in talks with the Americans. Mr Biden seems to be trying to drive a wedge between the settlers and the rest of Israel, leaving Mr Netanyahu with the choice of either dumping his toxic partners or going down with them.

The settlers' number belies their political weight. Of 10m Israelis, around 460,000 live in the West Bank (not including east Jerusalem). Most live in urban settlements near the pre-1967 border where ▶▶



An unsettling figure

▶ they have been lured by cheap housing. In any peace deal, it is assumed that these “settlement blocs” would be absorbed into Israel. In return, chunks of land currently within Israel would be swapped into the new Palestinian state.

More problematic are the smaller settlements deep in the West Bank that would have to be dismantled. Most of their residents are religious ideologues who comprise less than 2% of Israel’s population but enjoy wide and fervent support. Parties representing them did well in the 2022 election, helping return Mr Netanyahu to office; indeed, he depends on them for his majority. They have been lavishly rewarded. Five ministers are settlers.

Their power was clear on January 28th when 12 ministers attended a convention in Jerusalem calling for the re-establishment of Jewish settlements in the Gaza Strip after the war. Mr Netanyahu said this was “unrealistic” and promised that Israel had no intention of doing so. But he did not prevent ministers from his own Likud party from attending the conference, where speakers called for the reoccupation of Gaza and for the 2.3m Palestinians living there to be displaced.

Even after Hamas’s attack on October 7th, only a quarter of Jewish Israelis support such a plan, according to a poll carried out in November. But settler representatives, who are already signing up families to settle in these would-be new outposts, have consistently proved capable of moving government policy in the West Bank in their favour. For over half a century they have challenged governments, including those on the right, by building deeper into the West Bank, eventually getting retrospective government support.

Mr Netanyahu is now floundering in the polls. If elections were to be held soon, his coalition would almost certainly lose power. But even without their supporters in government, the settlers would still be a force, in politics and on the ground. Many serve in combat units and are heavily involved in the fighting in Gaza. They will argue that their sacrifice is being dishonoured if their West Bank homes are threatened. This will resonate with many Israelis, even those not in their political camp.

Going by past experience, some will try to block any concessions to the Palestinians with violence. Emboldened and armed by supporters in government, settlers killed at least ten Palestinians last year, according to a report by Yesh Din, an Israeli human-rights group. If the establishment of a Palestinian state looks more likely, such action may increase. Yet if American plans for peace are to stand a chance, this threat must be countered. Mr Netanyahu’s government shows little interest in doing so. But even a centrist one could struggle to face the settlers down. ■



Africa’s housing crisis

How to house the world’s fastest-growing population

DAKAR

Some 70% of the buildings needed in 2040 are not yet built

SHINY CARS line the streets of Ngor, a suburb of Dakar. Beside the occasional passing sheep are telltale signs of wealth—ice-cream shops and gyms—that should be enticing to banks offering mortgages. Yet loans are hard to come by. Sam Thianar and his family live in two rooms of the apartment block he is building. The rest he hopes to rent out. Although construction started years ago, the building is a mess of concrete and exposed wires. “When I save a little money, I buy some sand and cement and build a little more,” he says. He applied for a loan of 10m CFA francs (\$16,500) from a credit mutual, but was rejected. Nearby Ibrahima Diouf shovels sand to make bricks. Could he ever get a mortgage? “Never, never, never,” he replies.

The struggle to finance and build homes is contributing to a profound housing crisis in sub-Saharan Africa. In almost all African countries even the very cheapest new home is too expensive for a typical teacher or police officer with the mortgage they could obtain, according to the Centre for Affordable Housing Finance in Africa (CAHF), a research outfit based in Johannesburg (see chart 1 on next page). Instead many Africans live in housing without toilets or reliable electricity. Some 230m people, half of all urban dwellers in Africa, live in slums, a number that is rising because of urbanisation and population growth.

Yet Africa’s need for housing is also a tremendous opportunity. A mind-bending 70% of the buildings expected in Africa in

2040 do not exist, reckons the UN. Building them could be a boon not just for slum-dwellers but for growth, jobs and, potentially, climate-friendly construction. Africa will be the construction site of the world, enthuses Ian Shapiro of Reall, an investor in African housing.

One reason for this chronic shortage of decent housing lies with how homes are built now. Perhaps 90% are self-built, usually incrementally over many years. Cities are thus riddled with unfinished buildings. Some buy their homes from developers, where they pay a portion upfront, more during construction and the rest on completion. Yet if developers do not sell enough apartments in the building or hit other troubles, then everything stops. “It puts the risk on the buyer,” says Seeta Shah of FSD Kenya, a financial think-tank. “You could get burned, or you could get your home.” Both ways of building tie up scarce capital in cement that houses no one and earns nothing for years. And because of the tight finances, truly large-scale housing projects are rare.

Building quality homes in Africa also involves a fiendishly complex set of tasks—from buying land and wrangling title to persuading governments to install water to the area and finding a buyer. Finishing one step often depends on progress in all the others. And each needs financing. “It’s a dance, it’s not a straight line,” says Kecia Rust of CAHF.

The cheapest new house generally costs ▶▶

▶ the equivalent of \$20,000-40,000. Yet income per person is only about \$1,700 a year. The high cost is partly caused by red tape. In Kenya, for example, there are 140 laws, policies and regulations relating to affordable housing. Building codes, which often date back to the colonial era, also set inappropriate standards. In Kenya a car park is required for any two-bedroom home. The result is that those who build formally cannot build cheaply. Many small builders dodge regulations altogether. That makes the homes they build cheaper but often more dangerous.

The lack of land titles hits supply and drives up prices. Developers need this paperwork before they can build; without it they risk losing the entire investment. Yet just 4% of countries in Africa have mapped and registered the private land in their capital cities. On average it costs more than 7% of the value of the property to register it. In parts of Nigeria this cost reaches 20%.

Weak titles also make it harder for people to borrow. This is because banks will generally refuse to lend against a property if its ownership is fuzzy. That is one reason why there are vanishingly few mortgages in Africa. Uganda, with almost 50m people, has about 7,000 mortgages outstanding. It is not an extreme case. In most sub-Saharan countries the stock of mortgage debt to GDP is lower than 1%. By comparison, in Britain it is 65% (see chart 2).

A second reason is that perhaps 85% of people have informal jobs, such as selling fruit at the market or riding a motorbike taxi. As such, they do not have pay slips that could prove to banks that they have a regular income and can afford to repay a loan. A third reason is that many Africans need a loan to start building a home, but banks are especially reluctant to lend if the only collateral is undeveloped land.

Bigger financial forces push up mortgage rates and sharply limit the number of loans available, too. A rule of thumb is that

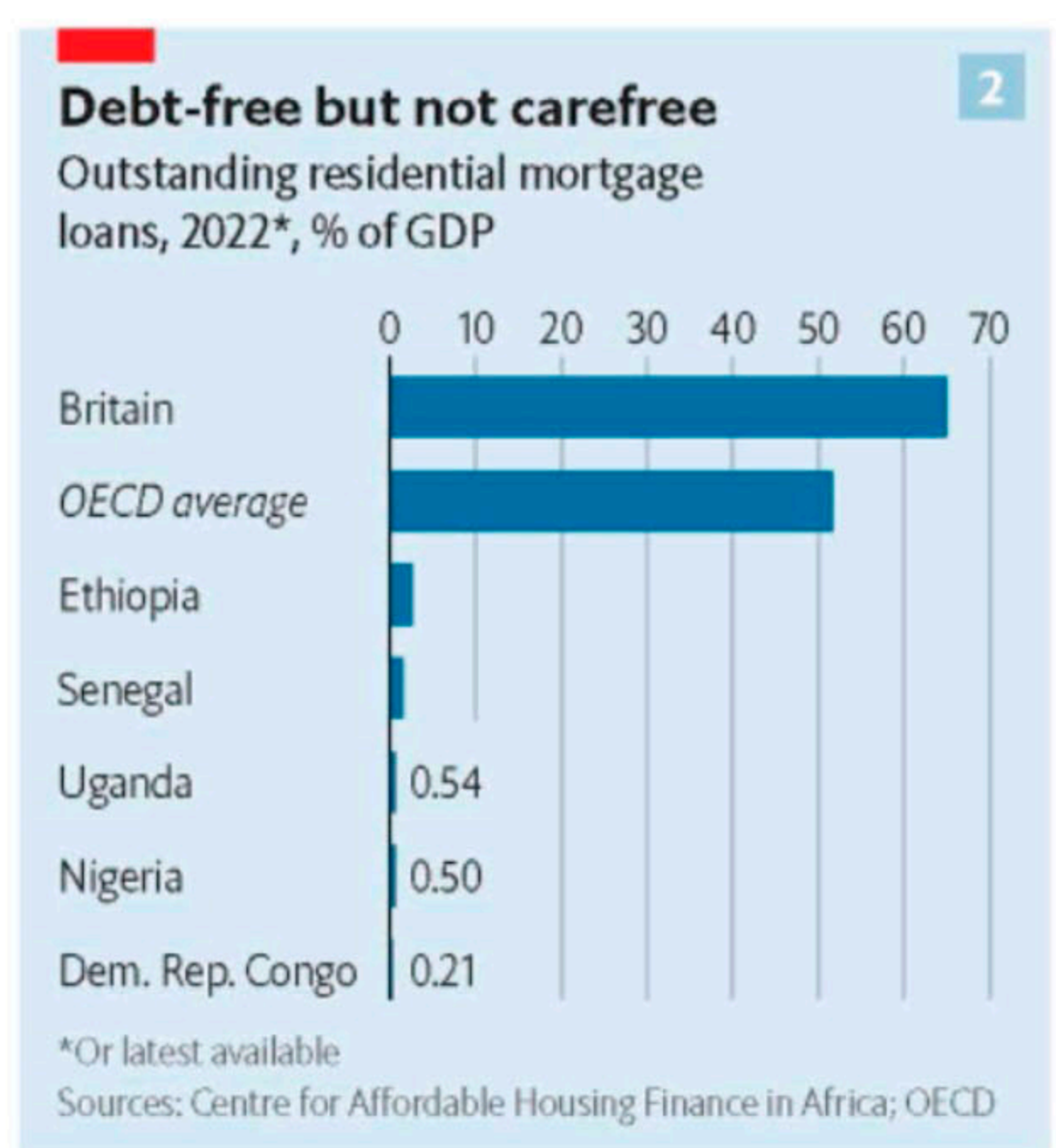
mortgage rates need to be in single digits to have a chance of being affordable, says Simon Walley of the World Bank. Yet just 15 out of 48 countries for which there are data in sub-Saharan Africa have rates below 10%. That is firstly because central-bank interest rates, a floor for mortgages, are persistently high to curb inflation. Compounding the problem is the scarcity of long-term finance in Africa and the fact that governments grab most of it by borrowing heavily. Banks and investors can earn 13-15% a year simply by buying government bonds. Setting up a retail bank, finding customers and then trying to measure the credit risk of people with no pay slips and fuzzy collateral involves an awful lot of effort—and risk—in comparison.

There have been efforts in recent years to make mortgages cheaper, often by setting up mortgage-refinance companies. These are usually owned by clubs of banks, backed by governments and get cheap loans and equity from development-finance institutions (DFIs), such as the World Bank. This allows them to borrow more cheaply in capital markets than banks can. The refinance companies then pass on their lower borrowing rates to banks to allow them to offer cheaper mortgages. Eight countries in west Africa jointly have such a firm while Kenya, Tanzania and Nigeria each have one. These have helped, but nowhere near enough.

In Tanzania, which has a population of 67m, the mortgage-refinance company directly backs only 1,500 outstanding mortgages. In Kenya, with a population of 56m, the mortgage-refinance company has backed just 2,876 loans in almost five years, less than a tenth of its target. Mr Walley of the World Bank, which has lent to most of these companies, says the problem is that “the housing-supply response hasn’t happened, or not to the scale we would have liked.” High underlying interest rates also limit their impact, says Aliou Maïga of the International Finance Corporation (IFC), the private-sector arm of the World Bank. He also points to a tougher problem: poverty. “Whatever you do, it’s very, very difficult to fit income levels into the housing equation,” he says.

All this is prompting a radical rethink. Mr Walley believes mortgages can reach a wider scale in Africa some day, but says that currently, at best, they are going to serve the richest 5-15% of the population. Mr Maïga is blunter: “Acquisition by individuals and the mortgage, to me, are not necessarily the right instrument in Africa.” That is striking, given that the IFC partly owns and finances the mortgage-refinance companies in west Africa, Tanzania and Kenya. The IFC is now resetting its housing strategy altogether.

If mortgages modelled on the rich world are not right for Africa, what is? One



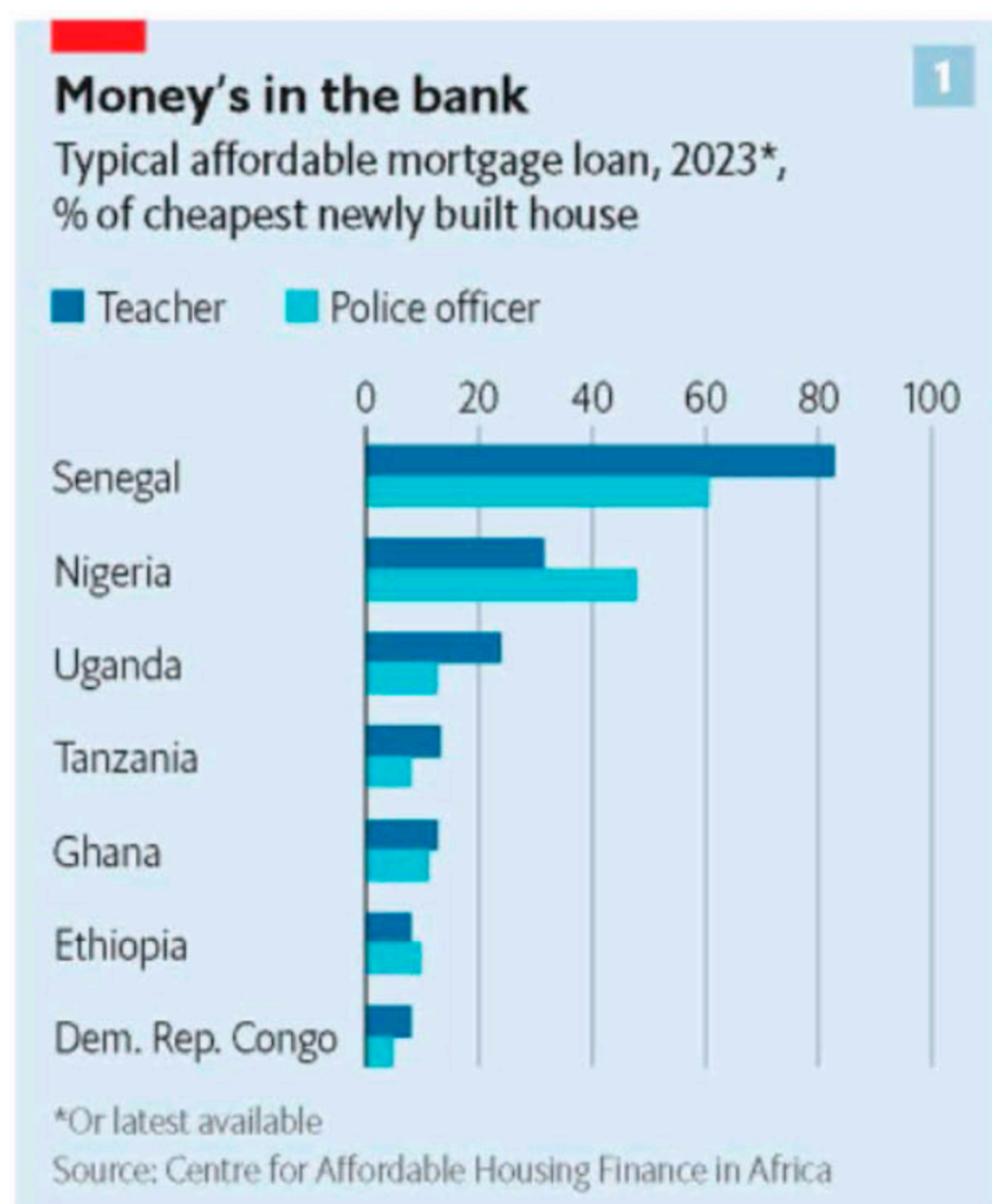
answer is to embrace the reality that African houses are often self-built in stages. Banks are starting to offer smaller shorter-term loans to enable families, for example, to build an extra room to rent out. Housing Finance Bank (HFB) in Uganda does just this. Its loans are typically for three years and are worth about \$4,000 on average. The bank requires some collateral, but dodges the headaches of formal title by accepting guarantors and sales agreements for land or even just belongings like a motorbike or fridge. “The performance of these loans is good,” says Michael Mugabi, HFB’s managing director. “They don’t default.” Because the loan allows a building extension to be completed without delay, it is an efficient use of capital.

Tinker, tailor

Such loans still require clever ways of assessing the creditworthiness of informal workers. Syntellect, an Indian startup, is trying to help with machine learning. An algorithm is fed the results of a questionnaire tailored to the borrower’s trade—from street-food vendor to tailor—and also uses utility payments, mobile-money records and geolocation intelligence about whether, say, a street vendor has a wealthy clientele nearby. It recently signed up with Kenya’s largest microfinance organisation to help with credit decisions for housing loans.

Others see more hope in bigger developers because they may solve the problem of bank loans for new builds. Unity Homes, a developer in Kenya and Nigeria, uses the value of its undeveloped land to provide mortgage banks with financial guarantees that it will complete construction projects. This gives the banks the security they need to lend to customers buying homes before they are completed.

Still, full mortgages are out of reach for people who are not in formal employment. To help them, some DFIs and private firms are experimenting with rental and rent-to-own models. Housing needs to be ap-▶▶



proached like big infrastructure projects, says Mr Maïga of IFC. By that he means very large developments built by private firms where governments, institutional investors and DFIs guarantee to buy the homes. Families then rent or rent-to-buy from these institutional owners. Rent-to-buy removes the need for an upfront deposit. Instead tenants slowly accumulate ownership over time. The IFC has recently agreed to pilot programmes in this style with three governments in west Africa.

Private firms are also turning to rentals. After more than a decade as a developer of large housing projects in Africa for sale to families, Daniel Font came to a worrying conclusion: "In some ways we were completely wrong." Most people had no access to mortgages and those who did buy their units rented them out anyway, he explains. Mr Font now leads a new company, SIV Africa, which is building rental homes in Africa. The company plans to own, maintain and operate the projects over the long term while also selling a share of the portfolio on capital markets. The goal is to build quality homes for people who have no access to banks. "That is 90% of the population in Africa," says Mr Font.

For the hundreds of millions of Africans with no chance of getting a mortgage and who live in cramped, poorly lit and often unsanitary homes, the rethink cannot happen quickly enough. ■

West Africa

Senegal's dying democracy

DAKAR

The election is delayed after riot police drag opposition MPs out of parliament

"MACKY SALL, Dictator!" chanted protesters on February 5th in Dakar, Senegal's capital, as they dodged police officers firing tear gas and raged at their president. By late that evening it was getting harder to disagree. Riot police in masks and helmets marched into the National Assembly and dragged out about 30 opposition MPs. "It's a coup d'état against the people," shouted one MP before he was pulled away. They had been occupying the speaker's platform in protest against a planned vote, held without any debate, to delay by almost ten months the presidential election scheduled for February 25th. Moments later the vote passed. Mr Sall will now stay in office far beyond his term, which was supposed to end on April 2nd.

Senegal has been seen as an African star: a pillar of stability, democracy and economic growth in west Africa. Unlike many other countries in the region, it has

avoided civil wars and coups, and has had a series of largely peaceful and democratic transitions of power. Never before has it delayed a presidential election. And in a region hit by a spate of coups, Mr Sall has played a leading role in the attempts by ECOWAS, the regional bloc, to push juntas back towards democracy. Yet his message has been undermined by a sharp decline in freedom in Senegal itself. Now its democracy is in grave danger.

The vote followed a speech by Mr Sall on February 3rd in which he had simply called off the election and proposed a "national dialogue" to create the "conditions for a free, transparent and inclusive election". Yet Mr Sall held such talks just months ago.

Since then repression has ramped up alarmingly. One presidential candidate was arrested while protesting the next day. Several MPs who had opposed the delay attempted to campaign regardless. They too were arrested. Mobile-internet access was cut for 48 hours, motorbikes (popular with protesters) were banned, and a television station was shut down altogether.

The constitutional crisis was triggered by accusations of alleged corruption in the Constitutional Council, the judicial body that determines whether candidates are eligible to run. Mr Sall justified postponing the election by saying time was needed to resolve the row between the council and some members of the assembly, which had already voted to open an inquiry.

In January the council barred Ousmane Sonko, the leading opposition candidate, on the basis of his conviction for defamation in a case brought by a minister. In jail on separate charges of fomenting insurrection, Mr Sonko says the cases against him are politically motivated. The council also blocked Karim Wade, the son of a former president, from running. Mr Wade's political party, which made the allegations of corruption against the council, has pushed for the inquiry and the delay. The council denies any wrongdoing.

What is Mr Sall up to? He claims to be defending democracy, warning that the dispute between judges and MPs "could seriously harm the credibility of the election". Yet he is unconvincing as a democratic saviour—and not just because delaying an election and marching riot police into parliament is a curious way of defending democracy.

His government was first accused of politicising the justice system in 2019, when Mr Wade and another opposition figure were disqualified from running for president because of legal troubles. Mr Sall's administration has also previously ignored the law, seemingly to keep Mr Sonko out of the race. (Mr Sall denies any wrongdoing.) Worse, since early 2021 at least 45 people have been killed in various

protests backing Mr Sonko.

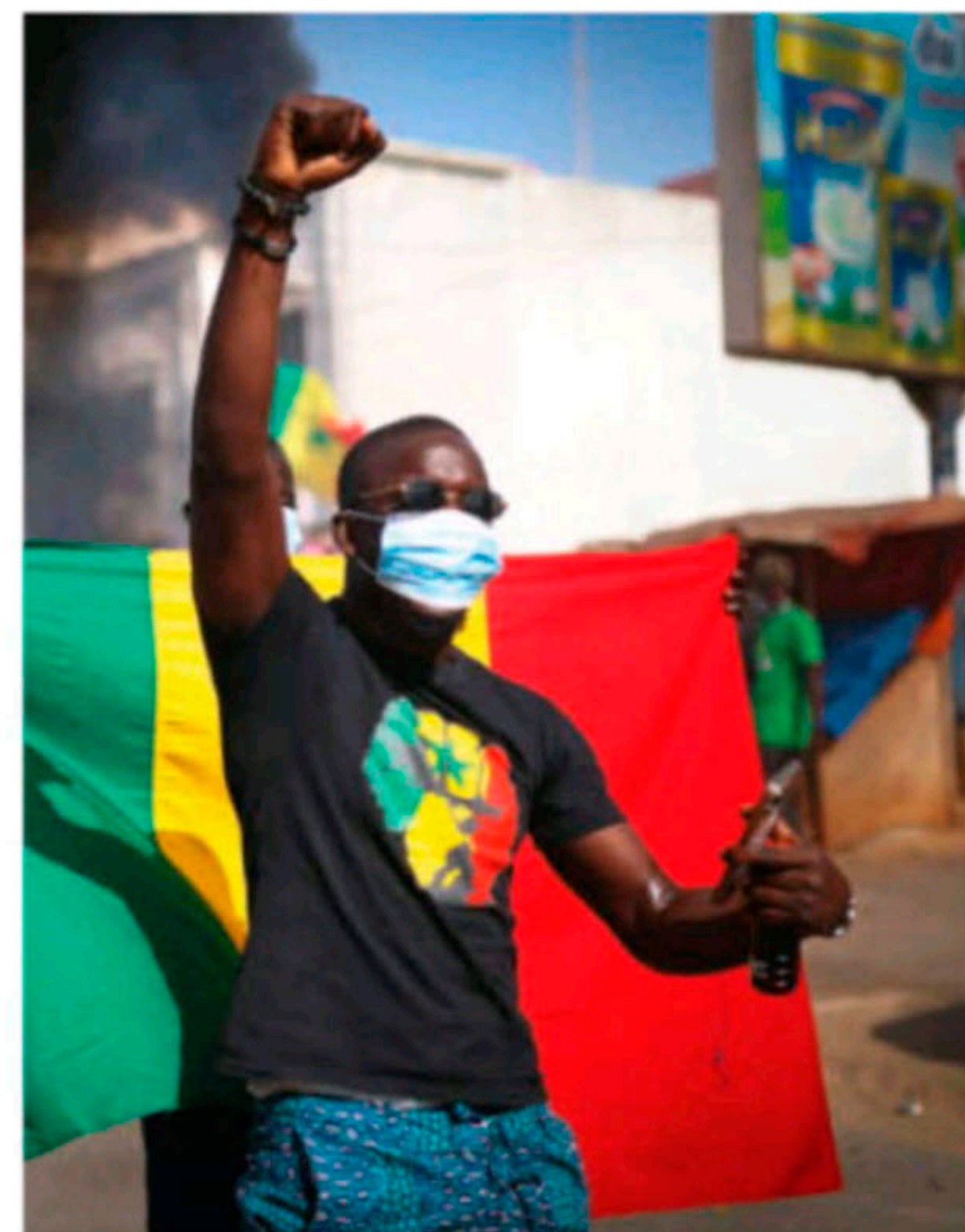
Given all this, many fear Mr Sall, who had backed his prime minister, Amadou Ba, for president, has malign motives. One view is that he now believes Mr Ba will lose to Mr Sonko's number two, who is running despite also being in jail—hence Mr Sall is delaying the election, perhaps to back another horse for the presidency.

Another is that he wants to cling to power for himself, either by delaying the poll again, or by going back on his word not to run for a third term. This would seem to be in breach of the constitution's two-term limit, but Mr Sall maintains that he can run legally. The president had previously flirted with standing again before belatedly ruling it out. But he can be fickle—he postponed the election just days after pledging to stick to the original timetable.

Since the chaos in the National Assembly there have not been any large protests, perhaps because the police are out in force and up to 1,000 opposition members and activists have been arrested. Yet the fight is not over. There is talk of a general strike, influential religious bodies have denounced Mr Sall's move, and the opposition is hatching plans for protests it hopes the police will find harder to stop.

The American government says that the vote to delay "cannot be considered legitimate". Several candidates are challenging it at the Constitutional Council. They ought to have a strong case, since the constitution says that the duration of the president's mandate cannot be amended. But since the council has been accused of impropriety, a ruling in either direction is unlikely to resolve the crisis.

"We are in a situation of total uncertainty," says Alioune Tine, a human-rights activist in Senegal. "This jump into the unknown can have unexpected consequences—like the army taking power." ■



Demanding the vote



Germany's Social Democrats

A party in a death spiral?

BERLIN

A mounting crisis of confidence confronts Olaf Scholz

ONE HUNDRED AND SIXTY-ONE years is a long time in politics. Through two devastating world wars and a long cold one, through fat years and lean, Germany's Social Democrats (SPD) have kept a prime seat at the table of power. The left-of-centre party has been a junior or senior coalition partner in every government for all but four years in the past 25. Olaf Scholz, the eighth man from the SPD (yes, all of them) to serve as chancellor since 1919, leads the "traffic-light" coalition, named after its three parties' colours, that took office after Germany's last national election, in 2021.

But since then the SPD's popularity, and that of Mr Scholz, have collapsed. The party came first in the 2021 election, and peaked in polls of "voting intentions" at 28%. The same polls now put it in third or even fourth place, barely attracting 15%. It looks likely to be humiliated in European elections in June, then trounced in September in elections in three eastern German states, where hostility to Mr Scholz's government seethes. The SPD could even find itself facing extinction.

Yet plenty of Germans still agree with what the SPD stands for: generous welfare, strong protection of workers' rights, a progressive social agenda, and commitment to the European Union. On recent weekends hundreds of thousands have gathered on German streets, with Mr Scholz's encouragement, to denounce the hard-right Alternative for Germany (AfD), in a strong show of passion that favours the SPD.

But the decline of its blue-collar base, a limp economy, a threatening global environment and clashes between partners in the coalition, plus Mr Scholz's dry predilection for management rather than bold leadership, have created a perfect storm.

One measure of this peril is the depth of

→ Also in this section

44 Madrid's moment

45 Silencing Putin's critics

46 Restoring the rule of law in Poland

47 Charlemagne: The solar boom

shared anger at the government across very different sectors of society. When farmers blocked roads across the country in early January, protesting against a government plan to scrap tax exemptions they benefit from, lorry drivers and independent tradesmen joined in. Despite the disruption, more than three-quarters of Germans sympathised with the protests. Big businesses are not happy, either. Rainer Dulger, head of the Confederation of German Employers' Associations, a trade group, says his members have declining faith in the government.

An obvious cause of the anger is the flattening or, in many cases, shrinkage of real disposable incomes in the past two years, as inflation has risen to levels not seen since the early 1990s. Mr Scholz has been trying to mitigate this, in part by raising benefits paid to jobless people. But this seems to have convinced Germans that the SPD's generosity with taxpayers' money rewards scroungers and undermines the work ethic. A recent survey showed that 62% of the SPD's own supporters believe its policies discourage people from working.

In a sign of dysfunction inside the coalition, Christian Lindner, the finance minister and leader of the small, pro-business Free Democratic Party, has repeatedly denounced his partner-party's policies. "Is this still the old aunt SPD, the employee's lawyer, or is this the agent for those receiving benefits from the welfare state?" he asked one interviewer in January. ▶▶

But the damage to Mr Scholz's party is not only of its own making. Mr Lindner's refusal to touch Germany's "debt brake", a constitutional rule that cripples the government's ability to borrow, is one reason for the policy contortions that, for example, pushed the government to provoke farmers by trimming their perks.

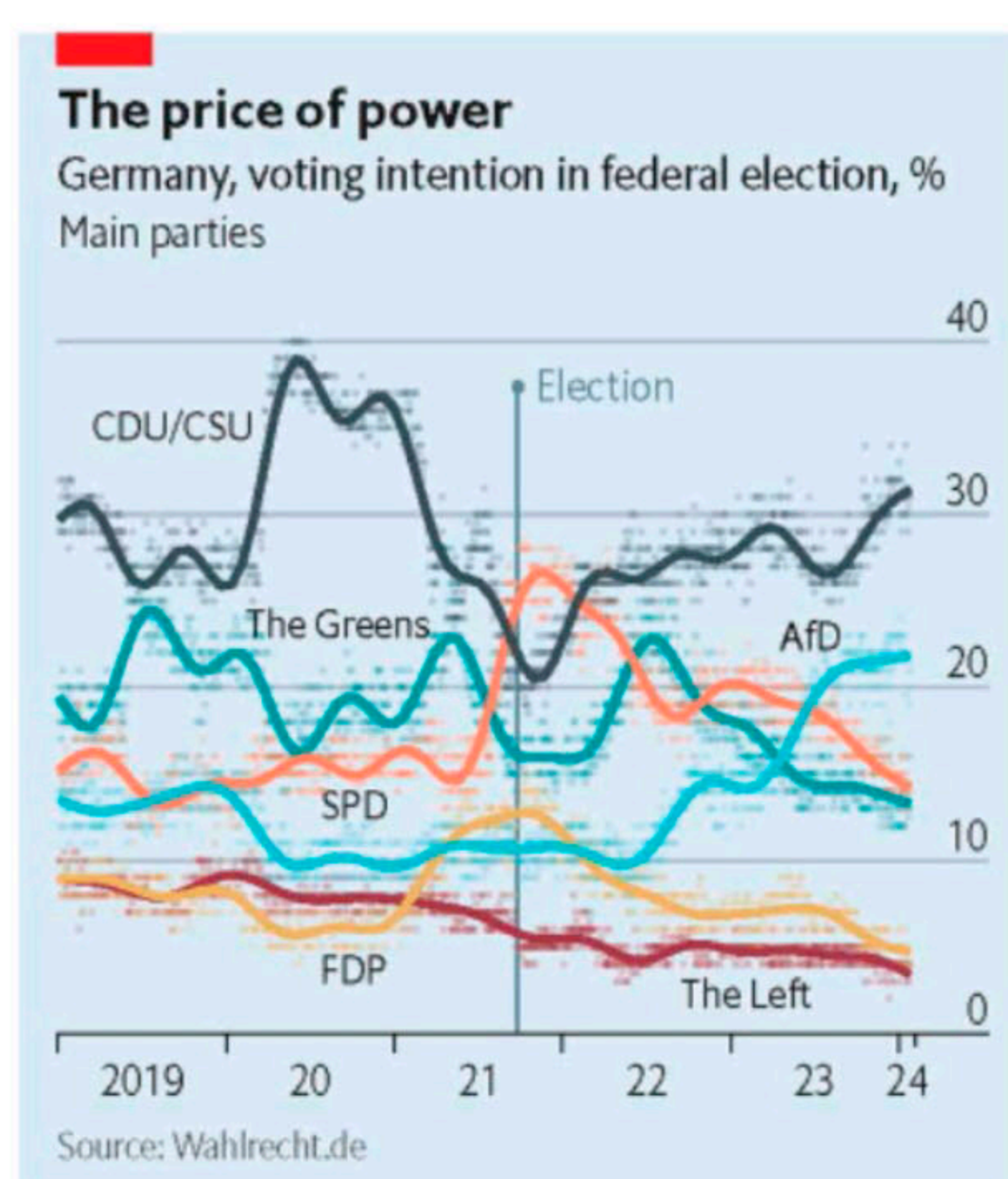
The third partner in the coalition, the Greens, have caused even more trouble. Many Germans viewed their insistence on switching off the country's remaining three nuclear power plants last April, amid an energy crisis created by the halt to Russian fuel supplies, as barmy. Soon after, an ill-judged push by the Greens to cajole homeowners into installing costly heat pumps became gold dust for the opposition, which branded the effort a glaring example of government overreach.

This charge struck home in part because the SPD has in fact drifted away from its traditional working-class base. This class has shrunk as more Germans have moved into white-collar jobs, while in declining industrial regions, as well as in the former East Germany, many former socialists have shifted to the right. Research shows that supporters of the AfD are far more likely to be worried about inflation than are SPD voters, presumably because the latter are more comfortable with their lot. The shrinking of the SPD's catchment area can also be seen in the party's age profile. Since 2000 the party's membership has fallen by nearly half, to just 365,000 last year. Some 57% of them are over 60.

It may be natural that with time the party's vigour would fade a bit. Fewer excuses can be made for Mr Scholz's failings. Germans have not forgotten that the former mayor of Hamburg won the 2021 election less by merit than by sticking relentlessly to a bland script, while his opponents all committed campaign blunders. The persona he projected was of a calm, comforting clone of his predecessor Angela Merkel, a popular and famously unflappable chancellor (albeit from a different party). Mr Scholz even copied her habit of pressing her fingers and thumbs together in a downward-pointing diamond.

But instead of seeming open and decisive, Mr Scholz comes across as aloof and hesitant. Shying from grand gestures and disdaining the press, he prefers boardrooms to public podiums. He often leaves controversies to fester and lets his ministers clash, intervening only when the political damage has already been done. "Olaf takes the approach that you only engage in fights where you can win; other issues it is best not to touch," says one party insider.

The chancellor's popularity soared briefly in March 2022, after Mr Scholz bravely declared a *Zeitenwende*—an epochal change—in response to Russia's invasion of Ukraine. But his approval rating has



since fallen to 20%, the lowest for any chancellor since the pollster Deutschland-trend started keeping a record in 1997.

Some pin hopes on a midterm change of leadership to bring in the far more popular defence minister, Boris Pistorius. But a recent poll suggests that in a fresh national election that would boost the party's chances by just three percentage points. The SPD's spiral looks likely to continue. ■

Madrid

A moment in the sun

MADRID

Spain's capital is booming. Can it grow yet keep its cool?

"JUST TO BE something, I'll be a *madri-le-ño*." Not a stirring sentiment, and yet the line is part of the official anthem of Madrid, which has often "just been something". King Felipe II made the middling town his new capital in 1561 in part simply because it was dead central and lacked competing powerful institutions; amazingly in such a Catholic country, Madrid did not even get its own completed cathedral until 1993. But later, as Spain's empire declined, so did Madrid's profile.

Now Madrid is having a moment. Tourists are flocking, as well as would-be residents. They include Americans fleeing toxic politics, northern Europeans seeking an easy-living big city, and, most of all, Latin Americans. Some come to work in construction, care or hospitality. Others are rich Venezuelans and Mexicans fleeing confiscatory populism. The foreign population has grown by 20% since 2016, much of that Latino, making Madrid a growing rival to Miami as the "capital of Latin America". The Madrid region is richer than Rome's and not far behind Berlin's.

The city's and region's governments, both of them run by the conservative People's Party, have welcomed the influx. Last year the region announced a plan to let people who invest in Madrid—including in property—offset 20% of the cost from their taxes, for example. Isabel Díaz Ayuso, the pugnacious regional president, gleefully contrasts Madrid's low-tax, light-regulation approach with a supposedly overbearing national government. But that Socialist-led national government has done its bit for Madrid, too. It has so far kept a "golden visa"—giving residency to those who invest €500,000 (\$537,000)—while passing a "digital-nomad" law to attract knowledge workers.

José Luis Martínez-Almeida, Madrid's mayor, says a turning-point came with the pandemic, when Ms Ayuso battled the prime minister, Pedro Sánchez, to keep businesses open. Covid-19 took a terrible toll, but Madrid emerged with a reputation for openness. "Before, it was the best-kept secret. Now it is the *place to be*," says Mr Almeida, uttering the final phrase in English.

The attractions include culture, low and high. For a long time the Prado museum's stuffy, traditional presentation of a brilliant collection was not enough to attract foreigners away from the coasts. Now it anchors a trio of stylish museums (with the Reina Sofia and the Thyssen-Bornemisza) that welcome over 7m visitors a year. But the museum of the Bernabeu stadium, home to the Real Madrid football club, attracts over a million a year too, and the city has just nabbed the Spanish Formula 1 Grand Prix race from Barcelona. The number of musicals in the city has doubled to 14-15 since the pandemic. Cheap tapas are being joined by an increasingly sophisticated gastronomy, often drawing on Spanish regions far from Madrid.

The city's weight in Spain is growing, too. In 1980 the region accounted for 15% of Spanish GDP. In 2022 the share was 19%, expanding even faster than Madrid's proportion of Spain's population. In 2018-22 the region attracted about 71% of foreign investment in Spain, with the next-highest region, Catalonia, at 11%. The signal that "you are welcome" is powerful for investors, says Nuria Vilanova of CEAPI, a group that promotes links with Latin America. And though Spanish universities are middling, its business schools are an exception. Madrid has campuses of three such schools that come high in global rankings.

The price of success

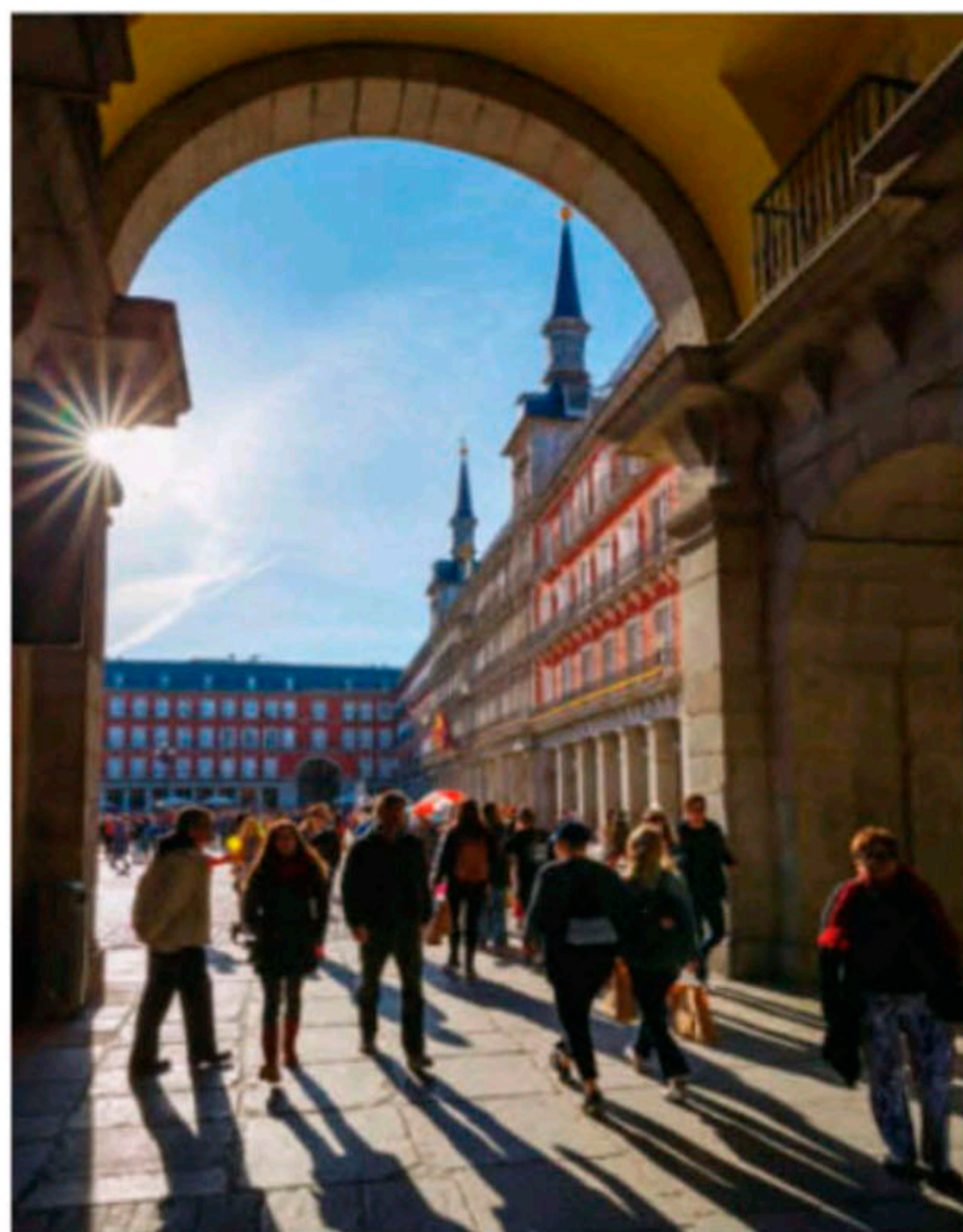
The biggest problem facing Madrid is where it can put people. The region, with 7m inhabitants, is expected to add another million in the next decade. But the city lacks housing, the reason growth has gone to suburbs and dormitory towns. The newest housing developments are soulless, ▶▶

unwalkable places. Since a peak in 2006, new building permits have fallen by 69% in Madrid, according to Neinor, a property developer. Getting them is still onerous.

Hence the hopes for Madrid Nuevo Norte, a new district around Chamartín railway station. Where five skyscrapers now stand, a host of new ones are planned by 2050, creating a new business hub. But the developers hope to avoid the fate of projects that lack shops, residents and green space. Around a third of the planned 10,500 apartments are to be affordable (and rent- or price-protected), while ground floors in many buildings are to be for small retail. But some, including Rita Maestre, the co-chair of Más Madrid, the left-wing opposition in the city, fear the project may exacerbate the city's divisions between a rich north and far poorer south.

"It's such a clean city," Ms Maestre says she hears—from people who know just half of it. Usera or Carabanchel in the south, with incomes per head of €11,000–12,000, get about one-third of the street-cleaning budget of the rich north, she says. If the city needed a piece of ugly infrastructure such as a dump or a water-purification facility, "100% of the time" it was built in the south, she says. But even the poorest areas are orderly and safe, thanks to tight-knit local communities, she argues. Those include foreign ones. Usera, with over 10,000 Chinese residents (most from a single county, Qingtian), is home to the city's bustling Chinatown.

Can the city keep its cool while changing so quickly? Internationalisation and the rapid change in demography inevitably leave some grumbling about the good old days. But Ian Gibson, an Irish Hispanist author who has lived in Madrid since the 1970s, says "Don't worry—it's never changed," despite the worries over the years. "It has become itself more fully." ■



The same, but better

Russia

With friends like these

Putin extends his crackdown to troublesome war supporters

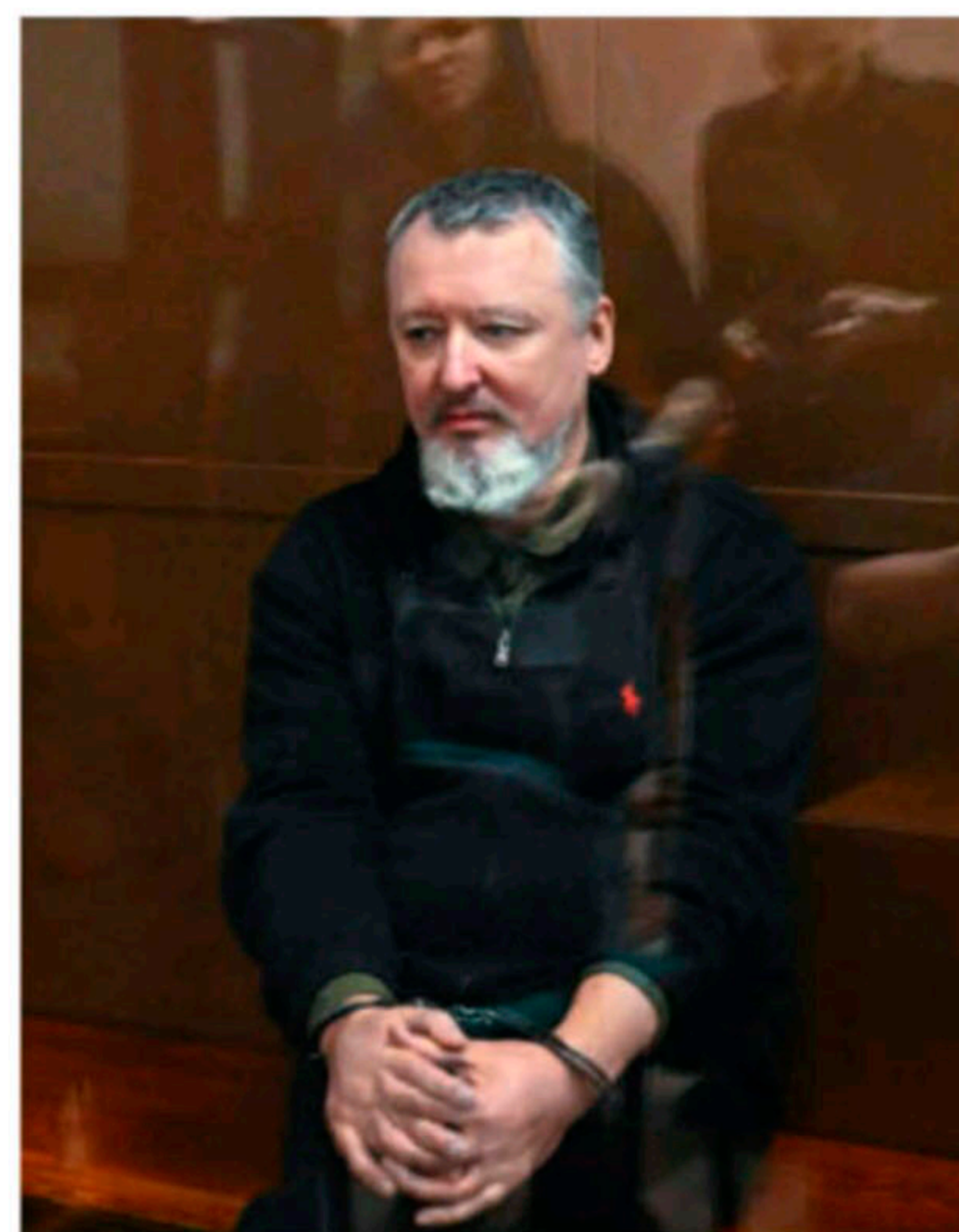
ON JANUARY 25TH a Russian court sentenced Igor Girkin, a former officer of the FSB, Russia's main security service, to four years in a penal colony for the crime of "public incitement of extremist activity". His arrest last July, days after he had criticised Vladimir Putin's wartime decisions and called the Russian president a "cowardly mediocrity" on social media, has sent shockwaves through Russia's active community of pro-war nationalists, many of whom deem him a hero.

Mr Girkin's reputation rests on his paramilitary career; under the codename Strelkov ("Marksman"), he proved a key figure in both the annexation of Crimea in 2014 and the initial organisation of rebel groups in Ukraine's eastern Donbas region. He remains a strong supporter of both the war and Russia's resurgent national project, notwithstanding running afoul of the Kremlin. The case has heralded a shift in Kremlin prison policy, which now not merely punishes critics of the war but also seeks to rein in the excesses of troublesome supporters.

Politically motivated cases in Russia have long resulted in draconian prison sentences, but the motivations for such prosecution have shifted with time. In the 2000s cases were brought against prominent business figures like Mikhail Khodorkovsky, an oligarch, and Sergei Magnitsky, a tax adviser who later died violently while in custody. In the 2010s political prisoners tended to be involved in protest movements, as was the case with the band Pussy Riot and with the house arrest in 2014 of Alexei Navalny, Russia's most prominent opposition leader.

Following Russia's invasion of Ukraine in February 2022, however, the policy shifted again and Russia's many prisons started to be used as an instrument for punishing opponents of the war. Mr Navalny, who has been held in custody since 2021, has received two additional sentences since the invasion began: first for nine years and then for another 19.

Punishment even against grassroots activists has veered into the absurd. One example is the seven-year sentence imposed in mid-November on Sasha Skochilenko, an artist who replaced grocery-store price tags with criticisms of the Russian army and the war effort. Last summer Olga Smirnova, an activist, was sentenced to six years in jail in connection with seven war-



Marksman marked

related posts she had made on Vkontakte, a Russian social-media platform.

Cases such as these are launched selectively, and to set an example, says Sergey Troshin, a St Petersburg municipal councillor who has expressed public support for both Ms Smirnova and Ms Skochilenko. "The task the state set for itself was to take a few people and publicly hand them large sentences," he said. "You can think of this as 'precision repression', and it makes people scared enough to halt their activism."

According to OVD-Info, a human-rights monitor, approximately 160 Russians have been imprisoned and over 850 have been prosecuted for anti-war activities since the start of the full-scale invasion of Ukraine in February 2022.

The prison system has also been used as a reward for loyalty as much as a punishment for defiance. Prisoners, many of whom had been convicted for multiple, violent crimes, have walked free with full pardons after serving in the Russian army in Ukraine for as little as six months. This has been framed in state-run media outlets and friendly social media as a reward for loyalty to a new national project centred on resistance to the West, the promotion of a multipolar world and Russia's continuing influence in the "near abroad".

However, a recent investigation conducted by BBC Russia uncovered a shift in policy. In an effort to curb local resentment, and probably to distance the president from what has proved to be a controversial policy during the runup to the presidential elections next month, ex-convict veterans are now required to serve until the war's end in return for probation rather than a pardon. Exoneration may only be received in cases when soldiers reach the military's age limit, earn a special commendation or are maimed in combat, described as "health loss". ■

Poland

The return of law

WARSAW

Donald Tusk tries to undo the far right's capture of the state

SINCE DECEMBER Kalina Ostrowska has been coming home from school and doing something that would shock most parents of 16-year-olds: she turns on the television and watches the Sejm, Poland's parliament. Lots of her friends are watching, too. Young Poles have become strangely interested in politics. In the election last October turnout among those under 30, who normally vote at low rates, reached 69%, not far below the overall figure of 74%. They overwhelmingly backed the opposition, helping Donald Tusk and his centrist Civic Coalition (KO) to beat the hard-right Law and Justice (PiS) party that had run Poland for eight years.

One reason the Sejm makes such good television is its new speaker, Szymon Hołownia. Mr Hołownia, who leads the centre-right Poland 2050 party (now part of Mr Tusk's alliance), is a long-time talk-show host and master showman. "It's funny when the opposition protests and Hołownia shuts them up with some pointed retort," says Ms Ostrowska. Yet the main reason to watch is the riveting conflict playing out in Poland's government.

Like many populist parties in power, PiS grabbed control of independent state institutions and packed them with loyalists. Poland wound up having its EU funds withheld for violating the rule of law. Mr Tusk is trying to fix this, which means rewriting statutes and firing apparatchiks. But Andrzej Duda, the president, who comes from PiS, has pledged to veto the government's efforts. The constitutional tribunal, dominated by PiS appointees, is gumming things up too. Mr Tusk's government faces a tricky job: restoring the rule of law without abridging the rule of law in the process.

The biggest challenge is the judiciary. PiS changed the law so that the Sejm, where it had a majority, appointed members of the National Council of the Judiciary (NCJ), which nominates and promotes judges. It then put loyalists in place throughout the courts. When the EU's top court ruled that this violated the separation of powers, Polish prosecutors began going after judges who had the temerity to appeal to that court. Meanwhile PiS fused the offices of minister of justice and prosecutor-general, created a new post of national prosecutor, and—just before the election—passed a law requiring presidential consent to dismiss him. Analysts said PiS was trying to cement its control of state institutions.

The new justice minister, Adam Bodnar, wants to break up the cement. To ditch the national prosecutor without risking a veto from Mr Duda, Mr Bodnar announced on January 12th that his appointment was void, on the grounds that the procedures the government used to bring him out of retirement were wrongly applied. Experts think Mr Bodnar is right, but PiS and the constitutional court have cried foul. The justice minister is also trying to replace regional court presidents.

PiS's deputies in the Sejm, who eagerly packed the courts when they were in power, denounce Mr Bodnar's house-cleaning as a coup d'état. The difference is that where PiS grabbed control over the judiciary, Mr Bodnar wants to give it away. The government plans to split the posts of justice minister and prosecutor-general, and to allow judges themselves to pick most members of the NCJ. Mr Bodnar is "trying not to gain power, but to give it back to judges", says Zuzanna Rudzinska-Bluszcz, a deputy justice minister. But that reform will require Mr Duda's signature.

The second area of conflict is the media. Under PiS state TV, radio and the national press agency were transformed into propaganda outlets. PiS created a new supervisory council and packed it with allies. To circumvent it, on December 19th the new culture minister used commercial law to replace the state media's staff, acting as the companies' owner. PiS-appointed TV em-

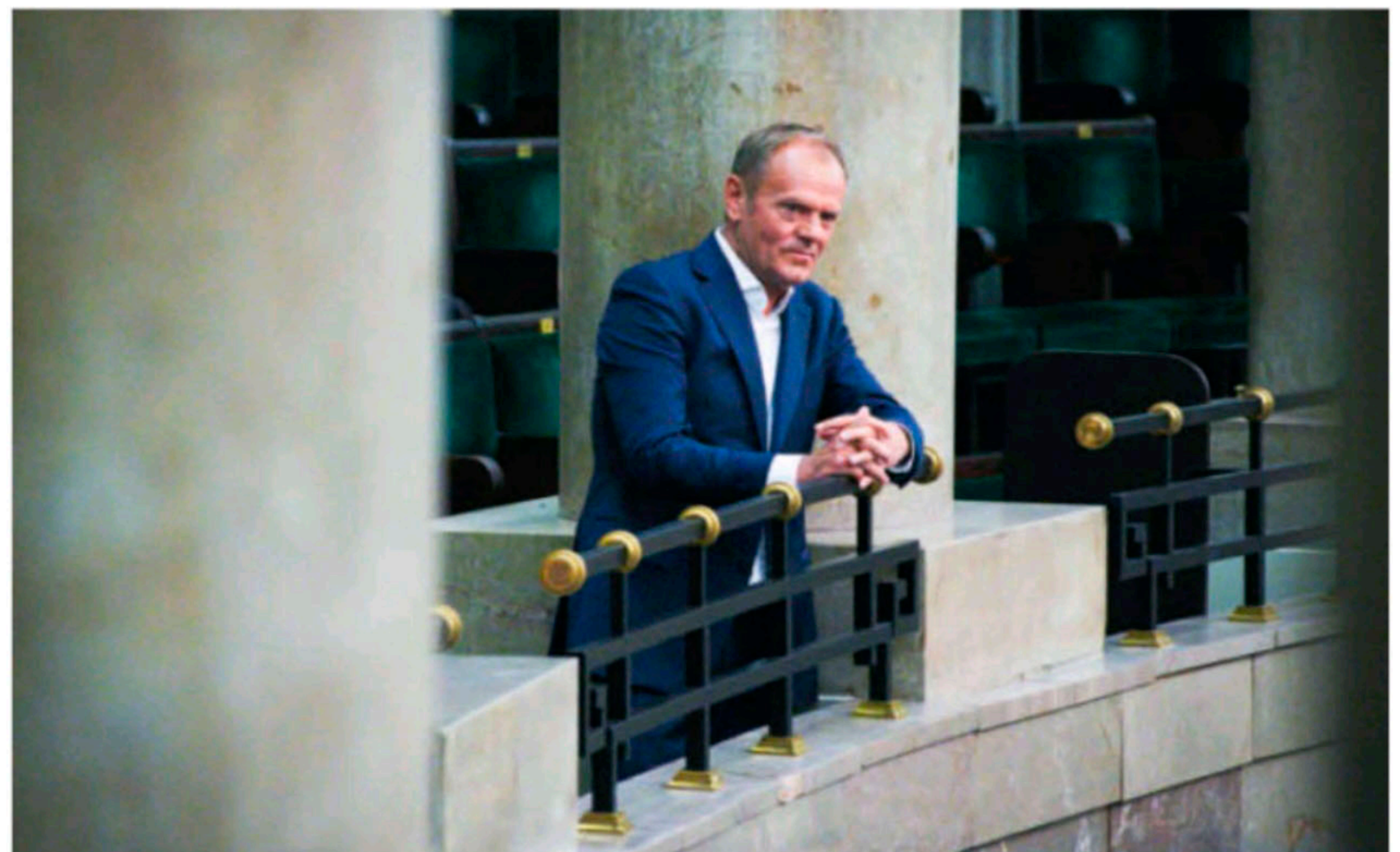
ployees staged a sit-in, but soon gave up. To reorganise the media, the government has put them into liquidation. But some courts refuse to register the liquidations.

Not just PiS but some civil-society groups dislike these manoeuvres, which ignore the bits of the constitution concerning the state media. The Helsinki Foundation for Human Rights, a watchdog, said the takeover "raises serious legal doubts". The government argues PiS's supervisory council was unconstitutional, too. But it has done little to reassure the public that it will not create a mouthpiece of its own.

The final battleground is the state's economic institutions. The central bank's governor, Adam Glapiński, is a pro-PiS braggart. But his policy decisions show little evidence of bias, and Mr Tusk has dialled back talk of investigating him.

More troubling stories are emerging concerning certain state-owned companies. Orlen, a government-owned oil firm, took over its rival Lotos (also government-owned) in 2022. EU competition regulators ordered Lotos to divest some assets first, which mainly went to Mol, a Hungarian company, and to Saudi Aramco. On February 5th government auditors said those assets were sold for \$1.24bn less than their worth. Critics say PiS wanted an oil monopoly for political reasons: Orlen held fuel prices below market level during the campaign. The government has fired the company's CEO and supervisory board.

At any rate, many Poles seem to be thoroughly enjoying the turmoil. The approval rating of Mr Tusk's KO has risen since December, while PiS's has fallen. At the state TV broadcaster "the end of political pressure" has restored morale, says Paweł Moskałewicz, its news director. But the judiciary is a much bigger problem. Undoing PiS's takeover of the state will be a long and controversial slog. ■



Tusk's tricky task

Charlemagne | Europe's solar boom

Cheap Chinese solar modules are helping deliver the EU's green promises



A BANNER RUNNING down the side of the European Commission's headquarters in Brussels depicts cartoon workers re-cladding its 13-floor façade with solar panels. The illustration might come across as a cruel joke to residents of the Belgian capital, for whose leaden skies the phrase "fifty shades of grey" could have been coined. But thanks to green edicts devised by the Euro-wallahs at the commission, the continent's fields and rooftops are being paved with very real photovoltaic cells. In 2023 the equivalent of one nuclear reactor of solar power was installed every single week. In the past three years nearly as many panels have been plugged into EU power grids as had been since the industry dawned at the century's start. By 2030 the bloc is aiming to triple the number of solar panels installed, thus covering an area bigger than 300,000 football pitches, two dozen times the size of Paris.

The sizzling solar sector has been an unexpected ray of hope for a continent still reeling from the cut-off of Russian gas. But amid the cheering some are squealing for help. Companies that make solar panels in Europe are teetering on the brink of failure; the outlook for them is not so much cloudy as apocalyptic. For the European solar boom is in truth a repackaged Chinese one: 95% of modules installed in the EU are imported from the world's dominant producer, which can churn them out at unbeatable prices. This makes policymakers anxious. Part of the case made to voters sceptical of the need for an economy-disruptive ecological transition was that going green would do more than merely fend off climate change. It was also meant to make Europe more resilient—less dependent on Russian gas, say—and create lots of new jobs. Does meeting ecological targets with containers full of Chinese solar panels merely change the autocratic regime Europeans will depend on, and crush employment to boot?

In short, no. For some green goods, such as electric vehicles, trade-offs between jobs, economic security and environmental targets do indeed exist. For solar, the case for learning to stop worrying and love Chinese photovoltaic cells is much clearer.

For one, it is clear that cheap imports have indeed fuelled the installation craze. In the early 2010s Europe throttled the arrival of Chinese solar modules after struggling EU producers successfully lobbied for import restrictions. Deployment of solar arrays soon

fell; consumers and utilities turn out to be willing to fork out only so much for virtuous electricity. As soon as the trade restrictions were lifted six years ago, installations rose again. Now European solar-panel producers are again lobbying for import restrictions, or at least subsidies to keep them afloat. Given that Chinese panels now sell for around half the cost of European ones—aided by cheap labour and energy costs, and also by ample state backing—that would mean vast and probably sustained levels of largesse.

Isn't a little market distortion a price worth paying for a home-grown energy source? That is the line of thinking in France, whose politicians have yet to come across an industry they did not deem "strategic" (a yogurt-maker was once kept out of an American rival's clutches on that basis). "Sovereignty might have a cost, but it also has no price," its deputy ambassador to the EU said recently according to the *Financial Times*, in a valiant bid to sound like a Gallic Braveheart. Some wince at ordering solar panels from China, since over a third of one of their key inputs is sourced from Xinjiang, a restive region where forced labour is rife. But two fears predominate. The first is that China could one day cut off the supply of solar panels as Russia's Vladimir Putin did with its gas, leaving Europe once again in the lurch. The second is that China will corner the solar manufacturing market, then raise prices when other producers have been wiped out.

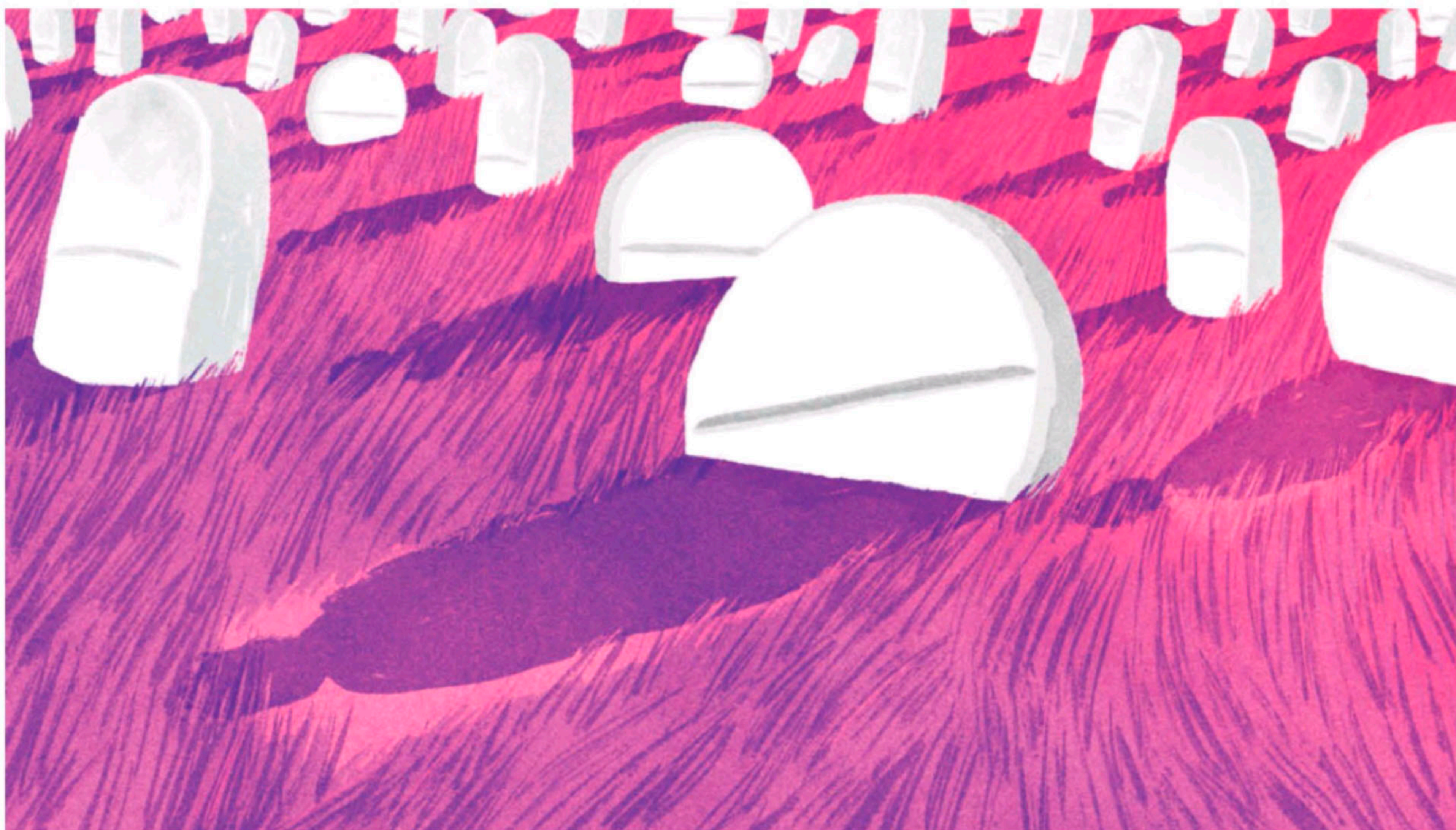
The Russian parallel is "far-fetched", says Simone Tagliapietra of Bruegel, a Brussels think-tank with a paper out this week on the merits of solar imports. Gas stops flowing as soon as a pipeline is cut, whereas already-installed solar panels keep generating juice. There are currently enough modules stockpiled in the EU for over a year's worth of installations. China would also suffer if Europe was deprived of green technology, given the planetary effects of climate change. And lots of other producers—notably America, which is providing huge subsidies for each domestically made solar panel in a bid to curtail dependence on China—are entering the fray, thus leaving future Europeans with lots of choice.

How about jobs? Protecting a few European solar factories would help workers there. But raising prices would slow down installation. This in turn would destroy jobs among those deploying solar panels, which is far more labour-intensive, point out the Bruegel boffins. Short of Chinese engineers teleporting to Belgium to install rooftop panels, those jobs will not soon be outsourced.

Where the sun don't shine

The EU has yet to decide whether it wants the cake or its eating. The commission on February 6th laid out plans to cut greenhouse-gas emissions by 90% of 1990 levels by 2040. But the "Net Zero Industry Act", also agreed this week, calls for 40% domestic production of green technologies by 2030. Nobody knows how a viable solar industry could be magicked up in just a few years without a protectionist revival. More sensibly, the new law will nudge firms to look beyond a single dominant global supplier (ie, China) for green-technology projects funded with public money, pushing importers to source panels from India, for example. And everyone agrees that researchers in Europe should be among those inventing the next generation of solar modules.

Given its expensive workers, high energy costs and weak industrial supply chains, the EU should not be making photovoltaic cells. Those who worry about French-style "strategic autonomy" should splurge on defence, not on coddling industries that will never be able to turn a profit. Europe has the chance to green itself fast and cheaply through imports. It should seize it. ■



Opioids

A pill wind

Why drug deaths in Britain have risen every year since 2012

AS A GENERAL practitioner (GP) in a deprived inner-city neighbourhood of Birmingham, Judith Yates had a close-up view of the evolution of Britain's illegal drugs market. In the 1980s some of her poorest patients became addicted to Afghan heroin as it flooded the market. In the 1990s they made crack pipes from Coca-Cola cans and asthma inhalers. Some recovered. Others went in and out of prison, where they often became addicted to other drugs. Several died.

In 2010, frustrated by how little ground the government was making in its war on drugs, Dr Yates started visiting the local coroner's office to collect information on drug deaths. "I wanted to look for patterns, see if we could prevent people dying," she said. What she found alarmed her. Drug deaths were increasing every year. And opioids were playing a big role.

In 2022 Dr Yates (by then retired but continuing her investigations) spotted the name of a drug on the coroner's reports that she had not seen before: n-pyrrolidino etonitazene. This is one of a class of new synthetic opioids known as nitazenes

which are at least as powerful as fentanyl (another synthetic opioid that is itself up to 50 times more powerful than heroin) and often many times more so.

The drug had been found in three young men who had died, two students and a businessman—quite different sorts of drug users from those Dr Yates was used to seeing in coroners' reports. They had bought what appeared to be pharmaceutical-grade oxycodone (painkiller) pills online. "They would have thought they were self-medicating to reduce the stresses of life," she says. "They certainly did not expect to die."

→ Also in this section

49 Monarchs and mortality

50 Bagehot: The lessons of Harold Wilson

→ Read more at: [Economist.com/Britain](https://www.economist.com/Britain)

— Falling inflation, weakening growth

— Reform UK's chance

— The Holocaust memorial

Dr Yates's experience is a microcosm of a wider crisis. Drug deaths in England and Wales have risen every year since 2012. In 2022, the most recent year for which there are data, the figure was 4,907, according to the Office for National Statistics (ONS); 89% higher than in 2012. In that period some features of drug deaths have remained steady. Most victims are male (see chart on next page). The north-east has the highest death rate. (Scotland, which is subject to the same laws but where drug deaths are counted separately, has one of the highest rates in Europe.) And the same generation—people born in the 1970s—are the likeliest to die.

The vulnerability of this cohort is explained in part because in the last two decades of the 20th century more young people started using hard drugs, chiefly heroin and cocaine. These do more damage to the body as it ages. Deaths caused by cocaine, which has become increasingly popular as it has become cheaper, rose to 857 in 2022 from 112 in 2011. Drug-induced deaths may also be rising because it has become more common to take more than one substance at a time, which is likelier to be fatal.

But the most worrying part of the picture involves the consumption of synthetic opioids. Britain, like most of Europe, has so far sidestepped the opioid crisis that killed 70,000 Americans last year alone. Because of its nationalised, non-profit-driven health-care system (in which doctors are generally responsible about prescribing opioids), it is unlikely to ever develop a

▶ problem as big as America's.

Yet experts worry that an opioid crisis may nonetheless be looming because of changes to the global drugs trade. Most heroin in Europe comes from Afghanistan, where in 2021 the Taliban announced a ban on opium, a gum produced from poppies from which heroin is manufactured. Two missed poppy harvests later, the market for synthetic opioids such as nitazenes—which are relatively easy and cheap to manufacture (in China, it is thought) and then post—is said to be booming.

No one knows how many people in Britain have been killed by nitazenes. They have been detected in several dozen cases but are not always tested for. Meg Jones, director of Cranstoun, a charity, says nitazenes are being cut into many different sorts of drugs, often accidentally (because they are cut and packed on the same surface). In November the Home Office said it was decreeing 15 new drugs to be “class A”, the most dangerous sort. Most of them are nitazene compounds.

Britain is singularly unprepared for an opioid crisis. Funding cuts in the 2010s have devastated drug-treatment programmes. In the second part of an independent, government-commissioned review into drugs published in 2021, Professor Carol Black, a doctor and academic, said that “funding cuts have left treatment and recovery services on their knees.” The workforce was “depleted, especially of professionally qualified people, and demoralised”. “The current situation is intolerable,” she said.

The government has acknowledged that more investment in such services is needed. Yet it needs to do a lot more than restore what it has squandered. Since Britain passed the Drugs Misuse Act 1971, which criminalises possession of illicit drugs, it has taken a moralistic, punitive attitude to drug use that has achieved little.

Britain remains one of the few countries in Europe that does not have safe drug-consumption rooms (though one is due to open in Scotland soon). That is be-

cause to run one could mean being charged with a crime. Research suggests such places do not increase drug use but help users enrol in other treatment. They are, moreover, a low-cost intervention, requiring little more than a room, a health-care worker and a supply of overdose medications. Yet Rishi Sunak, the prime minister, has said they “condone use of drugs”.

There has been some progress. Police forces increasingly carry naloxone, an opioid antidote. Once only available in injectable form, it is now available as a nasal spray. Officers prefer using this to giving drug addicts CPR. (Multiple doses may be needed to save someone who has taken nitazenes.) Last month The Loop, a charity, opened the first Home Office-licensed

drug-testing site, in Bristol. It will allow users to submit samples of illegal drugs; if there are concerns about the potency and purity of substances, local authorities can send public-health alerts and the buyer can be offered advice and treatment. More such centres are crucial.

In a rapidly evolving drug market information is power, says Dr Yates. She would, for instance, like the government to find a way to hasten the dissemination of information about drug deaths, which are usually certified by coroners. The ONS says that record delays in inquests mean 64% of deaths that were registered in 2022 actually occurred in previous years. If Britain does have an opioid crisis, it may not find out before it is too late. ■

Monarchs and mortality Royal bodies

King Charles III has been diagnosed with cancer

BRITAIN HAS always been interested in its kings' bodies. Each age has had its own particular obsession. For Shakespeare, it was the king's head—the mortal brow beneath the hollow crown—that fascinated. After the Restoration it was the king's hand—Charles II was believed to be able to heal diseases by touch alone. Now national attention has turned to the state of Charles III's health.

According to a statement from Buckingham Palace on February 5th, “a separate issue of concern was noted” while the king was being treated for an enlarged prostate. Subsequent tests “identified a form of cancer”. Quite which form has not been announced; a little royal distance remains. But when future historians come to chronicle the change from a “magical” monarchy, able to heal by touch alone, to the more humdrum mortal kind, this moment may feature: few things seem more mortal or less magical than a prostate.

In the past monarchs have been less willing to admit to frailty, as have their physicians. When George VI had his entire left lung removed in 1951 because of lung cancer, the public (and indeed the king himself) were told that this was due to “structural abnormalities”. When his grandfather, the high-living Edward VII, collapsed in Biarritz, it was at once entirely unsurprising—Edward smoked, drank and ate so abundantly that he couldn't do up the bottom buttons on his waistcoat—and, at first, entirely unspoken about. An attempt to treat the king was made, including through the application of his favourite mistress. But even she failed to revive him.



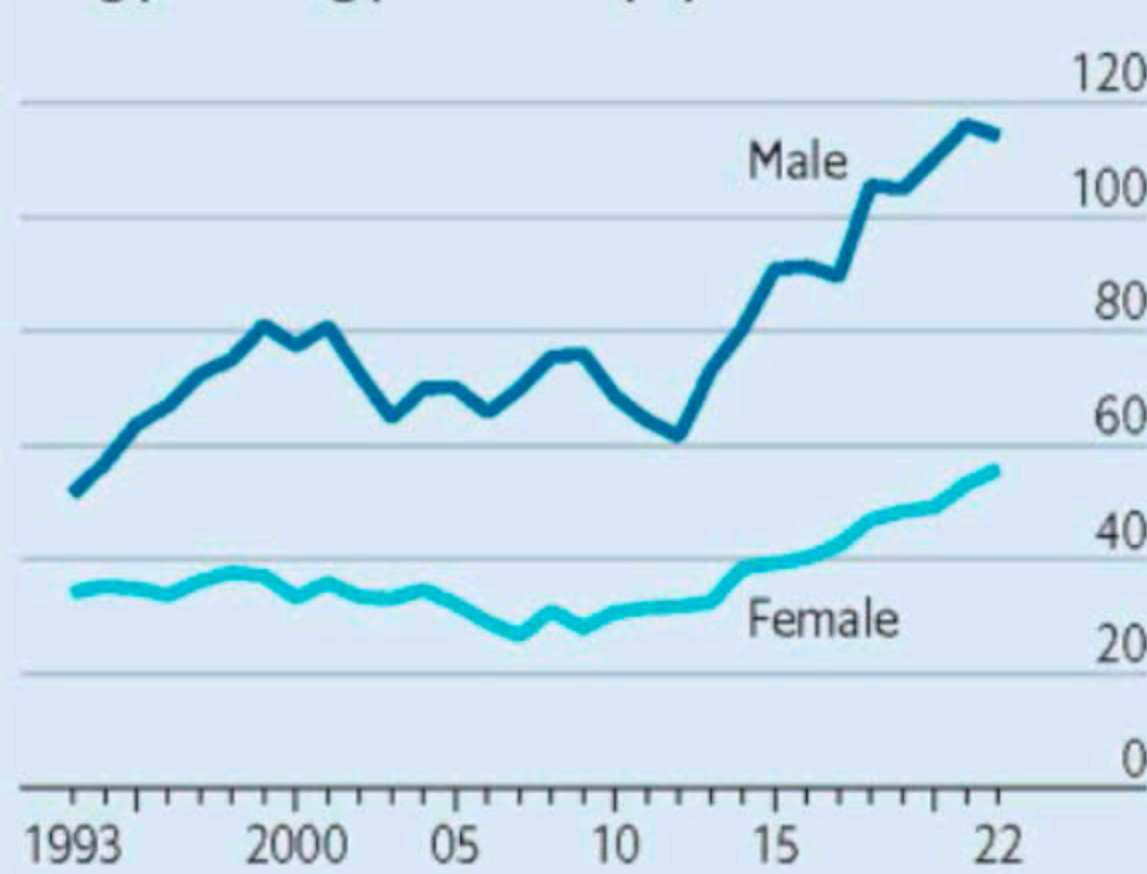
All his senses have but human conditions

The monarch's mortality feels all the more salient when they come to the throne late. Elizabeth II ascended to the throne at the age of 25; when the congregation at her coronation sang “Long to reign over us” they could feel confident that she, with the pinchably plump flesh of youth, would do just that. At his coronation last year Charles—the longest-serving heir-apparent—was already 74.

A monarch is not a country incarnate, but they are not far off. If Elizabeth II—dutiful, stable and influential—embodied one era, it feels uncomfortably as though Charles III—also dutiful, but ageing and now battling ill health—might represent another. Then again, as Shakespeare makes clear, a king is also just a man. The crown might be bejewelled; the royal crest might sit on the press releases. But the king beneath is mortal, and increasingly open about it.

Bad highs

England and Wales, deaths* from drug poisoning per million population



Source: ONS

*Age-standardised

Bagehot | Wilson's gravy

The former prime minister who fascinates the Labour Party



SIR KEIR STARMER sometimes says that he must emulate all three previous leaders of the Labour Party to win governing majorities. He has to revive a battered country like Clement Attlee (who was prime minister in 1945-51), modernise the economy like Harold Wilson (1964-70, 1974-76) and fix public services like Sir Tony Blair (1997-2007). The second of this trio particularly fascinates the party. Sir Keir flecks his speeches with Wilson-era clichés (“white heat” and “the pound in your pocket”). Rachel Reeves, the shadow chancellor, is an admirer, as is Nick Thomas-Symonds, a shadow minister and author of a well-reviewed Wilson biography.

Wilson left office tainted by sleaze and fixated by alleged M15 plots against him. Labour’s left reviled him as a schemer, the party’s right as a relic who had failed to modernise Britain’s economy or tame the unions. He has undergone a resurrection in part due to Labour’s chronic nostalgia, and in part because it is tired of losing and Wilson was a winner (“the sine qua non of a successful leader,” notes Mr Thomas-Symonds). The dates of his election victories are used by some in the party as shorthand for possible outcomes this year: a “64” (a tiny majority), a “66” (a big majority) or a “74” (a hung parliament followed by a majority in another election called soon after). But the Wilson renaissance is also because his era has strong parallels with Labour’s position today.

Sir Keir, born two years before Wilson entered Downing Street, has followed a similar course. Both are workaholics from lower-middle-class families: Wilson’s father was an industrial chemist, Sir Keir’s a toolmaker. Wilson aligned himself with the leftist Aneurin Bevan, before becoming the Labour leader by tacking to the centre. Sir Keir, with a similar methodical ambition, served under Jeremy Corbyn before moving rightwards. Both marry high-mindedness with low cunning. “This party is a moral crusade or it is nothing,” said Wilson of Labour. “He never much believed in ideology; he was an operator,” said Roy Jenkins, his home secretary. Both shed a stiff, academic bearing for an everyman routine; a pipe, a mackintosh and a bottle of HP sauce were Wilson’s props.

Sir Keir will campaign like Wilson. In 1964, as today, Labour attacked “13 wasted years” of economic mismanagement and stagnation (in fact, real income growth has been far worse this time round). Sixties Britain was suffused with a declinist anxiety,

which Sir Keir has revived. Britain is slipping so far behind its peers, he says, that the young will soon look for work in Poland.

Sir Keir has also revived the rhetoric of class and meritocracy that Wilson turned into a cudgel. The root of Britain’s economic woes, said Wilson, was that the cabinet and boardrooms were stuffed with aristocratic duffers whose “grouse-moor conception of national leadership” was unfit for the jet age; Britain needed scientifically minded go-getters. (Sir Keir, who talks of a “class ceiling”, switches grouse moor for Rishi Sunak’s helicopter.) The answer was the expansion of comprehensive schooling and universities, which some in the shadow cabinet regard as Labour’s greatest achievement. The foe of the “old school tie” would doubtless have cheered Ms Reeves’s plan to levy VAT on private schools.

The shadow chancellor’s economic agenda has a Wilsonesque edge. His “national plan”, announced in 1965, promised to lift growth to 3.8% a year in order to stave off a currency crisis, fix regional imbalances and fund the swelling welfare state. Her growth “mission” targets the highest per-person increase in GDP in the G7. They share a vision of an active Whitehall working hand-in-glove with businesses and the unions to steer investment to productive ends. Like Wilson, the party’s leadership today admires glossy manufacturing over services, wants a spree of housebuilding and preaches dull reform over *grands projets*.

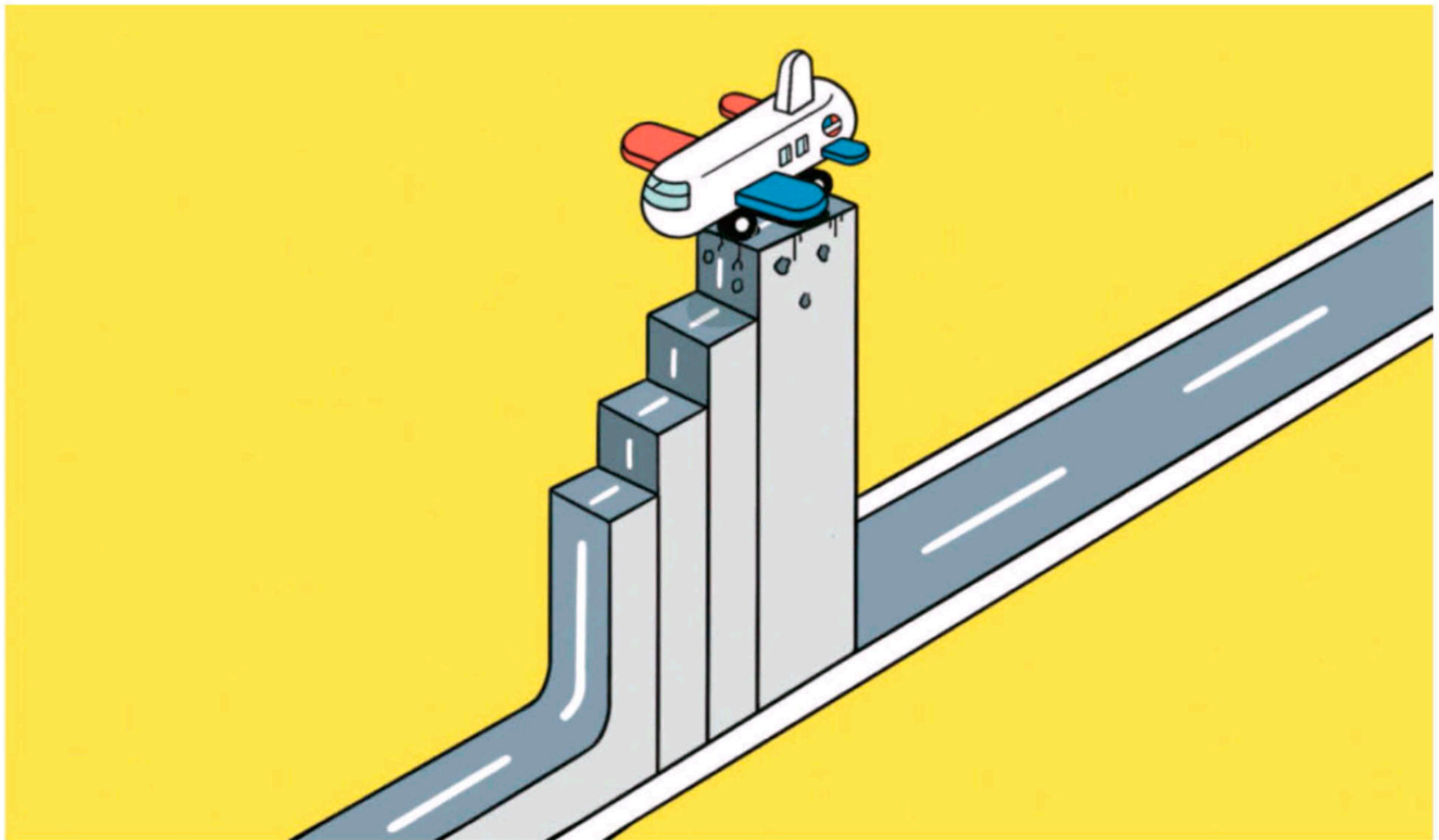
David Edgerton, a historian, argues that Sir Keir’s ambition to remake capitalism pales compared with Wilson’s. But there are still important things for Labour to learn from his premierships. Wilson’s national plan was immediately undermined by pressure on sterling and the deflationary policies needed to support it. Wilson resisted devaluing the pound until 1967, harming his authority in the process. That left him too weak to pass trade-union reforms. At the time of writing, Sir Keir was expected to scrap a plan to spend £28bn (\$35bn) per year on green energy after months of dithering over its affordability given the state of the public finances. If so, he has belatedly learned one lesson from Wilson: Labour must act faster to acknowledge hard realities.

A second lesson concerns the Treasury. Wilson tried to bypass its short-term instincts (“very, very skilled chaps in more or less stopping you doing anything”) by setting up a rival Department for Economic Affairs to run industrial planning. It was short-lived. The party today doesn’t plan to break up the Treasury; Ms Reeves is shaping up to be an imperial chancellor. But it needs to figure out how to strengthen the centre of government so that its “missions” of long-term reform aren’t strangled by bean-counting.

He who rejects change is the architect of decay

The third lesson is that centre-left leaders can create the space for radical social reforms if they themselves hew to bread-and-butter concerns. Wilson oversaw a dizzying legal revolution: the abolition of capital punishment, the legalisation of homosexuality and abortion, the end of theatre censorship, and the passage of race- and sex-equality laws. Yet Wilson left the heavy lifting on such issues to Jenkins and others. He told his speechwriters to stick to working-class concerns: “I don’t want too many of those Guardian-isms, Environmentalism, Genderism etc.”

Sir Keir’s speeches are blue-collar, yet he also shows glimmers of radicalism: he has indicated that he would welcome the decriminalisation of euthanasia should a private members’ bill be brought. Ben Pimlott’s biography of Wilson, published in 1992, affords his social reforms only passing mention over 700 pages. A leader can achieve a lot if they don’t care who gets the credit. ■



Big business

Discomfort level

America's economy is booming. So why are bosses worried?

AMERICA'S STOCKMARKET is on a tear. Over the past three months the S&P 500 index of large companies has soared by nearly 15%, reaching a record high (see chart 1 on next page). Recent economic data support investors' optimism. On February 2nd statisticians reported that 353,000 jobs were created in January, far more than expected. The economy grew by a healthy 3.3% (at an annual rate) in the final quarter of 2023. Despite that, inflation slowed to 2.6% on the Federal Reserve's preferred measure, not far off its 2% target. Investors are now betting that by the end of the year the Fed will lower its benchmark interest rate from its current range of between 5.25% and 5.5% to below 4%, putting a rocket booster under America's economy—and with it America Inc.

This wager is not, however, by any means sure-fire. On January 31st Jerome Powell, chairman of the Fed, scuppered hopes of an imminent rate cut, arguing inflation was "still too high". As cheap pandemic-era debts begin to mature, the interest bill on America's \$21trn pile of non-fi-

ancial corporate debt will continue to creep upwards. Profits are more or less stagnant. In the final quarter of last year, which S&P 500 firms are currently reporting, they grew by a modest 1.6% year on year. What is more, three of the forces that propped up profits may now be weakening.

One source of concern is America's consumers. Some of the fuel that had sent consumption soaring, confounding expectations of a recession in 2023, is running out. The excess savings accrued by shoppers during the pandemic, thanks in part to government stimulus cheques, have now

largely been spent, according to a recent paper by Francois de Soyres and co-authors from the Fed. Default rates on credit cards have been steadily rising. Student loan repayments, which resumed last October after the Supreme Court quashed a pandemic-era moratorium, are adding to pressure on pocketbooks.

As a result, pedlars of discretionary goods are bracing for tough times. On January 23rd Wayfair, an e-emporium for furniture, announced it would lay off 13% of staff in response to "persistent category weakness", just weeks after its boss sent an inspiring Christmas memo to staff extolling the joys of "working long hours" and "blending work and life". On January 25th Levi Strauss, maker of America's favourite jeans, said it expected its revenue to grow between 1% and 3% this year, below what analysts had anticipated, and announced it would fire 10% to 15% of its workforce. On January 30th Whirlpool, a maker of home appliances, said it expected like-for-like sales to be flat in 2024.

That same day Mary Barra, boss of General Motors, America's biggest carmaker, cheerily predicted that the number of cars sold in America would rise by 3% this year—not bad, but well below last year's 12% increase. And prices are expected to fall to bolster demand, squeezing margins just as car firms are digesting higher costs from a new wage deal won by their unionised workers late last year. American consumers are also switching more slowly to ▶▶

→ Also in this section

52 Samsung's scion acquitted

53 A new sports-streamer

54 Can Italy Inc grow again?

55 Bartleby: Fairness at work

56 Putin's TsarGPT

57 Schumpeter: Musk v Zuck, round two

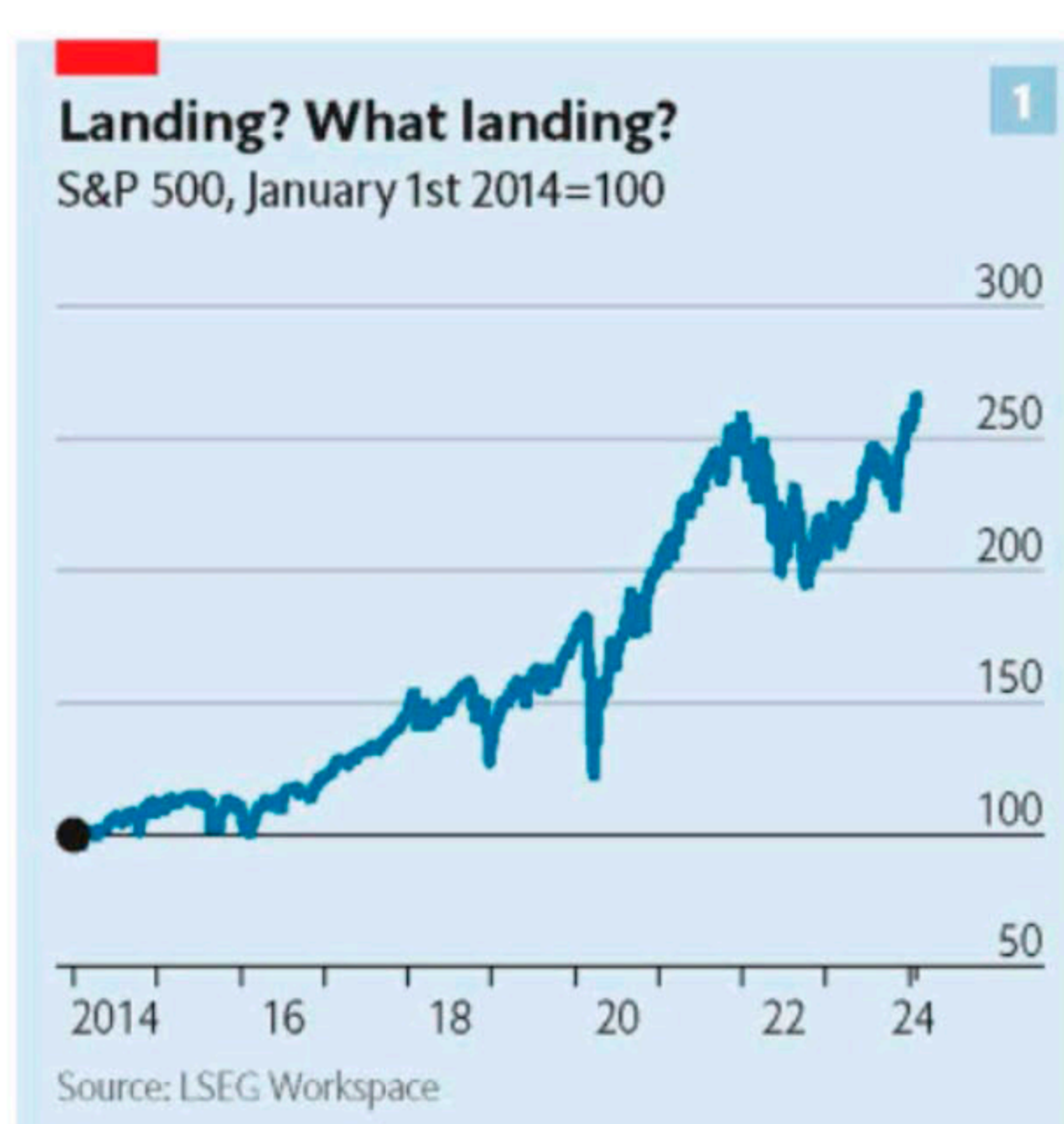
pricier electric vehicles (EVs) than carmakers had anticipated. On January 24th Tesla, America's EV champion, warned that its growth "may be notably lower" this year. Its shares plunged by 12% in response, wiping \$80bn from its market value.

Even sellers of consumer staples are signalling caution. Over the past two years makers of packaged food and home essentials have managed to protect profits from rising costs by jacking up prices without crushing demand. That strategy now looks to be running out of road. On January 26th Colgate-Palmolive, a purveyor of toothpastes, said it expected sales to grow between 1% and 4% this year, down from 8% last year. On January 30th Mondelez, a confectioner, estimated revenue growth for 2024 of 3-5%, down from 14% in 2023.

A second worry for some companies is the health of consumers in China. A collapse in the country's property sector has weighed on consumer sentiment. In December Nike's share price plunged after it reported slowing sales growth in China as a result of "increased macro headwinds". An order by a Hong Kong court on January 29th compelling Evergrande, once China's biggest property developer, to liquidate could further dampen the mood. The next day Laxman Narasimhan, boss of Starbucks, an American coffee chain, warned that "a more cautious consumer" in China was weighing on its growth. Although Apple, the iPhone-maker, managed to notch up year-on-year 2% growth in the final quarter of last year, its sales in China slumped by 13%. On February 5th Estée Lauder, a perfumer, said it would slash 3,000 jobs owing in part to weak Chinese demand. For Western firms, stiffening local competition is adding to their woes.

Back at home, America's manufacturing boom may be slowing—a third source of concern. In the first half of last year monthly factory construction in America surged by 17%, adjusting for inflation. In the second half this growth slowed to 8% (see chart 2). TSMC, a Taiwanese chipmaker, announced last month that it would delay the opening of a second chip factory in Arizona by one or two years. It had already delayed the first in July. On February 1st it was reported that Intel, an American chip manufacturer, would delay the opening of a factory in Ohio. That may be because subsidies promised by Joe Biden's administration have been slow to materialise. Of the \$52bn designated in the CHIPS Act for supporting domestic chipmaking, only a small fraction has been allocated. American car firms are also postponing investments in EV production in response to disappointing demand. That could weigh on the factory builders and suppliers that have benefited from the boom.

One area of activity that shows no sign of slowing down is artificial intelligence



(AI). Amazon, Alphabet and Microsoft—America's cloud-computing triumvirate—reported year-on-year growth in their cloud divisions of 13%, 26% and 30% in the latest quarter, powered in part by increasing demand from customers for the computationally hungry technology. All three told investors that their lofty ambitions for AI would lead them to raise capital spending in 2024. On February 1st Meta, which too harbours AI ambitions, reported blockbuster earnings and said it would spend up to \$37bn this year, a lot of it on data centres to host AI models. In contrast to its previous splurge, on its unloved virtual-reality metaverse, investors lapped it up—as they did news that the company would buy back more shares and pay out its first-ever dividend. The next day Meta's market value soared by \$200bn, to \$1.2trn, the biggest one-day jump in Wall Street history.

It may be some time, however, before the rest of corporate America sees a boost to the bottom line from AI. According to a recent survey by BCG, a consultancy, only 5% of companies are doing nothing whatsoever with the technology. But 71% are merely "pursuing limited experimentation and small-scale pilots". As America Inc runs low on other fuel, many more such pilots may be needed to ensure a smooth journey ahead. ■



South Korean business

Out of the nick, in time

SEOUL

Samsung's boss avoids prison, again

IT HAS BEEN a while since Lee Jae-yong did not have a court date in his diary. In 2017 the scion of the family that controls Samsung, South Korea's mightiest *chaebol* (conglomerate), was charged with bribing an associate of Park Geun-hye, then the country's president. After being found guilty that year, he was in and out of prison before being paroled and eventually pardoned in 2022. In 2020, in the middle of that saga, he was indicted for stock-price manipulation, breach of trust and auditing fraud. He has since made 95 trips to Seoul Central District Court.

Mr Lee's schedule is finally clear. On February 5th the court acquitted him, and 13 other Samsung employees, of all charges. Mr Lee will hope to put his legal troubles behind him and get back to business.

Both cases stemmed from the merger in 2015 of Cheil Industries and Samsung c&t, the group's unofficial holding company and a big shareholder in Samsung Electronics, its crown jewel. The deal, which valued each Cheil share at just under three Samsung c&t shares, passed control of Samsung from the ailing Lee Kun-hee, the group's chairman, to his son, the younger Mr Lee, who was the largest shareholder in Cheil but had little stake in Samsung c&t.

Prosecutors alleged that Mr Lee and his co-conspirators engaged in underhanded practices to inflate the value of Cheil relative to Samsung c&t. These included spreading false information and illegally lobbying South Korea's pension fund, a big shareholder in Samsung c&t. The sole purpose of this scheme, the prosecutors argued, was to tighten Mr Lee's grip on the group. As a result, other shareholders lost out. The court ruled that prosecutors had not provided sufficient evidence to prove either that the merger was meant to hand control of the group to Mr Lee or that shareholders had suffered a financial loss.

Mr Lee, who maintains his innocence, asked the court to acquit him so he could focus "on moving the company forward". Now that it has, he has much to do. A slowdown in parts of the chip business, Samsung's main cash cow, has cut Samsung Electronics' operating profit for 2023 to just \$5bn, its worst result since 2008 and down from a peak of \$54bn in 2018. Profits from memory chips, Samsung's speciality, picked up in the final quarter of 2023. But Mr Lee still faces challenges, from the Sino-American tech war to stiffer competition. ▶▶

Then there is domestic politics. If the less business-friendly Democratic Party keeps its majority in a general election in April, it may revive a bill that would limit insurers' assets from being overly concentrated in individual firms. This would force Samsung Life Insurance, the largest shareholder in Samsung Electronics, to sell most of its stock. That in turn would imperil Mr Lee's control of Samsung Electronics, which he exercises through Samsung Life Insurance, in which Samsung c&t is the biggest shareholder. To maintain it, he may need to simplify the conglomerate's Byzantine corporate structure.

Mr Lee's acquittal may yet benefit his family business. South Korean capitalism, not so much. Last year the World Bank's arbitration court found that the government had improperly meddled in the controversial merger. That the Seoul court has now let its architect off the hook reinforces the sense among many investors that *chaebol* heads can still do as they please. ■

Sports and television

Team players

Three media companies club together for a joint sport-streamer

MORE THAN 100m Americans will tune in on February 11th to the Super Bowl, the biggest event in the country's sporting calendar—and in its television schedules. In 2023 the audience for the football game (the American sort) was more than double that of the next-most watched broadcast that year. Although much TV viewing has migrated to streaming platforms, when Americans want to watch sport, old-school "linear" TV is where they go.

Is that about to change? On February 6th three of America's biggest sports programmers—Disney (home of the ESPN sport network), Fox and Warner Bros Discovery (WBD)—unveiled a plan to bring their most valuable content to a new platform. The as-yet-unnamed streamer will launch this autumn, showing everything from American football to the tennis at Wimbledon. If it succeeds it could be a game changer for the media business.

Most other kinds of TV have already shifted online. Last year streaming accounted for more minutes of viewing in America than either broadcast or cable TV, according to Nielsen, a ratings firm. Sport is the exception. Although big tech has added sport to its menu—Amazon and YouTube have bought rights to American football, Apple has dabbled in proper football and Netflix is about to grapple with

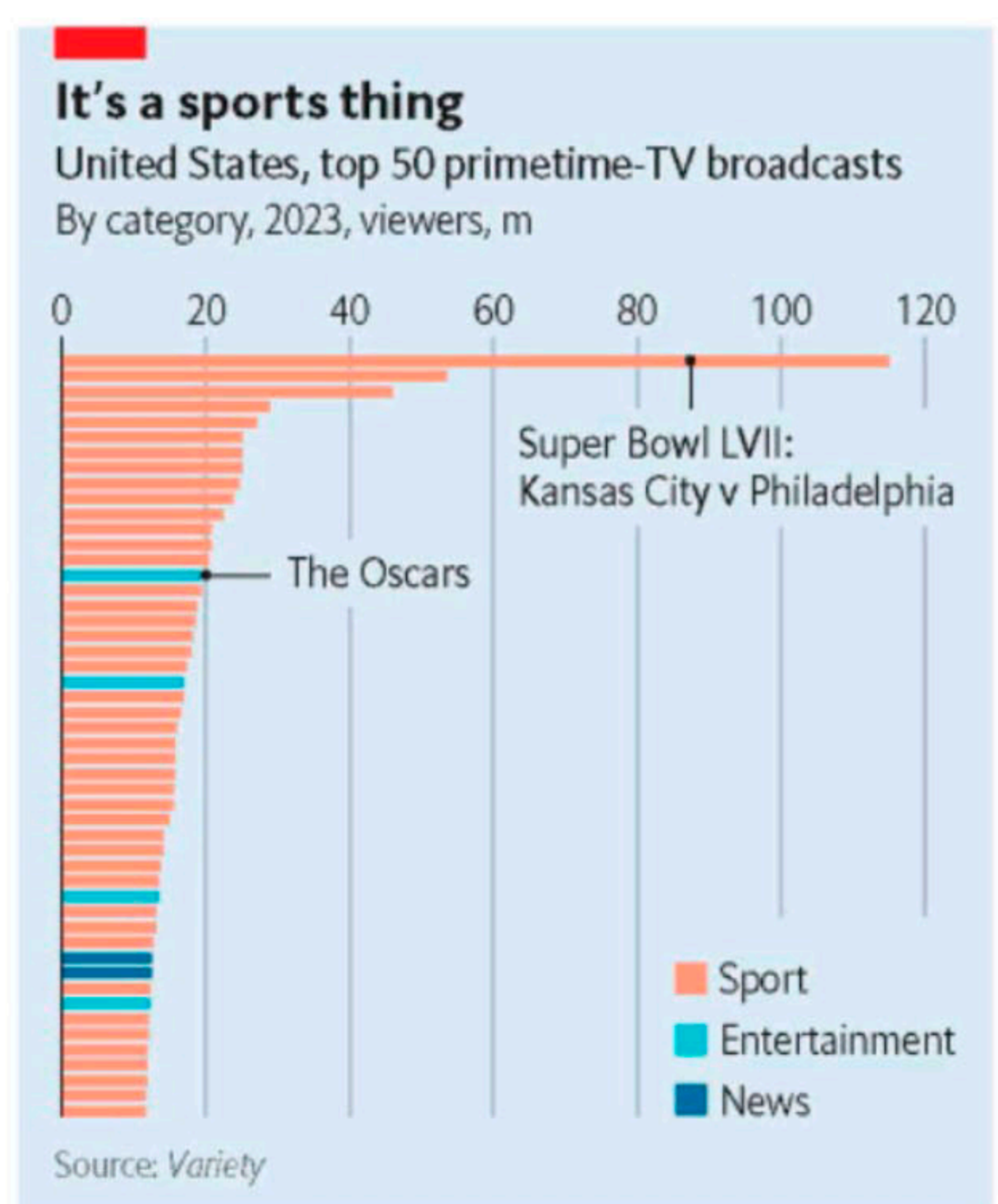
wrestling—true sport fans still need to shell out for cable. The audiences are vast: 44 of America's 50 most-watched broadcasts last year were sport (see chart).

The new service would be the biggest sporting bet made on streaming. The total value of sports rights on the platform—golf, NASCAR, hockey and much else—will be about \$16bn a year, reckons Bernstein, a broker. In all, the content slate will encompass about 55% of American sports rights by value, says Citigroup, a bank.

Some wonder if the new contender will ever make it to the starting line. Antitrust regulators may object to three sports-content giants clubbing together. And joint ventures can be unwieldy. Many are already comparing the new streamer to Hulu, an early platform launched in 2007 by Fox and NBC to counter the threat posed by YouTube. Its shared ownership slowed it down, put a brake on investment and earned it the nickname "ClownCo". The new sporting venture risks being "ClownCo 2.0", says Brian Wieser of Madison and Wall, an advertising consultancy.

Success may depend on price. LightShed Partners, a research firm, predicts that a subscription will start at \$35 a month (plus a generous helping of ads), less than half the cost of a comprehensive sport package on cable. Sport addicts may consider the offering insufficient. But casual fans may be tempted to ditch cable at last, hastening the decline of cable and satellite firms, which have already lost half their American subscribers in the past decade.

What is in it for Disney, WBD and Fox? They stand to lose out at first, as the juicy cable market shrinks. But the target market is streaming-only households that have never had cable, Lachlan Murdoch, Fox's boss, told investors on February 7th. And by giving viewers a streaming bundle in-



cluding sport, they could cut customer churn. People can easily cancel their Disney+ subscription after bingeing the latest "Star Wars" spin-off (some 5% do so every month). But they cannot binge a football season. And when that ends, it will be time for basketball, then baseball and so on.

Joining forces may also improve the trio's bargaining power relative to sports leagues. The competition for sports rights is intense as new bidders such as big tech pile in. If Disney, WBD and Fox bid jointly, they could rein in the price inflation that leagues now demand. For companies left out of the initiative, its successful launch would represent their "worst nightmare", argues LightShed Partners. Firms like Paramount and NBCUniversal may find it harder to lure viewers to their own sport-streaming initiatives, even as the decline of the cable market, which is where they still make most of their money, speeds up. Time for a new game plan. ■



Taylor-made for streaming

Business in Italy

Bittersweet life

MILAN

Giorgia Meloni wants to reinvigorate Italia SpA. It won't be easy

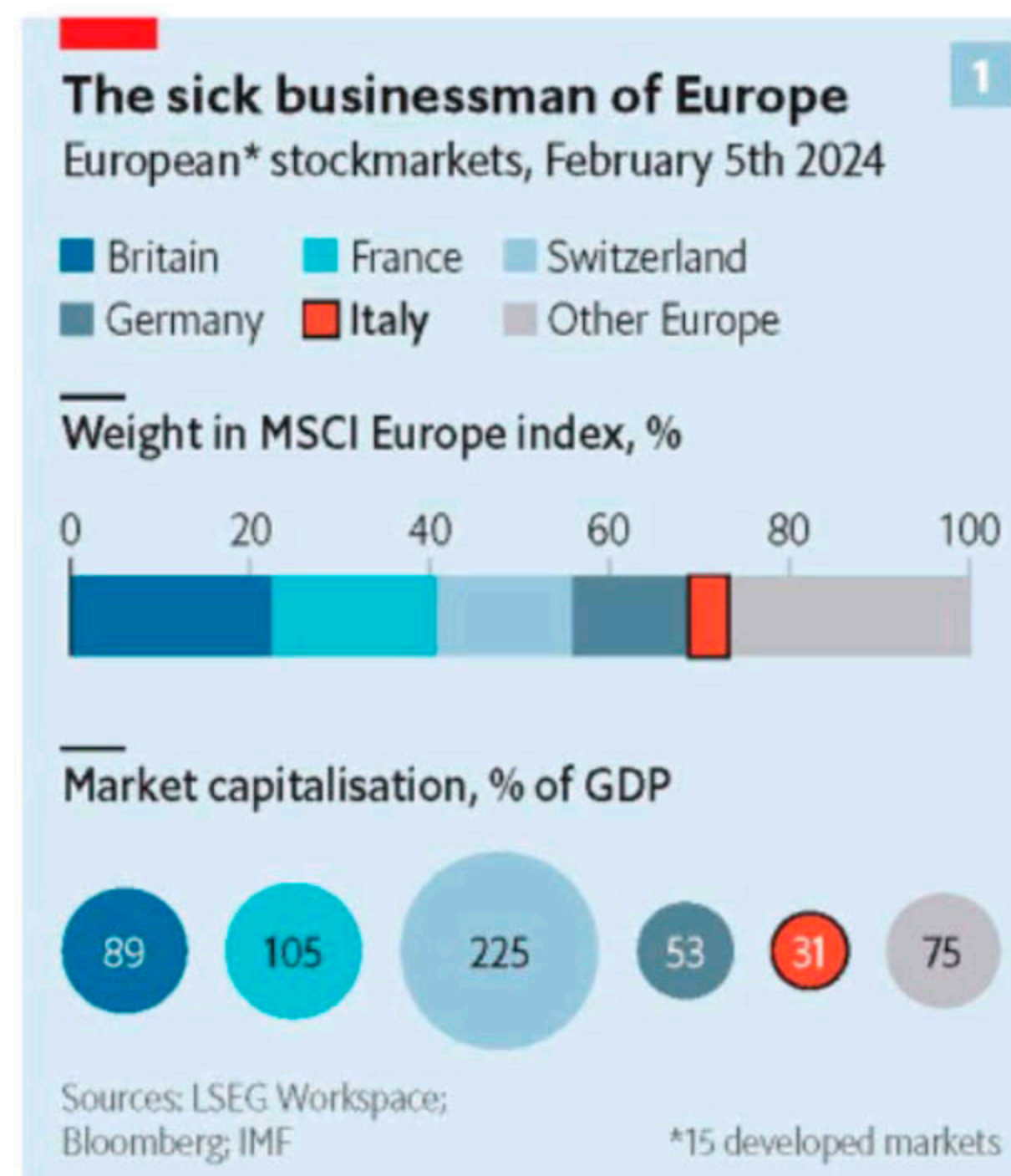
PROMINENTLY DISPLAYED at a bookshop at Linate airport in Milan is the cover of *Quando eravamo i padroni del mondo* (When we were the masters of the world). The book about the Roman empire has been on the bestseller list since it was published in September. It reflects Italians' nostalgic longing for their now rather ancient glory. They could take solace from the fact that many Italian brands are still masters of the world: think fast cars (Ferrari, Maserati, Lamborghini), elegant motorcycles (Ducati, Vespa), beautiful clothes (Gucci, Prada, Zegna) and accessories to go with them (Fendi, Bottega Veneta).

Except that few of Italy's coveted marques and labels these days—including all of those listed above—are fully Italian. Many are either incorporated abroad, listed elsewhere or owned by foreigners. And taken together, they lag behind those from other big European countries in terms of value. Italy's 30 biggest brands are collectively worth just a third of Germany's top 30 and a quarter of France's, according to Kantar, a research firm.

Uffa!

Corporate Italy more broadly likewise punches below the country's signature braggadocio. The entire Italian stockmarket is worth less than €800bn (\$860bn), barely twice the market capitalisation of LVMH, the French owner of several Italian luxury brands (including Fendi). The Milan bourse is smaller than those in Paris and Frankfurt relative to each country's GDP (see chart 1). In the past ten years it has underperformed them, too (see chart 2). Just five of the world's 500 biggest companies by revenue hail from Italy, down from 13 in 1997; 136 are American, 30 are German and 23 are French. Even Spain, whose economy is a third smaller than Italy's, has 11 firms on the list. "Italians are world-class at creating companies but they are not good at managing and growing them," says Stefano Caselli, dean of the Bocconi School of Management in Milan.

This irks Italy's prime minister, Giorgia Meloni. Her right-wing government wants to recreate Italian champions in industries from cars and energy to food and fashion. On February 6th it pushed a capital-markets bill through the lower house of parliament. It is meant to lure more listings to the Milan stock exchange, pre-empt hostile takeovers and prevent big companies



from incorporating in places like the Netherlands (corporate home to Ferrari, whose biggest shareholder, Exor, also part-owns *The Economist's* parent company).

The bill's advocates argue it would remove a big obstacle to the creation of corporate behemoths—Italy's shallow capital markets. Critics warn it may have the opposite effect. Fully 95% of shareholders in Italian listed firms are foreign, says Dario Trevisan, a lawyer who represents institutional investors. And the foreigners fear that the bill favours Italians, by allowing public companies to grant long-term shareholders, who tend to be domestic, shares with outsize voting rights and, if their stake is more than 9%, the ability to veto some board appointments.

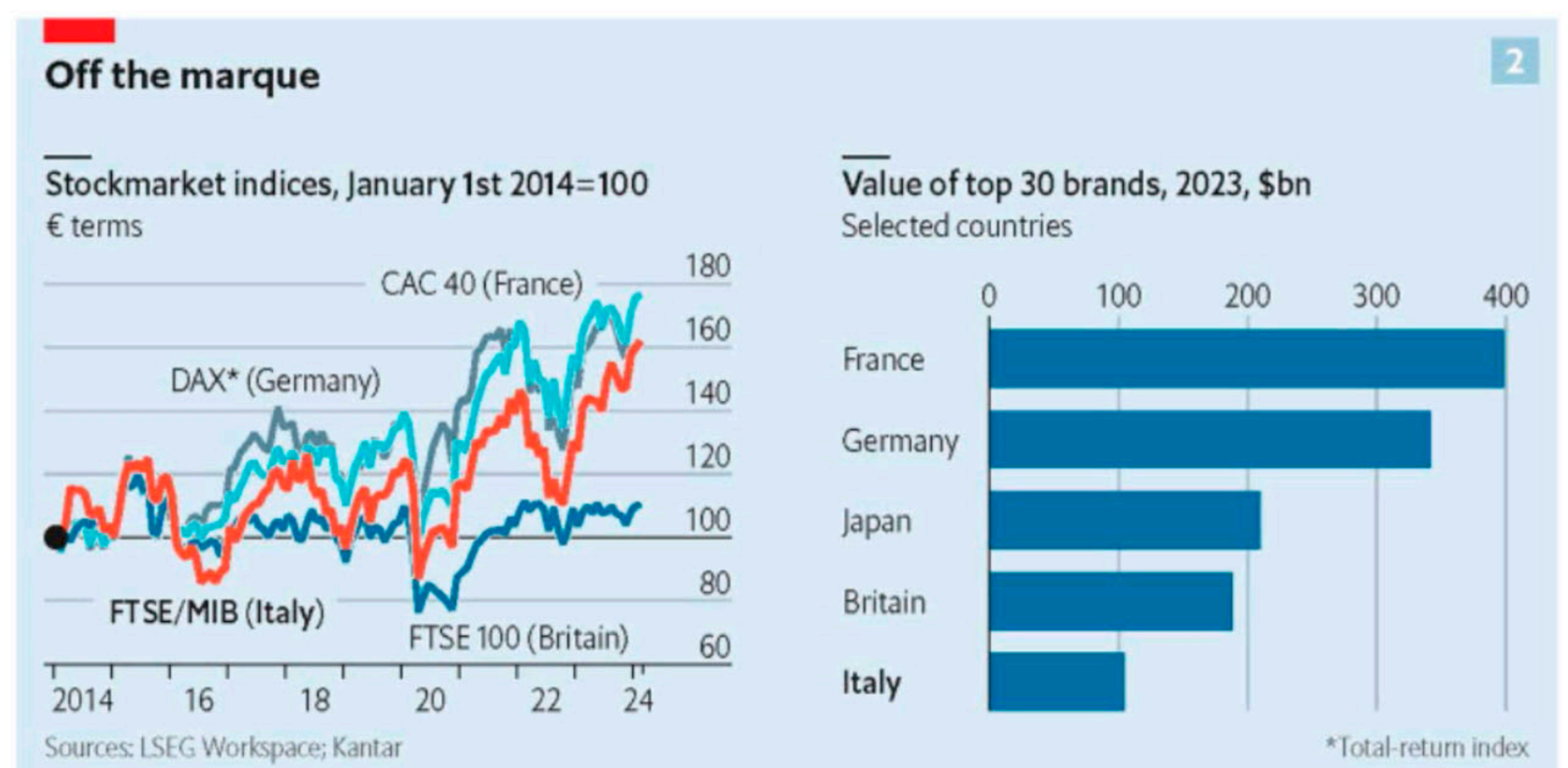
Italian business could certainly do with a deeper pool of capital. In its absence,

many companies have no choice but to rely on bank loans to finance their growth. This is also true in other European countries, including Germany. What distinguishes Italy is that many of its bosses actually prefer borrowing from lenders to sharing power with other equity holders, says Andrea Alemanno of Ipsos, a research firm in Milan. Like Julius Caesar, Mr Alemanno remarks poetically, they would rather be first in a barbarian village than second in Rome. All too often, the result is that companies take on too much debt and go bust or get taken over by the government.

The alternative is to stay small. Italy has 4.3m companies with fewer than 250 employees. That is a third more than Germany, an economy twice the size that is home to the world-famous *Mittelstand* of small and medium-sized businesses. Such firms are responsible for 80% of employment and 70% of value-added in Italy, compared with, respectively, 56% and 43% in Germany. Around 95% of them have fewer than ten employees. These microenterprises, which tend to be far less productive than larger companies, employ roughly one in two Italian workers.

"We have a strong layer of companies with 100 to 500 employees, but beyond that it gets very thin," admits Corrado Passera, a former economy minister who runs Illimity, a bank specialised in lending to small and medium-sized Italian firms. He and his family are nevertheless big believers in *il bel paese* and its spirit of enterprise. His wife built a network of veterinary clinics and his son founded a hotel business.

Setting up a company in Italy is both fun and easy, insists Mr Passera, especially if you are a technology entrepreneur. In 2012 the government in which he served passed the Startup Act, packed with incentives aimed at nurturing innovative tech firms. Businesses which qualify are exempt from fees for online incorporation, as well as some duties and taxes, and can take advantage of expedited visa procedures for their international staff and tax incentives for their investors. ▶▶



▶ Mr Passera's high spirits notwithstanding, Italy has yet to create a *Valle del Silicio* to rival equivalents elsewhere in Europe, let alone the American original. Italy has the world's tenth-biggest economy but ranks outside the top 20 even among European countries in terms of investment in startups, according to Sifted, an online publication that tracks such things. It has produced just two unlisted tech firms valued at \$1bn or more (both in fintech). With luck, it may breed another one soon. Bending Spoons, which helps clients design apps, has so far raised over \$500m, accord-

ing to PitchBook, a data provider. But even that would leave it behind Spain, which boasts four such "unicorns". Germany has 33 and France 24.

Other promising Italian startups, like many of those beloved Italian brands, are seeking their fortune abroad. Newcleo, founded by three Italians, is developing novel lead-cooled nuclear reactors. It has so far raised €400m (\$430m). Its research-and-development centre is located in Turin. But its headquarters are in London. That is because after a referendum in 1987 Italy phased out nuclear energy, which

means no demand for its products in its home market. Ms Meloni might try to phase it back in as part of its clean-energy transition. Then again, she might not—decisiveness isn't Italian governments' forte.

A heavy regulatory burden and legislative uncertainty are a problem not just for atomic startups. All of Italy's businesses struggle with the same challenges, says Andrea Bonomi, chairman of Investindustrial, a private-equity firm based in London and focused on Italian companies. If Ms Meloni wants Italia SpA to thrive, that is where she should focus her attention. ■

Bartleby Fairness game

The vexed question of justice in the workplace

SOME VIDEOS are almost certain to go viral: wild animals that pilfer food from unsuspecting families, cars that career through the windows of crowded cafés, pilots trying to land planes in high winds. Some are less obvious candidates to ricochet around the internet. Take, for example, the case of Brittany Pietsch, whose recording of a call in which she is laid off from a tech firm called Cloudflare went viral last month.

The recording lasts nine minutes, shows no one save Ms Pietsch and involves words like "performance-improvement plan". Despite these unpromising ingredients, it makes public a moment of human drama that could occur to almost any employee. It also tugs at a fundamental human instinct. Whatever the rights and wrongs of Ms Pietsch's dismissal, the manner in which she was fired, in a summary call with two people she had never met before and for reasons that are never properly explained, seems unfair. And few things matter more to people than fairness.

In experiments where one person decides how to allocate a pot of money with another, recipients will routinely reject an offer if they feel they are being given too little, even if that means neither party gets any cash. A fair share matters more than free money. Equity matters in non-financial life, too. A study conducted in 2012 by Nicholas Wright of University College London deliberately made some participants thirsty by hooking them up to a saline drip; they would still reject offers of water from fellow participants if they felt they were being offered too little.

Given how much weight humans place on fairness, it makes sense that managers should think about it, too. For questions of fairness arise almost every-

where in the workplace—not just when people lose their jobs but also in who gets hired, who gets the credit when things go well and who has that really nice desk right by the window.

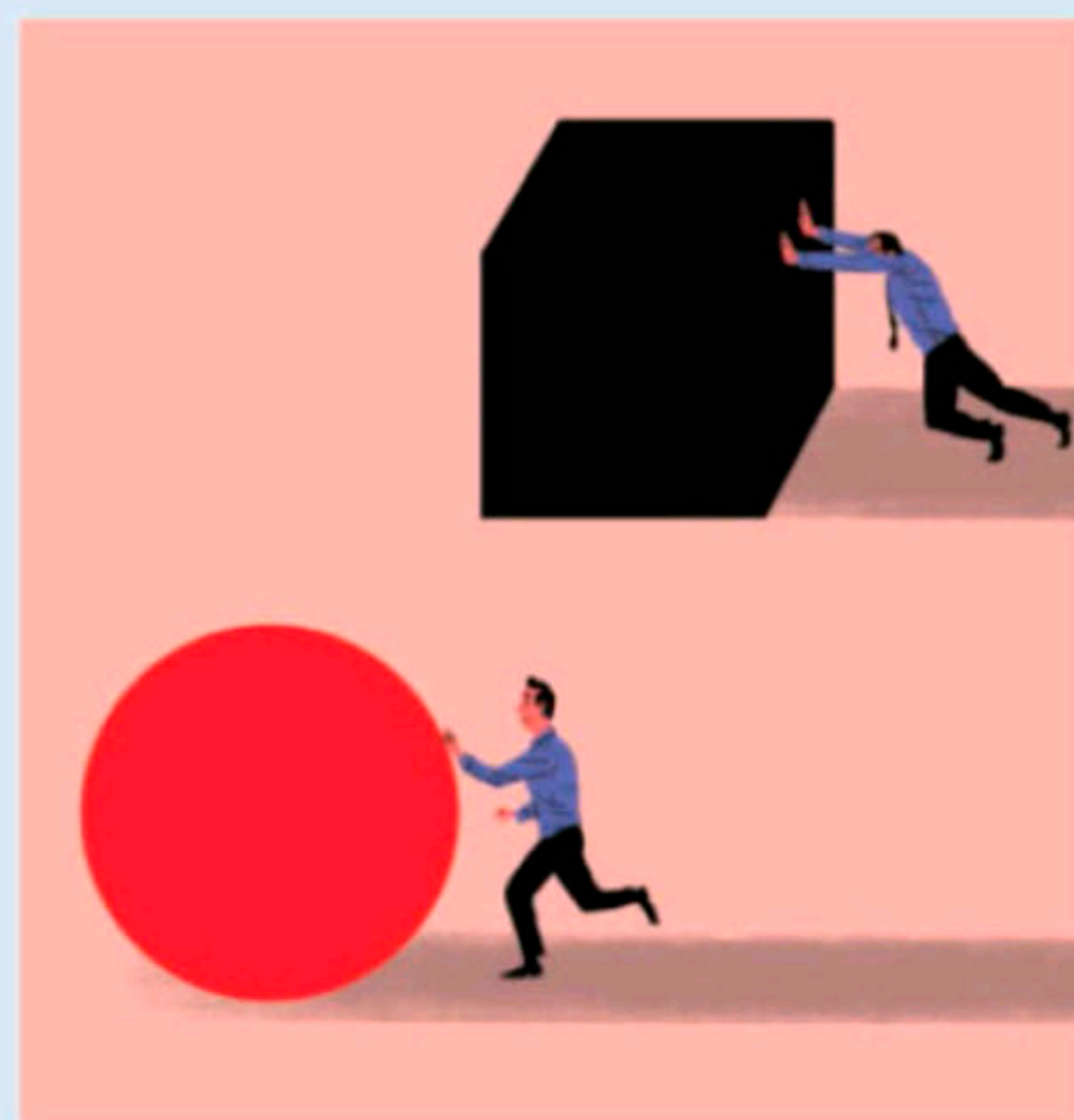
Fairness is not just a preoccupation of workers. Last month a judge in Delaware ruled against Elon Musk's eye-watering compensation package at Tesla on the ground that it was unfair to shareholders. A recent study into CEO compensation by Alex Edmans of London Business School and his co-authors found that bosses care about fairness, too. Money is not just about what it can buy; CEOs think it is only right to be rewarded for better performance, and to be paid in line with their peers. A sense of fairness can be responsible for driving up bosses' pay and fuelling anger about it at the same time.

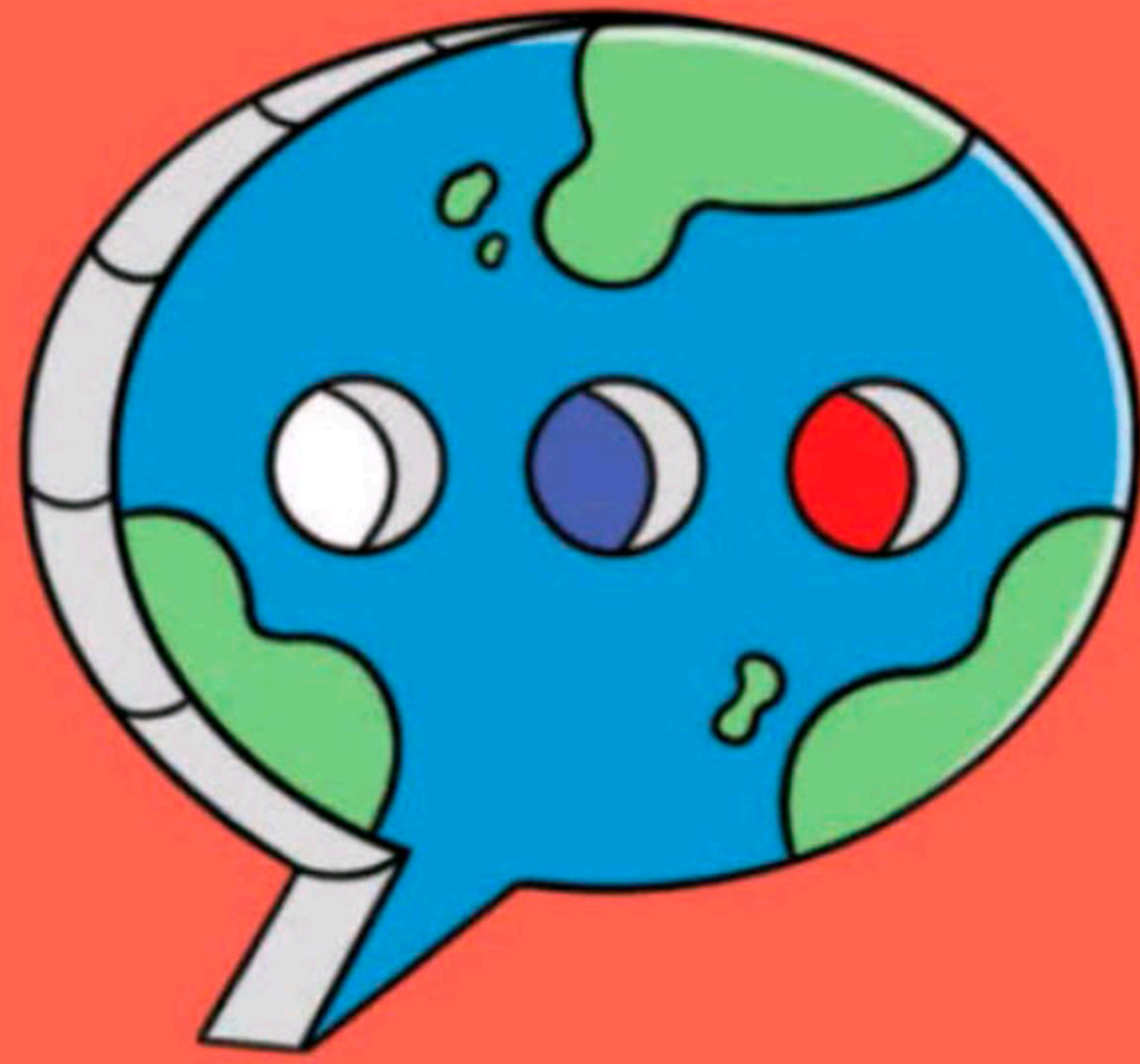
Customers value fairness, too, not least when it comes to pricing. Consumers instinctively recoil at the idea of prices rising in response to surging demand, whether for Uber fares on a busy night, face masks in a pandemic or snow shovels the night after a big storm. Such views are

deeply ingrained. A recent paper by Casey Klofstad and Joseph Uscinski of the University of Miami asked Floridians for their views of anti-price-gouging legislation that would prevent shops from raising prices after a hurricane. Even when told that economists and other experts believe that mandatory price ceilings would exacerbate shortages and lead to store closures, respondents supported the law. (Depending on your point of view, this either proves that the public is irrational or that economists are not human.)

More often, opinions differ. The covid-19 pandemic, for example, drew a new dividing line between people who can and do regularly work at home, and those who have to come into offices and workplaces because of the nature of their jobs. For many, this rectifies old unfairnesses: the option of working from home enables single parents to combine child care and their jobs more easily. For others, it reinforces existing inequities: poorer, lower-skilled workers are disproportionately likely to be the ones without a choice about where to work.

This combination of salience and subjectivity makes fairness a tricky area for managers to navigate, but not an impossible one. No hiring decision will feel fair if qualified employees do not even know that there is a job going; a survey of 3,000 jobseekers by Gartner, a research firm, in 2021 found that half of them were not aware of internal career opportunities. No lay-off will feel fair if it is too impersonal; Cloudflare's CEO agreed that Ms Pietsch's manager should have been on the call in which she was fired. Even if people differ over what counts as the right outcome, they can usually agree on what makes for a fair process. That is more than half the battle.





The AI race

TsarGPT

Vladimir Putin wants to catch up with the West in artificial intelligence. Good luck with that

SIX YEARS ago, before anyone had heard of ChatGPT, Vladimir Putin said that the country that led the development of artificial intelligence (AI) would become the “ruler of the world”. He echoed the sentiment in December, when he suggested that Russia should “head and lead” the march of AI. Those comments came in response to a video-caller during a televised phone-in who had taken on the Russian president’s likeness using an apparently AI-generated deepfake, seemingly startling the real-life strongman for a moment.

For Mr Putin, “leading” on AI is part of an ideological battle with the West. The success of tools such as ChatGPT, developed by an American startup called OpenAI, has led him to decry the dangers of relying on Western AIs trained on English-language data. Western “large language models” (LLMs) could, Mr Putin avers, “cancel” Russia’s perspective on the world if unchallenged. They also threaten a regime that has sought to control the Russian internet in recent years, a process accelerated by the invasion of Ukraine. To no one’s surprise, the Kremlin banned ChatGPT shortly after its launch in November 2022. Several Russian companies are hard at work trying to build alternatives.

Last year Sber, a state-controlled lender with tech ambitions that was first tasked by the Kremlin with AI development in 2019, launched GigaChat, a chatbot that combines a command of Russian with the ability to generate computer code and im-

ages. Yandex, Russia’s search giant, has integrated an LLM, YandexGPT-2, into its virtual-assistant service, known as “Alice”.

The models are excellent at hewing to the party line. Alice, for example, refused to answer *The Economist’s* questions about the war in Ukraine or Alexei Navalny, Russia’s main opposition leader imprisoned in Siberia. It is less clear that they are capable of outsmarting Western AIs. Yandex claims that YandexGPT-2 does better than GPT-3.5, the model behind an earlier version of ChatGPT, when answering queries in Russian. But Western experts consulted by *The Economist* have found no independent analysis to confirm this contention, and there have been no public comparisons with GPT-4, the much more powerful current iteration of OpenAI’s model.

Russia also lags behind the West on a variety of AI-innovation indicators. A report compiled by Stanford University said that, in 2022, the country produced only one “significant” machine-learning system, compared with 16 in America and eight in Britain. As of June 2023 Russia was thought to have just seven of the world’s 500 most powerful supercomputers, in contrast with America’s 150. Russia also ranked 38th out of 193 countries in the latest AI-readiness index by Oxford Insights, a consultancy; America came first.

To catch up, Mr Putin envisages an ambitious AI strategy to replace an earlier one from 2019. The Kremlin’s list of initial “instructions”, released in January, sug-

gests this new plan will aim to increase Russia’s supercomputing capacity, expand training for AI professionals and improve co-operation among the BRICS, a bloc that includes China and India.

Mr Putin’s instructions seem unrealistic, to put it politely. The war has led many Russian developers and engineers to flee from the country: one Kremlin official has suggested that 100,000 IT specialists left in 2022 alone, roughly 10% of the tech workforce. Arkady Volozh, Yandex’s founder, lives in exile in Britain and Israel after criticising the invasion. Sanctions limit Russia’s access to advanced chips, which are made almost exclusively by companies in America, South Korea and Taiwan, all part of the anti-Russian alliance. In Russia’s war economy, private investment in tech is, unsurprisingly, dwindling. The value of venture capital going into the sector was just \$71m in 2023, according to DSight, a business-intelligence firm based in Moscow, a fall of 83% from the previous year.

Mr Putin’s response is, as with most things in Russia these days, to tighten the state’s grip over the industry. In 2022 Yandex sold its news and blogging services to VK, a state-controlled online conglomerate. On February 5th its parent company, which is based in the Netherlands and listed in New York, said it would sell the Russian business (which accounts for 95% of its revenues) for \$5bn to a consortium led by an arm of Lukoil, an energy company. The Kremlin welcomed the deal. State-run entities such as Rostec, a defence group, and Gazprom Neft, a subsidiary of the country’s largest energy firm, are also dabbling in AI. Sber’s chief executive, German Gref, says the bank is investing some \$1bn a year in the technology.

These sums are, though, trifling next to the tens of billions of dollars being spent by American AI champions such as Alphabet and Microsoft (which has a partnership with OpenAI). The state money brings with it inefficiency and a lack of competition—hardly a recipe for innovation. It also encourages developing AI for the battlefield rather than the marketplace.

On the defensive

Russia has made progress in military AI, says Katarzyna Zysk of the Norwegian Institute for Defence Studies, a think-tank, particularly in drones. But in the West and even in China, a Russian ally, the excitement over machine learning has been fuelled chiefly by recent leaps in general-purpose applications such as ChatGPT, not specialist ones like pilotless aircraft. Western and Chinese strategists are counting on such fast-improving civilian AI to confer an economic and, ultimately, geopolitical and military edge. So long as it remains on a war footing, Russia will not make much progress on that front. ■

Schumpeter | Musk v Zuck, round two

In the real-life contest, guess who has won hands down



THE PLAYGROUND rivalry between Mark Zuckerberg and Elon Musk dates back years—and in who-is-cooler-than-whom terms, Mr Musk usually wins easily. As an innovator, Mr Zuckerberg, co-founder of Facebook and boss of Meta, a social-media giant, has often been dismissed as a geeky dilettante in a hoodie. He has never received the Promethean kudos that Mr Musk has for turning Tesla into a stallion of electric vehicles (EVs) and SpaceX into a rocket sensation. Mr Zuckerberg is notorious for his motto “move fast and break things”, which may have helped Facebook conquer the world but gave licence to critics to cast it as a social menace. Mr Musk is revered as a rule-breaker, plays up his bad-boy image and mostly gets away with it.

Such was the tenor of their relationship when Mr Musk proposed a cage match with Mr Zuckerberg in June last year just before Meta launched a short-messaging app, Threads, to compete with Mr Musk’s Twitter (now X). Forget the physical fight that never happened. In business terms, even then Mr Musk had the upper hand. He was the richest man on Earth. Tesla’s market value, though falling, was higher than Meta’s. Its revenues were growing faster. Yet since then, he could not have kicked himself harder in the teeth. In the past few weeks Tesla has shocked investors with a horror-show earnings presentation. Mr Musk’s \$56bn pay package from 2018 was rescinded by a judge, which has slashed his net worth. From America to China, his EVs have suffered recalls.

Mr Zuckerberg, meanwhile, is punching the air. On February 1st Meta released earnings showing a staggering rise in sales and margins. Its market value has reached \$1.2trn, exactly the level Tesla achieved at its peak in 2021, and more than twice what the EV-maker is worth now. To be sure, short-term measures of financial performance are not everything. But look at longer-term factors, such as the way both men run their businesses, treat their shareholders and customers, and respond to their own failures, and it is clear the fight is as good as over. Zuck has won.

To understand why, start with the interplay between the way both gazillionaires control and run their companies. Each of them lords it over their firms in a way that makes corporate-governance advocates blanch: Mr Zuckerberg via a dual-share structure that gives him majority control of Meta; Mr Musk, by having everyone

at Tesla in his thrall. But as Mr Zuckerberg has become more sensitive to his fellow shareholders, Mr Musk has become less so. That has had a big impact on performance.

Mr Zuckerberg’s *volte face* started in 2022 when shareholders recoiled at the way he was blowing their money (and his) on moonshot projects like the metaverse, just as Meta’s core business was slowing. Instead of ignoring them, he listened. Since then he has changed his tune to focus on cutting costs, boosting profits, and using the cash to invest in artificial intelligence (AI) and the metaverse in a way that improves existing products as well as funding futuristic bets. Moreover, to convince shareholders he is not wasting their money, Meta will return more cash to them via share repurchases and pay the company’s first-ever dividend.

Mr Musk has had no such epiphany. In the two years since Tesla’s share price peaked, he seems to have doubled down on disappointing fellow owners of the company’s stock. The sensible ones long for a cheap, mass-market EV. Instead Tesla is selling expensive ones at a margin-shredding discount. They want him to spend more time at Tesla, but he splits it with SpaceX and wastes it at (and on) X. They yearn for full-self-driving cars as the catalyst for a robotaxi revolution. Instead, even diehard fans were stunned recently when Mr Musk threatened to move his AI and robotics efforts away from Tesla unless he was given 25% voting control.

That leads to a second big difference: motivation, which was the crux of the judge’s decision in Delaware on January 30th to strip Mr Musk of his gargantuan pay cheque. Mr Zuckerberg, as the judgment noted, receives no salary or share options. His 13% economic stake in Meta is the main incentive to come to work each day. Mr Musk, however, is different. Though his Tesla shareholding at the time meant he would become \$10bn richer every time Tesla’s value jumped by \$50bn, that wasn’t enough. Tesla’s board (many of whom the judge ruled were too chummy with Mr Musk to be independent) convinced shareholders that an extra incentive was needed to keep his nose to the grindstone: namely, the biggest payout in the history of public markets. Now that it has been voided, his motivation, presumably, is even more in doubt.

Then there are both men’s attitudes to customers, which have also moved in opposite directions. Mr Zuckerberg was vilified for Facebook’s fast-and-loose approach to users’ data, content moderation and privacy. The concerns are still strong, especially when it comes to youngsters on social media. But Facebook now has an independent oversight board to rule on content decisions, and Meta says it has invested \$20bn since 2016 in online safety. No doubt Mr Musk still has some loyalists as customers. But considering how many American EV owners lean Democratic, the more he rants on X, the more it is clear that he disdains their political opinions. The latest recalls are a further source of worry (though the problem can be fixed with a software update). In China, a huge market, he faces stiff competition. Meta, by contrast, credits Chinese advertisers with helping drive a big surge in ad revenues last year.

Caged tyrant

In a nutshell, as Mr Zuckerberg grows older, he appears to have learned from his mistakes. As Mr Musk grows older, he gets more puerile and distracted. His huffy reaction to the Delaware court’s judgment, threatening to up sticks and move Tesla’s incorporation to Texas, is a case in point. It indicates he wants the company’s shareholders to have even less protection from his capriciousness than usual. If anyone should get into the ring and hammer some sense into him, it is them. ■

9th annual Sustainability Week

March 4th-6th 2024 | London and virtual

New for 2024: Energy Transition Summit

More than:

1,200 in-person attendees | 5,000 virtual attendees | 200 speakers | 30 sessions

Sustainable planet. Sustainable profits.

Discover how reaching net zero can impact both your sustainability and revenue goals. Join us for a week of speakers, insights and analysis to grow your business greener.



Mark Versey
Chief executive
Aviva Investors



Eva Karlsson
Chief executive
Houdini Sportswear



Anders Boyer
Chief financial officer
Pandora



Clover Hogan
Founder and
activist
Force of Nature



Marija Rompani
Director of sustainability
and ethics
John Lewis Partnership



Anca Iordanescu
Vice-president engineering,
Store of the Future, Ingka Digital
Ikea



Register:
sustainabilityweek.economist.com

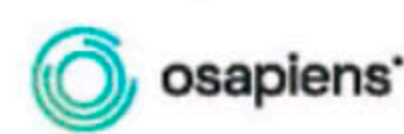
Global knowledge partner



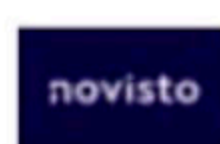
Platinum sponsors



Workshop sponsor

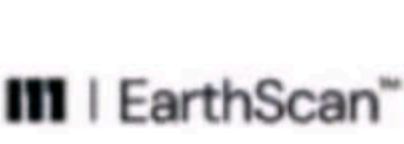


Gold sponsors



Event travel sponsor

Silver sponsors

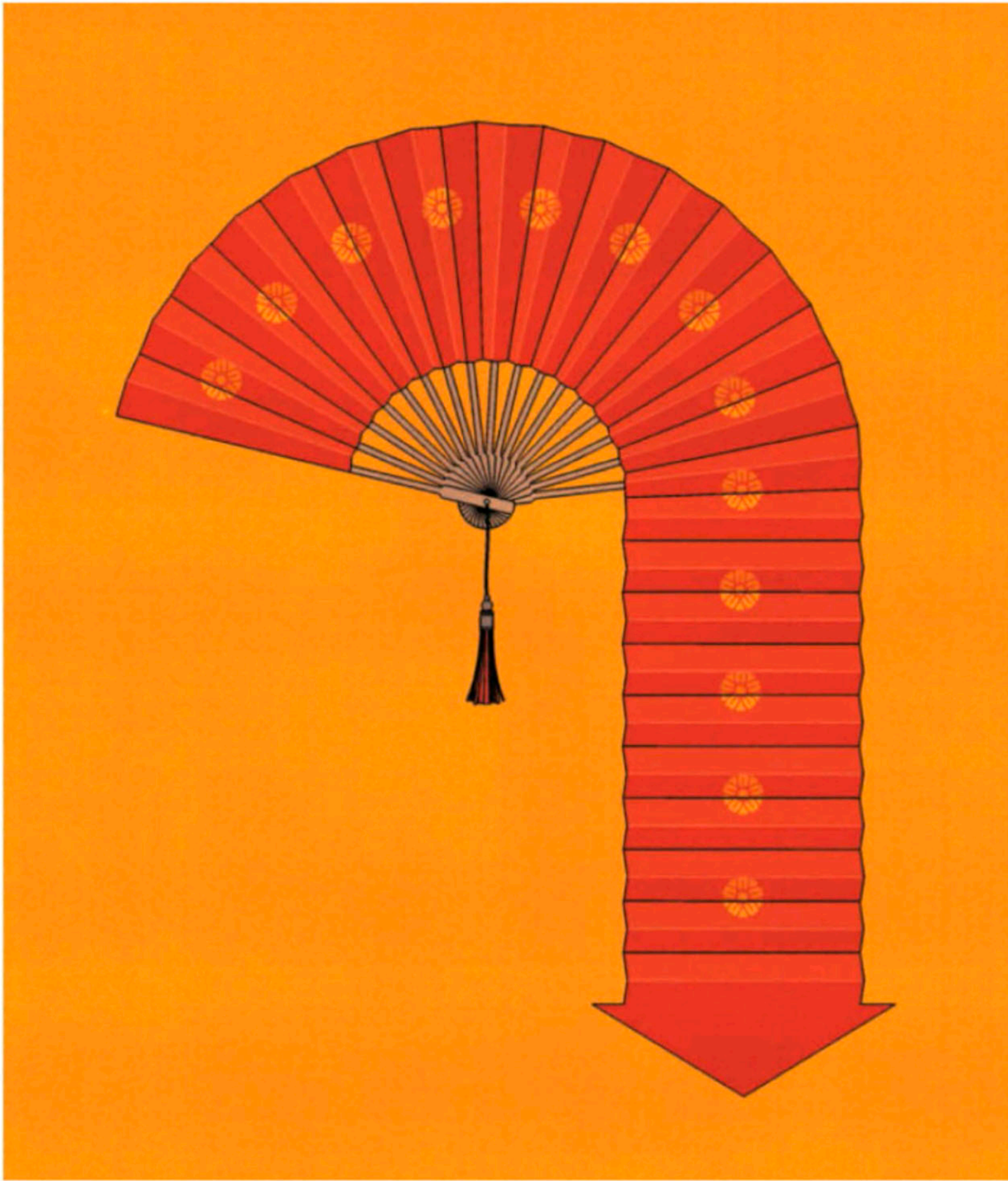


Innovation showcase sponsor

Associate sponsor

Global sustainability partner





Market rescues

Fanning the flames

SHANGHAI

China's stockmarket nightmare is nowhere near over

RUNNING CHINA'S securities watchdog is a perilous job. A market rout can end your career, or worse. On February 7th, after weeks of stockmarket instability, Yi Huiman, the head of the China Securities Regulatory Commission (CSRC), was suddenly fired and replaced. He is not the first official to fall after a period of plummeting stock prices. Liu Shiyu, his predecessor, was sacked in 2019, and later investigated for corruption. Xiao Gang, the boss before that, was treated as a scapegoat for the market crash in 2015.

Before his dismissal, Mr Yi would have been aware that he was on dangerous ground. Already this year, more than \$1trn in market value has been wiped from ex-

changes in China and Hong Kong. On February 5th the Shanghai Composite plummeted to a five-year low. All told, the index is down by more than a fifth since early 2022. And as miserable as the performance of Chinese stocks has been for most of

→ Also in this section

61 Buttonwood: The dividend's return

62 New year, new banking problems

63 Should Wall Street back Trump?

64 Indonesia's economy disappoints

65 Free exchange: Useless ideas

their three-decade history, the present downturn feels different.

That is because China's economic prospects are gloomier than at any point in recent history. The dire state of the property market is the chief problem. Prices and sales have fallen for more than a year; policymakers have failed to prevent the correction. During the stock rout of 2015 retail investors had a slogan: "Sell your stocks and buy real estate." No one is chanting it these days. To make matters worse, the government's rescue plans do not look up to the task.

For many citizens, it feels as if China never truly emerged from its dismal zero-covid years. An economic recovery that was expected to play out in 2023 instead faltered during the first half of the year, leaving the country mired in deflation. Pessimism has clouded the market ever since. Goldman Sachs, a bank, recently asked a dozen of its local clients—asset managers, insurers and private-equity types—to rate their bearishness towards China on a scale of zero to ten, with zero being equal to their outlook during the lockdowns of 2022. Half gave the country a score of zero; the other half said three.

The situation ought to worry Xi Jinping, the country's leader, for several reasons. One is that more than 200m Chinese people own stocks, and officials risk taking the blame. Few things enrage Chinese social-media warriors more than a market rout. One recent post suggested that food deliveries to the Shanghai Stock Exchange were being searched for dangerous materials, such as bombs or poison. Many have piled onto the American embassy's social-media account to gripe. And a flurry of angry posts have been directed at Hu Xijin, a nationalist media personality who often tries to whip up support for Chinese shares. He said last year that he would jump off a building if he lost too much money on stocks—not because of the loss itself, but because of embarrassment. As the Shanghai Composite hit its five-year low, some advised that he keep his word.

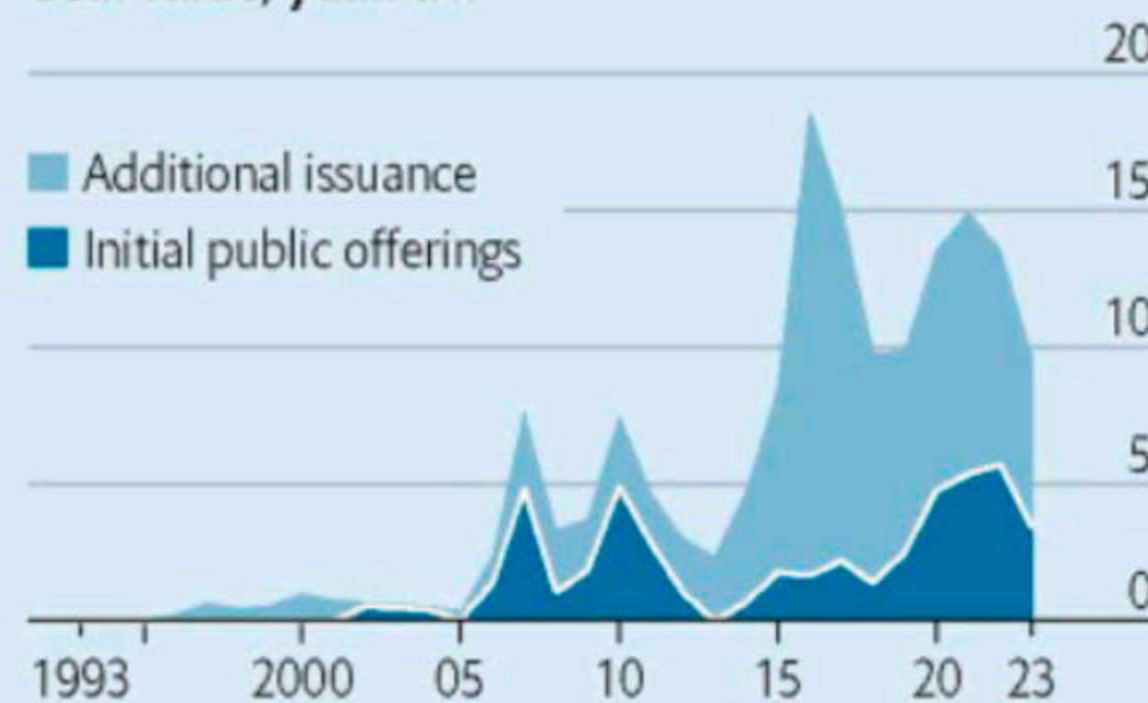
Another reason for Mr Xi to worry is that markets reflect the perception of China and his leadership abroad. Until relatively recently global investors were in love with Chinese stocks. Their inclusion in MSCI's flagship emerging-markets index in 2018 was welcomed by asset managers, and hailed as a step forward in attempts to make Chinese stockmarkets more international. Needless to say, the excitement has since faded. Zero-covid policies hurt China's reputation. Mr Xi's support for Vladimir Putin despite his invasion of Ukraine has done further damage. But nothing, most investors agree, has harmed Mr Xi more than allowing the property downturn to drag on for years. ▶▶

Snoring dragon

China

Shanghai Composite stockmarket index
January 2nd 2019=100

Sources: LSEG Workspace; Wind

Stockmarket share issuance,
deal value, yuan trn

▶ Although Chinese authorities still hope to attract investment, foreign investors are fleeing. They have been net sellers for months, dumping \$2bn-worth of shares in January alone. The sell-off has been so severe that some experienced foreign investors are shutting down. Asia Genesis, a hedge fund in Singapore, announced in January that it would close its doors following the unexpected price drops.

Most foreign investors hold little hope for a recovery any time soon. One investment manager at a foreign bank in Shanghai suggests that the stockmarket may stabilise in the coming weeks. Indeed, on February 6th the CSI 300, an index of firms, finished the day up by more than 3%, its best performance in more than a year. Yet the low level of confidence will persist until leaders put forward a sufficiently ambitious plan to fix the property market. That might take years, the manager notes.

Money talks

Regulators have put out a series of statements about market stabilisation since late January. Most recently, on February 6th Central Huijin, the domestic arm of China's sovereign wealth fund, indicated that it would start buying shares to help stabilise the market. On February 4th the CSRC said that it would prevent abnormal

movements in trading, while cracking down on "malicious" short-selling. Such announcements have made fund managers uneasy. Foreign investors need to use hedging tools, like short-selling, to operate normally. Talk of a crackdown has therefore caused them to withdraw from Chinese markets in case they can no longer hedge positions. Some are also pulling back owing to fear that their staff could be detained and accused of financial crimes.

Both foreign and domestic investors are awaiting a state bail-out fund, about which there have been hints but nothing more. On January 23rd Bloomberg, a news service, reported that a stabilisation fund armed with some 2trn yuan (\$280bn, or about 3% of China's stockmarket capitalisation) could start buying up shares. The "national team", a handful of state-owned asset managers, which includes Central Huijin, often steps in during downturns. In 2015 the team hoovered up about 6% of the entire market capitalisation via purchases of individual stocks. More recently, these investment firms have bought exchange-traded funds to avoid claims of insider-trading when the names of their targets leak. Although investors have seen signs of the national team at work in recent weeks, so far they have probably bought less than 100bn yuan-worth of shares—far below the amount required to produce a serious turnaround in the markets.

The central government may eventually step in with a bigger bail-out package, perhaps after the Chinese New Year holiday, which will shut markets for a week starting on February 12th. But Mr Xi is also eyeing sweeping reforms to how China's stockmarkets work and how investors value the companies that trade on them.

One part of the plan is to shift China's markets from a focus on capital-raising to one on helping investors preserve their wealth. The distinction often perplexes foreign market-watchers. Shouldn't stockmarkets serve both capital-hungry companies and regular investors? In theory, yes. But in China markets are different, since

they often serve state objectives, too. In recent years, for instance, one of Mr Xi's main aims has been to open capital markets to industries such as artificial intelligence, green technology, robotics and semiconductors, as part of a push to compete with America and dominate a number of advanced-tech industries. The government has also been keen on companies in these sectors listing within China rather than on foreign exchanges, which led to the largest wave of initial public offerings (IPOs) and follow-on issuance in Chinese history. Indeed, such was the response, it turned the country into the world's biggest IPO market for several years. Chinese companies raised more capital on local stock exchanges between 2020 and 2023 than they did in the decade before.

This helped meet Mr Xi's aims. But it also drained liquidity from secondary markets, where investor value is stored. Firms often went public at high valuations only to see their share prices fall. Now regulators want to shift towards a more "investor-oriented" market that protects average investors. That means fewer IPOs and more liquidity directed to secondary trading.

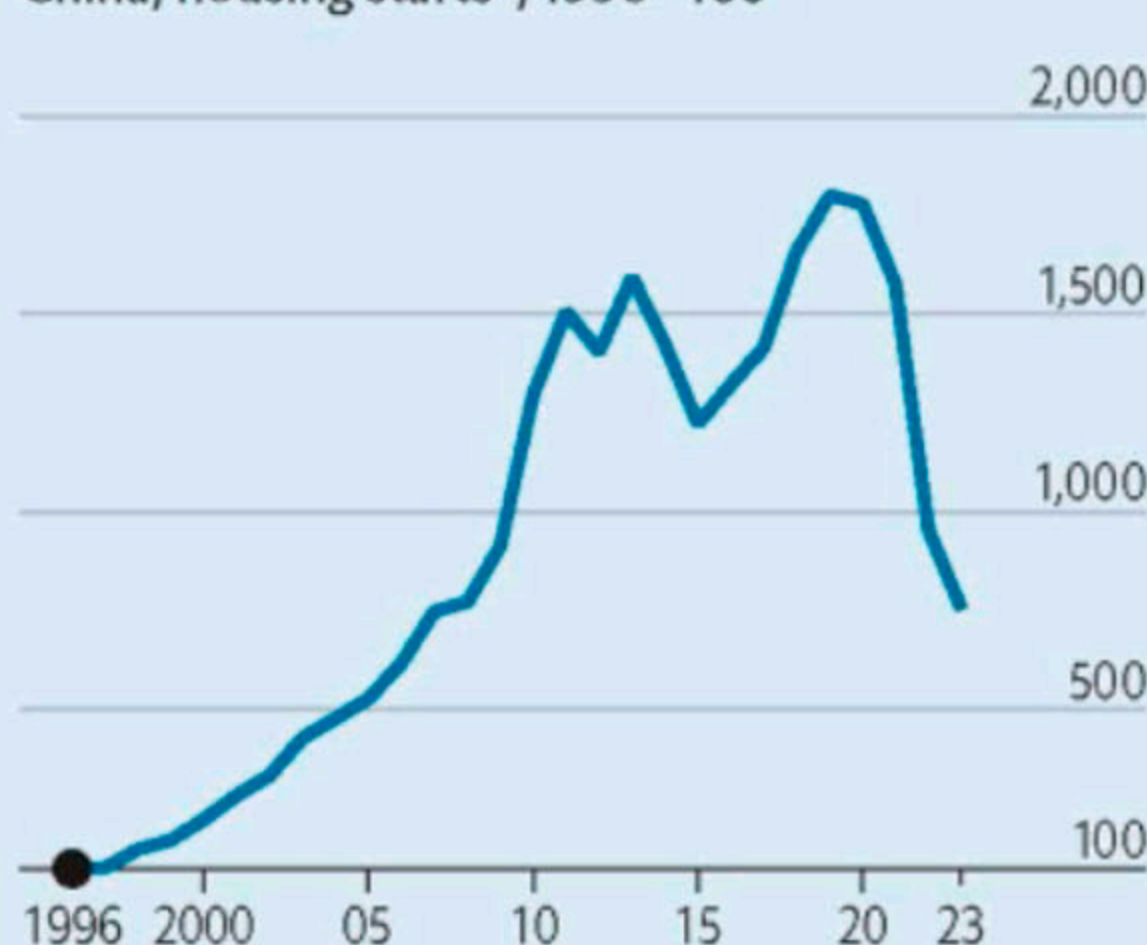
History repeats

China's markets have moved through such a cycle before. In 2012 regulators halted all IPOs in the hope that excess liquidity would support share prices. As a consequence, no company went public in 2013, even as hundreds joined a queue to do so in the hope of raising funds. IPOs resumed in 2014. The following year the stockmarket launched into a historic rally that ended in a dramatic crash. The experience hurt the standing of both China's capital markets and its regulators. As officials try once again to make markets more friendly to investors, capital allocators will be supremely conscious of what happened previously.

Another part of the Chinese government's long-term plan is to raise the market value of state-owned enterprises (SOEs). Although such companies already dominate China's markets, they are valued ▶▶

Home sick

China, housing starts*, 1996=100

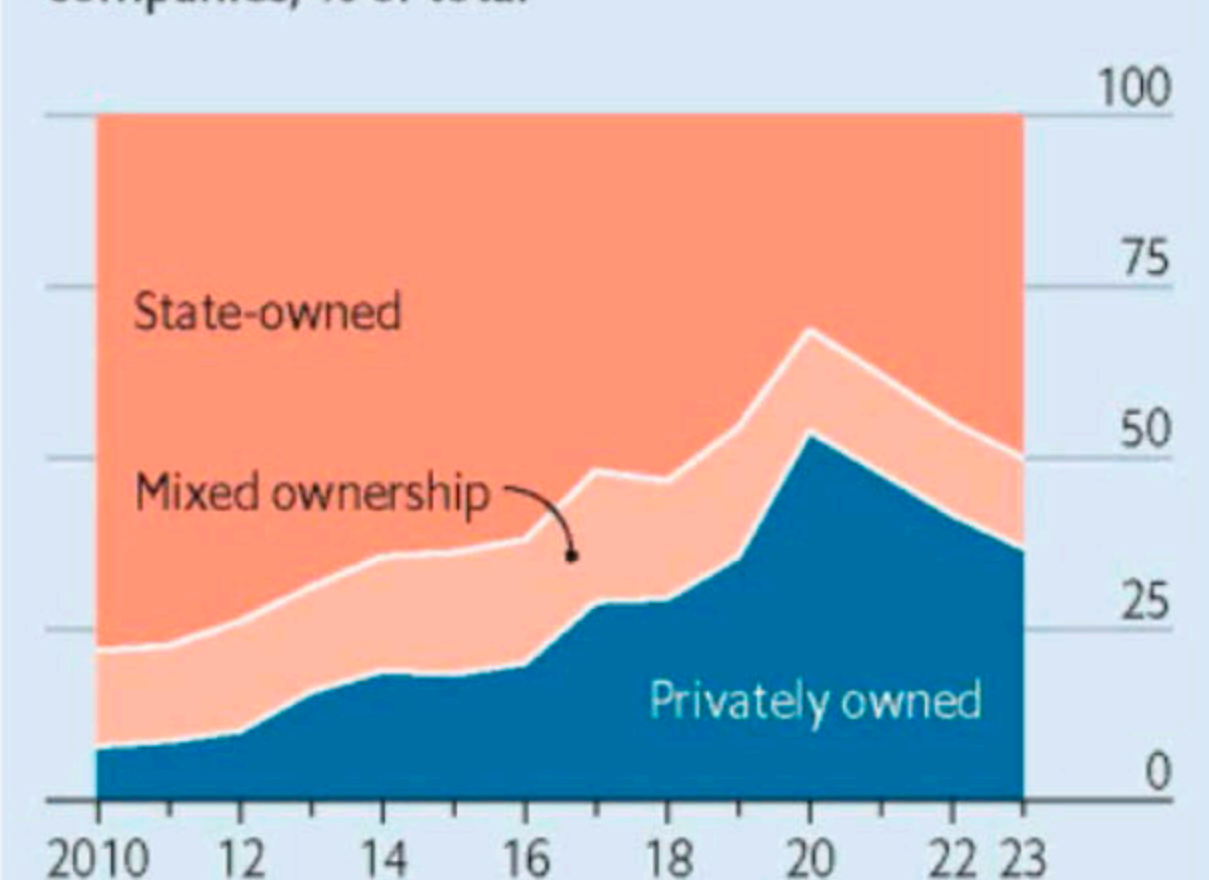


Source: LSEG Workspace

*Measured by floor space

Big government

China, market capitalisation of 100 biggest companies, % of total



Source: Peterson Institute for International Economics

▶ at just half the level of similar non-state companies. This is because SOEs are viewed by investors as clunky operators that are more loyal to party apparatchiks than to shareholders. Policymakers have therefore proposed creating a “valuation system with Chinese characteristics” in order to boost their share prices.

Such a system would aim to “educate” investors on the broader social roles, such as reducing unemployment during downturns, that state enterprises are supposed to play. But it would also involve reforms within SOEs themselves. State managers

have historically cared little about investor relations, and have not used return on equity as an internal metric for judging performance. This would change. Meanwhile, regulators want the firms to pay out regular dividends and conduct share buybacks that reward investors. If the reforms are successful they would not only increase prices on China’s stock exchanges, they would boost the wealth of the state through its holdings in these companies.

These changes would have been easier to make when China’s stockmarket was smaller and the country’s economy was

still growing rapidly. Most of the reforms require investors to accept the state’s dominant position in the market, whether in directing capital flows or in making SOEs more palatable. Investors now have decades of experience in trading Chinese shares. They remember the initial attempts to list and market SOEs, as well as the desire to guide capital into certain parts of the economy, and they have witnessed the results. Ultimately, Chinese investors may have little choice but to return to the country’s stockmarkets. Foreign investors, however, have other options. ■

Buttonwood The dividend is back

But are investors right to be pleased?

META CELEBRATED its 20th anniversary this week as all good and mature businesses should: by paying shareholders a dividend. In lieu of a birthday bash, the Silicon Valley stalwart marked its coming of age with a stock buy-back and, for the first time, by offering a dividend. Investors will receive 50 cents per share. Markets partied, with Meta’s share price rising by 20%, adding more than \$200bn to the company’s market capitalisation on the day of the announcement.

The dividend, a 17th-century innovation, was a mainstay of markets for much of the 20th century. Stockpickers used the cash they earned from dividends to price shares. The Bloomberg terminal of its time, Moody’s Analyses of Investments, evaluated the giants of American rail on dividends per mile of railroad laid. But the years have not been kind to the once-dominant dividend. Since the early 1990s, regular cash payments to shareholders have been in retreat, losing out to stock buy-backs, in which management uses earnings to repurchase their stock, boosting the share price.

Managers love buy-backs because they cut the number of shares on the market, lifting earnings per share—and thus often executive compensation, too. A higher stock price is all the more enticing if management is compensated with the option to buy company shares. In the past, investors have also preferred buy-backs. Capital gains are taxed at a lower rates than dividend income in some countries, and investors like owning an appreciating asset because they can choose when to sell and pay the taxman.

Meta’s decision to hand earnings to its minority owners received a raucous reception, however. It is just the latest sign that markets are coming to appreciate dividends. Those from S&P 500 firms

rose to \$588bn last year, up 22% against three years ago. Investors have put \$316bn in dividend-focused exchange-traded funds globally, almost doubling their size over the same period. An analyst at Bank of America speculates that 2024 could be “a banner year for dividends”.

Why the shift? Daniel Peris of Federated Hermes, an investment house, and author of a new book, “The Ownership Dividend”, puts the decline of cash payments down to decades of falling interest rates and Reagan-era changes to buy-back rules. As the risk-free rate fell, returns on bonds and savings diminished, and so did the advantages of holding cash. Cheap money enabled investors to plough capital into non-dividend-paying growth stocks.

In that time, writes Mr Peris, high-falutin financiers came to see the dividend as the preserve of “widows and orphans”. Only staid companies, like banks and utilities, tended to bother with them. Yet today’s economic environment looks different. Interest rates have risen. Start-ups without a path to profitability are failing to win over investors. And the

Biden administration has levied a tax on buy-backs. It is currently meagre but officials hope it will rise.

Perhaps cash is once again king. Higher interest rates mean that investors can put income to work. Many are enjoying respectable, risk-free returns in money-market funds. Higher risk-free rates also lower the value of future earnings in today’s dollars, meaning some investors will prefer cash in hand today to higher stock prices tomorrow.

A similar calculation holds true for management, whose options for deploying cash have become more limited. Higher rates demand higher expected returns from long-term investments and discourage taking on debt to fund share repurchases. The Biden administration’s distrust of corporate takeovers means that acquisitions are less viable. Many firms are therefore considering how best to return dollars to their shareholders.

Investors have reason to be careful, however. As economists argue, earning a dividend is like taking cash out of an ATM—it does not make you richer. If a company were to reinvest its earnings rather than pay out a dividend, it ought to make more money in future and thus deliver a higher share price. As a consequence, investors should be equally happy with either option.

A firm that issues a dividend is signalling that it has confidence in its future cash flows, since shareholders often assume dividends will be permanent and managers are loath to cut them. Yet such a move also suggests that bosses have nowhere better to invest company cash, which bodes poorly for a firm’s growth. Although high-yielding dividend stocks offer a reliable income stream, they are unlikely to reward owners with a capital gain worth celebrating.



Financial tremors

Spring fever

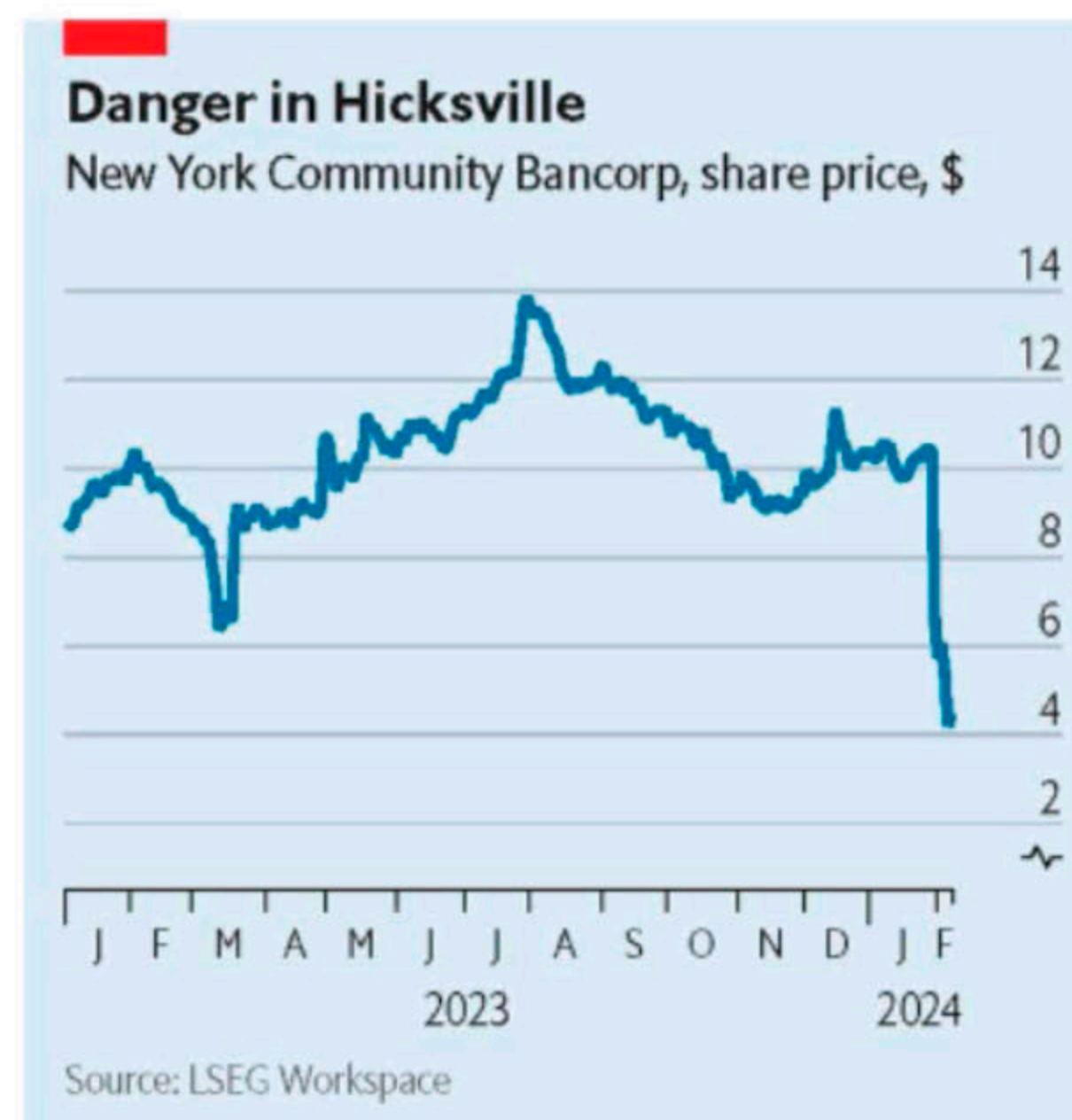
WASHINGTON, DC

America's mid-sized banks appear to be entering another phase of trouble

A BANK PUBLISHES lousy earnings or an "update" on its business. Its share price plunges. Its name is splashed on newspaper front pages. The bank's bosses hold a conference call urging calm. Its share price slides some more. Anyone who has paid attention to America's banking industry over the past year will recognise these events. They ended in failure for Silicon Valley Bank (SVB) in March and First Republic Bank (FRB) in April.

At first glance, the same script seems to be playing out once again. On January 31st New York Community Bancorp (NYCB) of Hicksville, New York, reported a quarterly loss. Its stock promptly dropped by 46%. During a hastily organised conference call with investors on February 7th, Alessandro DiNello, the bank's hastily appointed executive chairman, attempted to soothe fears. Shares sagged, dropping another 10% when markets opened that morning.

Yet the surface-level similarities in these stories belie two big differences. The first, and most important, is that NYCB does not appear to be on the brink of failure, nor is it easy to see how it will fail in the coming weeks. Indeed, its shares later rallied on February 7th. The second is that its problems indicate a different type of trouble has begun. When interest rates rise their impact on things like bond prices is immediate. Their impact on borrowers' ability to repay debts takes longer to play



out. SVB and FRB were both imperilled by a combination of flighty deposits and their investments in low-interest-rate securities or loans, the value of which collapsed when rates climbed. NYCB is struggling, in large part, because a big loan went bad.

Start with NYCB's balance-sheet. The bank, which holds \$116bn in assets, earned around \$200m in the third quarter of 2023. But in the final quarter it had to set aside \$552m to cover property loans, resulting in a \$252m loss. Even before this, it was working to beef up capital levels. In 2023 it acquired assets and deposits from Signature Bank, which failed along with SVB last March. This pushed NYCB's assets past

\$100bn, subjecting it to stricter regulation. Compared with its new 12-figure peers, NYCB is no fortress. The bank's common equity tier-1 ratio, a measure of capital based on the riskiness of its assets, fell to an unimpressive 9.1%, down from 9.6% in September. In a bid to retain more equity, the bank slashed its dividend.

More than half of the bank's value has now evaporated, leaving it with a market capitalisation of \$3bn, less than a third of the book value of its equity. Analysts have slashed their profit forecasts for the bank. On February 6th Moody's, a rating agency, downgraded NYCB to junk status, citing the bank's exposure to commercial property and the recent exit of important audit and risk-management personnel.

Grim stuff. But NYCB's deposits provide reassurance. More than two-thirds of the \$83bn deposited at the bank is insured, a far larger share than at SVB and FRB before their failures, which should mean depositors are less flighty. If they do run, the bank should stay standing. Against uninsured deposits of \$23bn, NYCB holds \$17bn in cash, \$6bn in securities and collateral that could be used to borrow \$14bn from the Federal Home Loan Banks (FHLB) system or the Federal Reserve's discount window. In addition, NYCB can exchange \$10bn of "reciprocal deposits" with other banks, which could in effect reduce the share of its deposits that are uninsured.

Run along

Some sources of liquidity are easier to tap than others, but the bank could have access to almost three times the cash it needs to pay out all uninsured depositors. And, for now at least, depositors do not appear to be going anywhere. Deposit levels have risen since the end of 2023, according to unaudited figures the bank published on February 6th. "We have seen virtually no deposit outflow from our retail branches," Mr DiNello told investors on February 7th.

Nevertheless, NYCB's troubles might provoke broader unease. One reason for this is its reliance on the FHLB system. This inconspicuous part of America's financial plumbing comprises 11 government-sponsored banks, with total assets of \$1.3trn. America's lender of "second-to-last resort" raises money from capital markets, and does so cheaply owing to the assumption that the government would backstop its borrowing. It then lends to FHLB members, which are also its dividend-receiving owners. By the end of March 2023 FHLB advances, a type of loan usually secured against mortgages, had nearly tripled since the year before. SVB alone had increased its borrowing to \$15bn by the end of 2022.

Because NYCB holds more loans than deposits it has long relied on FHLB advances as a source of funding, especially before its recent purchases brought in more de- ▶▶



Still standing

positors. At the end of 2023, NYCB had borrowed \$20bn of FHLB advances. This borrowing amounts to 17% of NYCB's assets, up from 12% at the end of September. The bank taps the FHLB system at nine times the rate of similar peers.

Another reason for broader unease is that this could be the first sign that a crisis in commercial property is now harming the banking system. Although total lending to office buildings is small as a share of loan books across small banks—at around 5% of total assets—the slump in office-building values has been steep.

Other firms are also struggling. Aozora, a Japanese lender that tried out American commercial-property lending, reported losses related to its loans on January 31st. On February 7th Deutsche Pfandbriefbank, a German bank, announced it had increased loss provisions for its commercial-property loans. Given the post-pandemic fall in office use, more losses are likely. These are unlikely to imperil the broader banking system—but they might keep some banks on the front pages. ■

Regulation and politics

Blitz defence

WASHINGTON, DC

Bankers have reason to hope that Donald Trump triumphs in November

HAVE YOU noticed that America's bankers are seething over proposed new capital rules? What gave it away? Perhaps it was the advertisements that warn of dire consequences for the economy, which blare out during prime-time spots in Sunday-night football games. Maybe it was the not-at-all-veiled threats from executives. Suing your regulator is "never a preferred option", Jeremy Barnum of JPMorgan Chase told investors on a recent earnings call, but "it can't be taken off the table." Or perhaps it was the deluge of letters that recently arrived in the postboxes of the Federal Reserve and other banking agencies.

America's process for creating new bank rules has many stages. Regulators publish their agenda in the Federal Register, a scintillating journal published every weekday, which chronicles plans for rules, proposed rules, finalised rules and so on. They talk to industry members and carry out impact analyses. Back-and-forth between industry and overseer, at this stage, is done over coffee, often in private rooms in federal buildings. Then a "Notice of Proposed Rulemaking" is published, the "comment period" begins, interested parties submit letters to regulators—and the battle emerges into the open.

The process is normally pretty technical. It has been anything but for proposals on how to implement Basel III, known as "Basel III endgame", that were first published in July. Bosses of large banks seem to have been personally offended by them. Perhaps their thought process goes as follows: are we really so incompetent at managing risk that system-wide capital levels must be raised by 16%? After grievances piled up, the comment period was extended from November 30th to January 16th.

Now all complaints have been filed, and letters published, the depth of opposition is clear. Latham & Watkins, a law firm, finds that whereas 347 submissions disagreed in whole or in part with the rules, just nine supported them as proposed. A wide range of groups found fault. It is hard to imagine another cause that would unite BlackRock and Goldman Sachs with the National Association for the Advancement of Coloured People, environmentalists, estate agents and most sitting senators.

The rules are long and complicated, and so are the complaints. But they boil down to three themes. First, a big increase in capital is unnecessary. Second, the rules will hamper banks' ability to intermediate capital markets. Third, they will crush lending to important parts of the economy, such as housing and environmental projects (especially ones favoured by President Joe Biden's Inflation Reduction Act).

Last year bank bosses seemed resigned to their fate. Marianne Lake of JPMorgan described the proposals as "a little bit like being a hostage". The requirement was so shocking at first that "even if it changes a bit, you sort of are grateful for that, but it's still probably going to be high." They now seem more confident that the rules will be amended. "I don't think anyone [thinks] that this is going to move forward as pro-



Tough to beat

posed," said Denis Coleman of Goldman Sachs on January 16th.

Fed governors usually try to come to a consensus on regulatory matters. This time, however, they are split, with Michelle Bowman and Christopher Waller, two Donald Trump appointees, opposing the rules when they were first proposed. On January 16th Mr Waller told the Brookings Institute, a think-tank, that it "might even be best to just pull it back" and start again. On January 17th Ms Bowman told the Chamber of Commerce, a lobbying group, that agencies should make "substantive changes" to the rules. Even Jerome Powell, the Fed's chairman, has expressed reservations.

Capital punishment

There are three ways things can proceed. Regulators could press on undeterred, and finalise the rules. This would almost certainly result in the lawsuit to which Mr Barnum alluded. Any legal action would centre on procedural issues—bank lobbyists argue that agencies have violated legislation requiring data and analysis behind proposals to be made available to the public. (Banks allege it was not; the agencies have not yet responded.)

The two other options are equally unpalatable: agencies could make more substantial changes to the rules or they could pull them back and start again. Either approach would require a repeat of the proposal-and-comment cycle.

A difficult situation is made still more difficult by the fact that the agencies are starting to run out of time. The Congressional Review Act allows an incoming Congress to throw out any rule that is finalised less than 60 legislative days before it assumes power. Given the forthcoming presidential election and time off for summer recess, that deadline is closer than it seems. It will fall in July. If rules are not finalised soon and Mr Trump, who watered down bank capital requirements when last in office, wins the election in November, it seems likely that extra-tough standards would be tossed out entirely.

Thus bankers have every incentive to delay the time at which the rules might be finalised. Will that sway their politics? Bank bosses are not typically big political donors. According to data compiled by Open Secrets, a non-profit outfit, neither Jamie Dimon of JPMorgan nor David Solomon of Goldman Sachs has given money during this presidential campaign. Among more junior staff, there does not seem to have been a rightward swing. If anything, donations from people employed by JPMorgan, Citigroup and Bank of America favour Democrats by a wider margin than in 2020. Perhaps some things are more important than capital requirements—which is not what you would gather from listening to bank advertisements. ■

Indonesia's economy

False promise

Presidential candidates vow to deliver 7% growth. Voters have heard it before

IN POLITICS, REPETITION is a crucial part of any campaign. But for Indonesian voters, who go to the polls to elect a new president on February 14th, one pledge is starting to sound a little too familiar. Candidates hoping to lead the world's third-largest democracy have now, for the better part of two decades, been vowing to raise the country's growth rate to 7%.

Joko Widodo, the outgoing president known as Jokowi, was elected on such a promise in 2014. So was his predecessor, Susilo Bambang Yudhoyono, who came to office in 2004. This time, two of the three contenders are making similar pledges. Ganjar Pranowo, former governor of Central Java, has a growth target of 7%. Prabowo Subianto, Indonesia's minister of defence and the front-runner, has suggested that double-digit growth is possible.

So far, two decades of promises have fallen short. Indonesia's economy grew by around 5% last year, close to the average rate over the past two decades. The country's last 7% expansion was in 1996, the year before the Asian Financial Crisis (see chart 1). Since Indonesia's transition to democracy in 1998, promises of higher growth have been far more common than the policies that might encourage such a shift.

The outgoing president has achievements to flaunt. A decade ago the country was one of the "Fragile Five", a group of emerging-market economies vulnerable to high interest rates abroad and a strong dollar. Today its current account is roughly balanced and its external debts modest. After legislative and legal speed bumps, Jokowi's omnibus bill, which cuts restrictions on foreign investment and simplifies



Nickel into dollars

licensing, finally became law last year. Indonesia's infrastructure has improved over the past decade, helped by the construction of thousands of kilometres of roads.

Yet the government's proudest achievement is its nickel-focused industrial policy. The metal is used in electric-vehicle batteries, and Indonesia has the world's largest deposits. Export of most raw ore has been banned since 2014, the aim being to force companies to process and manufacture in Indonesia. BYD, Ford and Hyundai are among the carmakers now investing in the country. Exports of ferronickel, a processed form of the metal, rose from \$83m in 2014 to \$5.8bn in 2022.

Although openness to investment from both China and the West and an enormous stockpile of a vital battery metal is proving to be a powerful combination, there are risks to the approach. One is technological. Cullen Hendrix of the Peterson Institute for International Economics, a think-tank, notes that lithium-iron phosphate batteries, which contain no nickel, are becoming more popular. Sodium-ion batteries, which need neither nickel nor lithium, could surpass both types. Last month JAC Motors, a Chinese carmaker backed by Volkswagen, a German one, delivered the first commercial vehicles powered by sodium-ion batteries to customers.

There are also signs that Indonesian policymakers are learning the wrong lessons from their nickel success. Despite obvious opportunities in the sunny archipelago, solar-power investment is suppressed by rules that panels must contain lots of domestically produced materials. Last year TikTok, a short-form video platform, was prodded into a shotgun tie-up with Tokopedia, an Indonesian e-commerce firm. It paid \$840m for a 75% stake in the firm after new regulations halted its own e-commerce operations in the country.

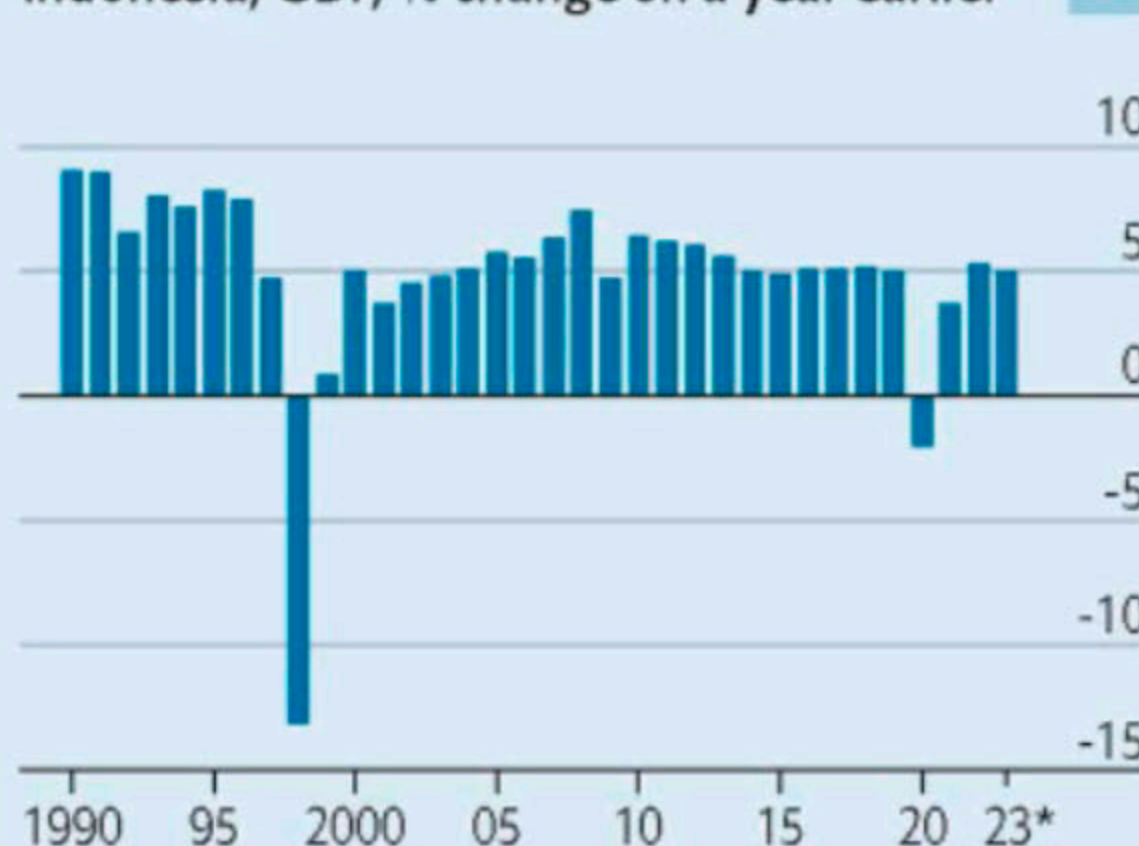
Moreover, Indonesian businesses remain stifled by local regulations, despite reforms introduced by the omnibus law. Rules requiring imports to be screened at particular entry points are equivalent to a 22% tariff, according to research by the World Bank—more than twice the South-East Asian average. Indeed, non-tariff barriers impose costs equivalent to 60-130% of the cost of computers, electronics and transport equipment. The election campaign has featured few concrete economic-policy proposals, but none of the candidates has expressed any zeal for peeling back the country's many trade restrictions.

Indonesia's industrial policy undermines officials when they seek to attract investors who do not need the country's resources. Malaysia, Thailand and Vietnam, which place fewer restrictions on outside investors, are more obvious destinations for firms looking for alternatives to Chinese manufacturing. As a consequence, Indonesia's exports of electronics are not just lower than any other large economy in South-East Asia; they have grown more slowly, too (see chart 2). The share of Indonesian exports heading to America is lower than in any of its local competitors.

Although Indonesia is a relatively young country, by the time of the next presidential election in 2029 this tailwind will have disappeared. The country's dependency ratio—the number of children aged under 15 and adults over 65 per 100 working-age adults—will begin to rise steadily from that year. Without more effective attempts to boost the economy, talk of 7% growth will remain illusory. ■

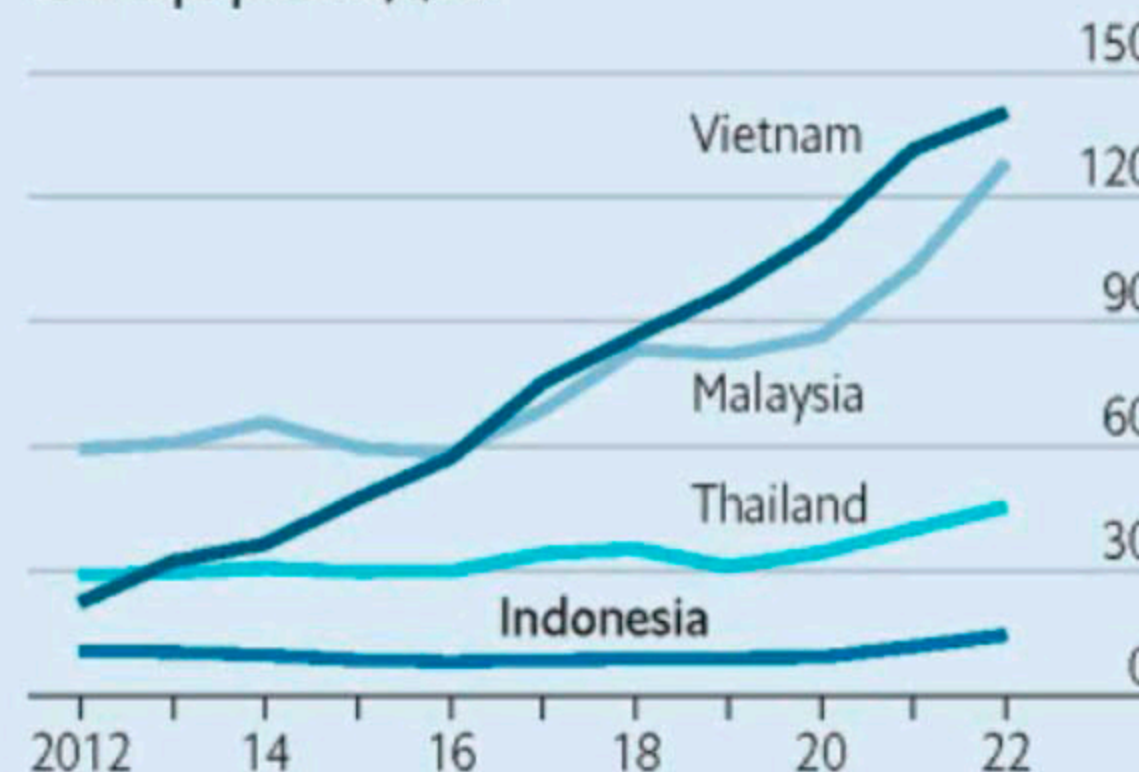
Maybe this time is different

Indonesia, GDP, % change on a year earlier



Sources: IMF; UN Comtrade

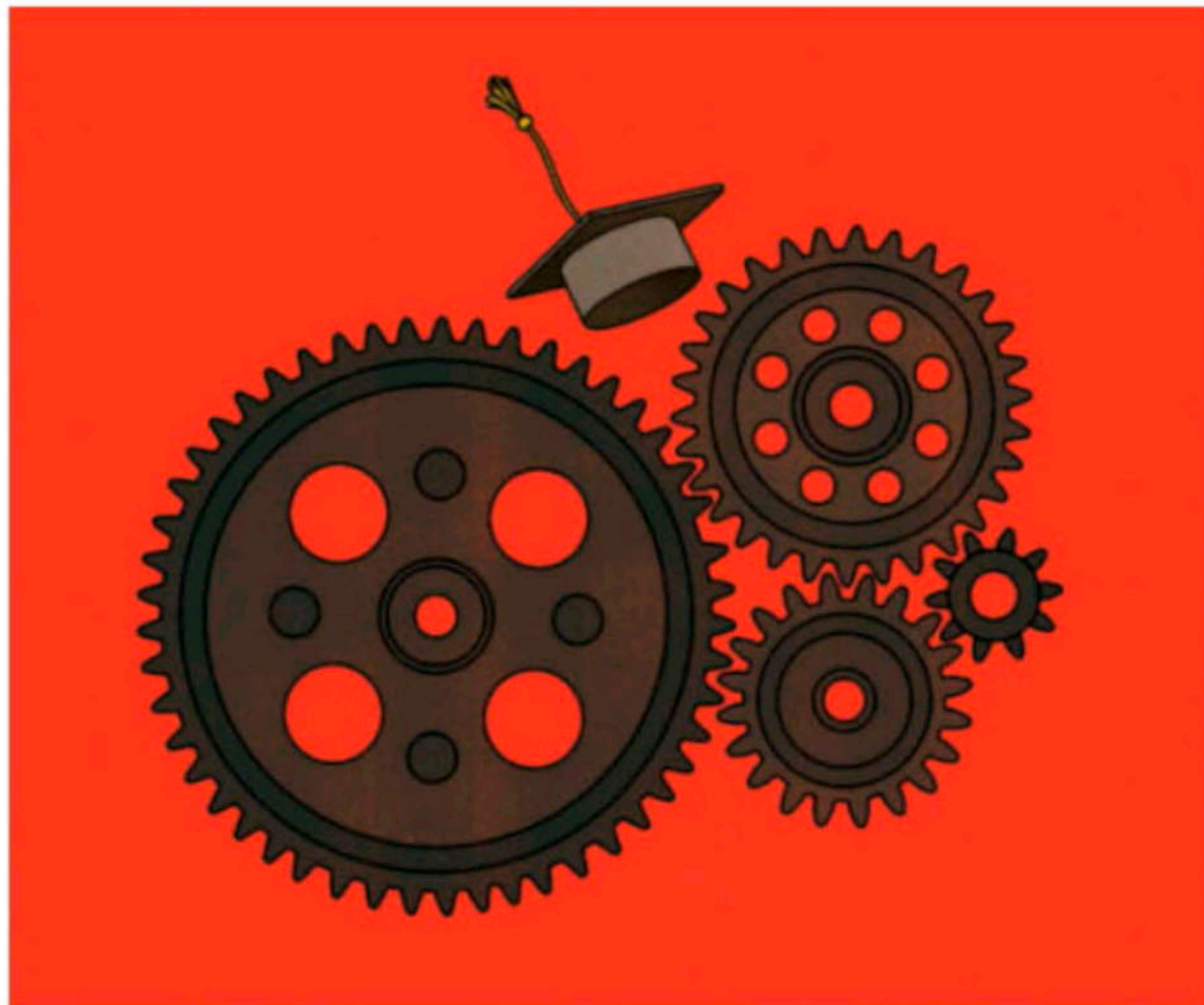
Exports of electrical machinery and equipment, \$bn



*Estimate

Free exchange | Ivory sour

How universities contribute to slow economic growth



UNIVERSITIES HAVE boomed in recent decades. Higher-education institutions across the world now employ in the order of 15m researchers, up from 4m in 1980. These workers produce five times the number of papers each year. Governments have ramped up spending on the sector. The justification for this rapid expansion has, in part, followed sound economic principles. Universities are supposed to produce intellectual and scientific breakthroughs that can be employed by businesses, the government and regular folk. Such ideas are placed in the public domain, available to all. In theory, therefore, universities should be an excellent source of productivity growth.

In practice, however, the great expansion of higher education has coincided with a productivity slowdown. Whereas in the 1950s and 1960s workers' output per hour across the rich world rose by 4% a year, in the decade before the covid-19 pandemic 1% a year was the norm. Even with the wave of innovation in artificial intelligence (AI), productivity growth remains weak—less than 1% a year, on a rough estimate—which is bad news for economic growth. A new paper by Ashish Arora, Sharon Belenzon, Larisa C. Cioaca, Lia Sheer and Hansen Zhang, five economists, suggests that universities' blistering growth and the rich world's stagnant productivity could be two sides of the same coin.

To see why, turn to history. In the post-war period higher education played a modest role in innovation. Businesses had more responsibility for achieving scientific breakthroughs: in America during the 1950s they spent four times as much on research as universities. Companies like AT&T, a telecoms firm, and General Electric, an energy firm, were as scholarly as they were profitable. In the 1960s the research and development (R&D) unit of DuPont, a chemicals company, published more articles in the *Journal of the American Chemical Society* than the Massachusetts Institute of Technology and Caltech combined. Ten or so people did research at Bell Labs, once part of AT&T, which won them Nobel prizes.

Giant corporate labs emerged in part because of tough anti-monopoly laws. These often made it difficult for a firm to acquire another firm's inventions by buying them. So businesses had little choice but to develop ideas themselves. The golden age of the corporate lab then came to an end when competition policy loosened

in the 1970s and 1980s. At the same time, growth in university research convinced many bosses that they no longer needed to spend money on their own. Today only a few firms, in big tech and pharma, offer anything comparable to the DuPonts of the past.

The new paper by Mr Arora and his colleagues, as well as one from 2019 with a slightly different group of authors, makes a subtle but devastating suggestion: that when it came to delivering productivity gains, the old, big-business model of science worked better than the new, university-led one. The authors draw on an immense range of data, covering everything from counts of PhDs to analysis of citations. In order to identify a causal link between public science and corporate R&D, they employ a complex methodology that involves analysing changes to federal budgets. Broadly, they find that scientific breakthroughs from public institutions "elicit little or no response from established corporations" over a number of years. A boffin in a university lab might publish brilliant paper after brilliant paper, pushing the frontier of a discipline. Often, however, this has no impact on corporations' own publications, their patents or the number of scientists that they employ, with life sciences being the exception. And this, in turn, points to a small impact on economy-wide productivity.

Why do companies struggle to use ideas produced by universities? The loss of the corporate lab is one part of the answer. Such institutions were home to a lively mixture of thinkers and doers. In the 1940s Bell Labs had the interdisciplinary team of chemists, metallurgists and physicists necessary to solve the overlapping theoretical and practical problems associated with developing the transistor. That cross-cutting expertise is now largely gone. Another part of the answer concerns universities. Free from the demands of corporate overlords, research focuses more on satisfying geeks' curiosity or boosting citation counts than it does on finding breakthroughs that will change the world or make money. In moderation, research for research's sake is no bad thing; some breakthrough technologies, such as penicillin, were discovered almost by accident. But if everyone is arguing over how many angels dance on the head of a pin, the economy suffers.

When higher-education institutions do produce work that is more relevant to the real world, the consequences are troubling. As universities produce more freshly minted PhD graduates, companies seem to find it easier to invent new stuff, the authors find. Yet universities' patents have an offsetting effect, provoking corporations to produce fewer patents themselves. It is possible that incumbent businesses, worried about competition from university spin-offs, cut back on R&D in that field. Although no one knows for sure how these opposing effects balance out, the authors point to a net decline in corporate patenting of about 1.5% a year. The vast fiscal resources devoted to public science, in other words, probably make businesses across the rich world less innovative.

If you're so smart, why aren't you rich?

Perhaps, with time, universities and the corporate sector will work together more profitably. Tighter competition policy could force businesses to behave a little more like they did in the post-war period, and beef up their internal research. And corporate researchers, rather than universities, are driving the current generative AI innovation boom: in a few cases, the corporate lab has already risen from the ashes. At some point, though, governments will need to ask themselves hard questions. In a world of weak economic growth, lavish public support for universities may come to seem an unjustifiable luxury. ■



Ukraine's drone war

First-person shooter

KYIV

Cheap racing drones offer precision warfare at scale. They could become as dominant as artillery

IT IS HUMAN v machine at its simplest. The soldier is crouched under the hull of his battered and immobilised tank. A drone languidly drifts towards him, as if taking stock of the duel. The soldier runs for it. He clammers over the front of his tank to escape. The ensuing chase has a hint of farce, with the drone in pursuit as the soldier circles the tank desperately. Within 15 seconds it is all over. The drone explodes. As the smoke clears, the soldier lies crumpled on the ground.

The internet is awash with snuff movies from the war in Ukraine. Many depict the lethal feats of a type of weapon that did not exist at the outset of the war, but which has come to assume near mythical status on the front lines: the first-person view (FPV) drone. Derived from racing quadcopters, these are guided to their target by a pilot on the ground who watches a video feed through goggles.

The development of such drones began in garages early in the war by unpaid enthusiasts, and sometimes in the teeth of official resistance. Now both Russia and Ukraine churn out hundreds of thousands

per year, and are keen to imbue them with artificial-intelligence (AI) capabilities that represent the cutting edge of lethal autonomy at scale. In his address to the nation on February 6th Volodymyr Zelensky, Ukraine's president, even announced the creation of a new branch of the armed forces—the Unmanned Systems Forces—dedicated to drones.

Don't try running away

The appeal of FPV drones is that they offer cheap, accurate firepower. Unguided artillery shells cost anywhere between \$800 and \$9,000. A GPS-guided shell is closer to \$100,000, and a Javelin anti-tank missile around twice as much again. A simple FPV drone costs \$400. A typical Ukrainian as-

sault group of 12 to 16 soldiers is accompanied by almost the same number of drone operators, notes Franz-Stefan Gady, a military analyst. As many as half a dozen are FPV pilots; the rest fly other sorts of drones, for tasks such as reconnaissance.

With Ukraine facing a shortage of conventional artillery—it fires 2,000-3,000 shells a day, about a quarter of what Russia manages—FPV drones can help close the firepower gap. Drones are agile and relay pictures back to their operators in real-time. They can perform tricks that artillery cannot, such as chasing vehicles or soldiers and flying into buildings or trenches.

They offer psychological advantages too. Artillery barrages typically come in waves. Soldiers in trenches can hide in relative safety underground until a bombardment is finished. But drones can loiter near their targets, making them a persistent, insidious threat that can strike at any time. In a one-week period in the autumn of 2023, Ukrainian drones helped destroy 428 pieces of Russian equipment, including 75 tanks and 101 artillery pieces. Samuel Bendett of the Centre for Naval Analysis, an American think-tank, points to Russian front-line accounts that say the threat of drone attacks forces troops to move in small groups under the cover of darkness.

For most fervent drone advocates, all this is a glimpse of a future in which disposable aircraft replace big guns entirely. "This is a new type of...high-precision aerial artillery," argued Dmitry Rogozin on January 23rd. Mr Rogozin oversaw parts of

→ Also in this section

68 Monitoring aerosols

69 Tackling endometriosis

70 Deciphering ancient scrolls

70 Baby AI

Russia's arms industry from 2011 to 2018 and now serves in the puppet regime running the occupied Ukrainian province of Zaporizhia. "It will gradually replace conventional...artillery, since it is much more accurate and cheaper, and the recording of target hits is visible to the operators."

The more common view is that drones will indeed revolutionise warfare, but alongside artillery rather than instead of it. A trio of artillery pieces might fire two or three rounds per minute for an entire hour, with each round delivering 10kg of high explosive with a blast that is lethal within a radius of 50 metres. Delivering that much firepower by an average FPV would require dozens of drones, each with their own pilot. Drones require a line of sight back to their operators. That is less of a problem in the flatter parts of Ukraine, such as Kherson and Zaporizhia, but a bigger issue in hillier regions such as Donetsk. And artillery can still fire in high winds or heavy rain—or in the cold, which can sap a drone's battery, and therefore its range.

There is no escape

"Achilles", a Ukrainian drone commander based near Bakhmut in the east of the country, says that his FPV drones, which cost between \$300 and \$500 each, have destroyed millions of dollars' worth of Russian equipment. But he emphasises their role in an orchestra of violence: "It is the combined firepower of artillery and drones that is powerful." FPVs—as well as conventional mines or fire from armoured vehicles—can be used to paralyse a vehicle and force its crew out, he says. Artillery then hits the position and either kills them outright or forces them into shelter.

If the soldiers make it into cover, the drones go back to work. Skilled pilots can guide them into underground shelters that artillery cannot reach. "Even if the enemy survives the explosion, there won't be enough air to breathe," says Achilles. "So they start coming out. And as soon as they do, we hit them with mortar [fire] or artillery or a fragmentation shell." Such synergies are why Achilles thinks FPV drones will not replace conventional artillery for the foreseeable future. "Our [allies] need to banish any thought they can send us millions of drones in place of shells, and that we'll cope. It's just not true. Artillery is a different thing altogether."

Whatever the future holds, for now the two sides seem to be employing different tactics. Ukrainian drone units are asked to upload videos of their exploits to "Delta", a piece of battlefield management software that can help managers in Kyiv to understand what works and what doesn't. Ukraine typically uses drones against high-value targets, such as armoured vehicles, artillery or supply trucks. Less is known about Russian doctrine. But videos ana-

lysed by Tochnyi, a research collective, suggest that a larger proportion of Russian attacks are directed at infantry and other low-value targets (see chart).

The rise of FPV drones has also meant a rise in countermeasures that aim to stop them. Electronic warfare is a big one, with powerful jammers that block radio signals between a drone and its operator. But there are, of course, countermeasures to the countermeasures. Drones can have their electronics hardened to resist jamming, though that increases the price. Some newer FPV drones are being delivered with swappable radio chips, making it easy to change the frequencies on which they operate. "If the FPV drone is set up properly with the right software, and with the antenna at the right angle...you can't stop the drone," insists Pavlo Litovkin, an instructor at KazhanFLY, a drone training school near Kyiv. And precisely because the jammers emit so much electromagnetic radiation, they are easy-to-spot targets in their own right.

The number of Ukrainian drone attacks that get through varies greatly along the front lines. In newly formed units, whose commanders, troops grumble, have been appointed through political connections, a hit rate of only 10% to 15% is common. In specialised units, however, such as special forces or those from Ukraine's intelligence services, it can be 70% or 80%—though a hit is not the same as a kill.

Skilled pilots are one of the best ways to improve a drone's effectiveness. Videos from the front line suggest their proficiency has risen dramatically over the past year. In the past, operators would be happy just to hit a tank. Now they circle around and strike at the base of the rear of the turret, which can cause the tank's ammunition to detonate, destroying it. In one video a column of six Russian armoured vehicles are struck one after the other in this way.

KazhanFLY is regarded as one of the best schools. Its main FPV drone course takes ten days. Reconnaissance flying and engi-

neering courses take another five days. Trainees begin with lectures on aeronautics and electronic warfare, before switching to a hangar with a special course of hoops and obstacles. In one exercise on a large outdoor range, pilots must hit buggies by flying through jamming.

One question is whether drones will stay cheap as armies get more accustomed to defending against them. Research by Jack Watling and his colleagues at the Royal United Services Institute, a think-tank in London, which draws on Ukrainian military data, suggests they may not. An FPV drone that has a good chance of getting through and achieving a kill against an armoured vehicle, they argue, requires fancy features such as infrared sensors for night missions, a high-quality radio that is resistant to interference from nearby drones, a bigish antenna and enough thrust to carry 5kg of high explosive.

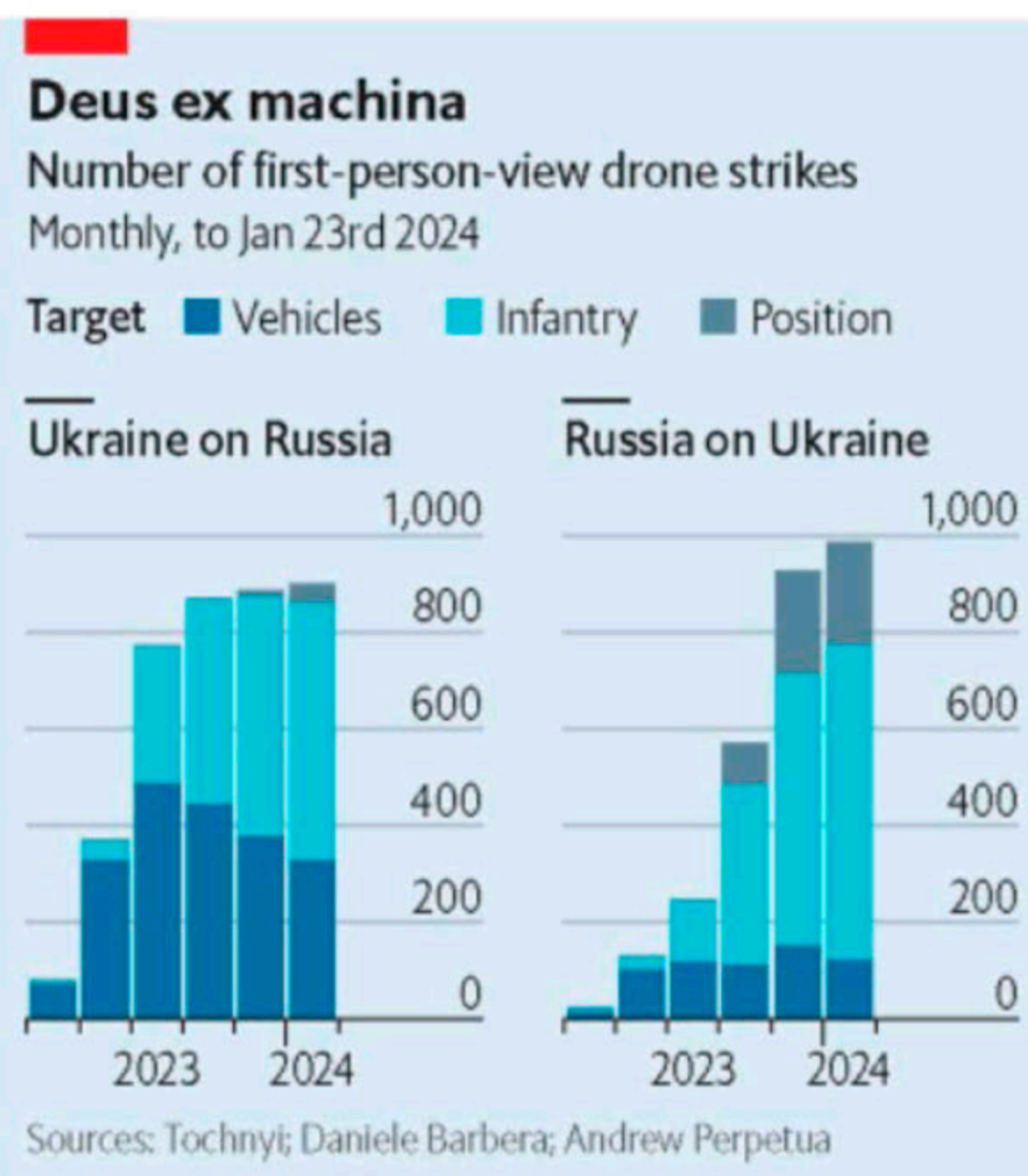
Mr Watling and his colleagues estimate a price of about \$30,000—two orders of magnitude higher than the cheap munitions in use today. Many Ukrainian drone builders and operators vehemently contest these assumptions, arguing that much cheaper drones will remain effective, and that—as the garage-built drones have already proved—standard military procurement is bloated and inefficient.

Seek and destroy

One capability that drone pilots are keen on is autonomous object recognition, which would allow a drone cut off by jamming to complete the last phase of its attack autonomously. Object recognition is already available on expensive drones, like America's Switchblade 300, which costs more than \$50,000. Russia's Ovod (Gadfly) FPV supposedly uses a similar AI-based "terminal guidance" system. But drone advocates argue that this too can be done on the cheap. The Ukrainian Scalpel drone, for instance, costs \$1,000 and can lock onto a target designated by its pilot. So does the AirUnit, a prototype drone whose final version aims to be cheaper still. A recent FPV video claims to show two Russian Pantsir air-defence systems being destroyed using autonomous guidance.

These systems are not yet reliable and autonomous terminal guidance is not commonplace on the low-end systems. Some Ukrainian insiders suggest that a turning point could come in April or May. Eric Schmidt, a former CEO of Google and frequent visitor to Ukraine, is investing heavily in Ukrainian drone production. People familiar with those efforts say that the aim is not only to mass produce units (which should help drive costs down even further), but to give them clever capabilities as cheaply as possible.

Software-defined radios, for instance, replace dedicated electronic components



▶ with programmable computer chips. They make it easier to implement techniques such as frequency hopping, which should make communications harder to jam. Another idea is to replace GPS tracking, which can also be jammed, with optical navigation, which tracks the terrain a drone flies over. Commercial components will be used wherever possible. That should keep costs down, and help ensure that the final product is compliant with ITAR, a set of infamously restrictive American arms-export regulations to which Mr Schmidt, being an American citizen, is subject. Both Russia and Ukraine hope for a technological breakthrough. But they plan for a drone war of attrition.

Mr Zelensky has said he wants to produce 1m FPV drones over the course of this year. December 2023 was an inflection point, says Mykhailo Fedorov, Ukraine's tech-savvy deputy prime minister, with "tens of thousands" of drones rolling off production lines—twice the level of the entire previous year.

Despite recent attacks on drone factories and a shortage of explosives, state-procured FPV drones now outnumber volunteer-made ones for the first time. "Repelling ground assaults is primarily the task of drones," declared Mr Zelensky in his address. "The large-scale destruction of the occupiers and their equipment is also the domain of drones." ■

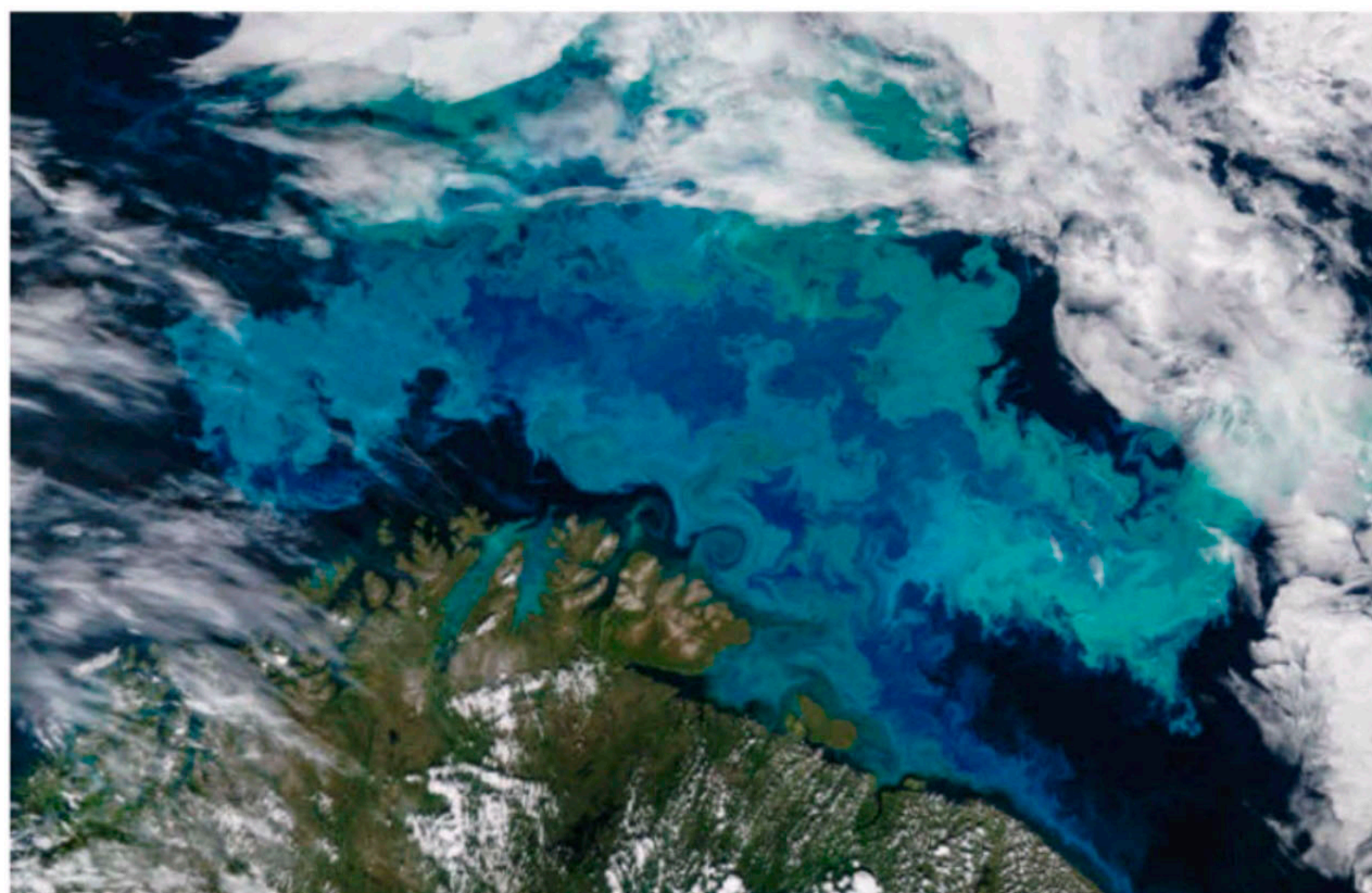
Aerosols

Very small things

NASA'S PACE satellite will tackle the largest uncertainty in climate science

SMALL THINGS can have big effects. Take the plant plankton that populate the Earth's oceans. When zooplankton eat them, the phytoplankton release a chemical called dimethyl sulphide (DMS) and it is this that people are referring to when they speak of the "smell of the sea". Chemical reactions in the atmosphere turn DMS into sulphur-containing particles that offer a surface for water vapour to condense on. Do that enough times and the result is a cloud. Clouds, in turn, affect both the local weather and, by reflecting sunlight into space, the world's climate.

Other tiny things have similarly extensive effects. Sulphur from ships' funnels also makes particles that seed clouds, producing strings of puffy white "shiptracks" that can be seen in satellite pictures. Soot from burning fossil fuels, meanwhile, has the opposite effect. It is made of dark particles that absorb solar energy, warming the



Purple haze, all around

air around them and discouraging cloud formation. If sulphur particles make it high enough in the atmosphere (thanks to a volcanic eruption, perhaps) they can form a haze that blocks some sunlight from reaching Earth's surface.

But although scientists know in general terms how these processes work, quantifying them is much harder. Uncertainties about the behaviour of "aerosols", as various small particles in the air are collectively known, are one of the main sources of scientific uncertainty in climate models. They are therefore a big reason for the error bars that surround projections of how hot Earth will become for a given increase in the amount of carbon dioxide in its atmosphere.

Climate scientists hope that NASA's new satellite, PACE (for "Plankton, Aerosol, Cloud, ocean Ecosystem"), which was launched into Earth orbit on February 8th, will reduce those uncertainties around aerosols. PACE's cameras will sweep the planet every one to two days to create a continually updated census of the very small things that are suspended in the oceans (plankton) and the air (aerosols).

PACE's main camera is sensitive to the spectrum of light between the ultraviolet and the near infrared. For the oceans, that means PACE will be able to distinguish different types of phytoplankton. "That is powerful because diatoms fuel fisheries [and] cyanobacteria can be harmful," says Jeremy Werdell, an oceanographer at NASA who is PACE's chief scientist. Two other instruments mounted on PACE will offer information about the size and shape of aerosols, making it possible for the first time to distinguish soot from sea spray and particles produced by burning fossil fuels.

That could be "transformative" for climate models, says Gavin Schmidt, a cli-

mate scientist who also works at NASA. Modellers have had to compensate for the limited nature of the existing aerosol data with informed guesswork. As a result, different climate models vary considerably in their estimates of how powerfully aerosols affect the climate.

Such uncertainties affect questions about how air pollution influences climate change. Laws in Europe and North America have cut the amount of air pollution from fossil fuels since the 1980s. This is a boon for human health. But it has also lifted a smoggy veil that was masking some of the warming caused by greenhouse-gas emissions. Cleaning up air pollution could be one of the most important influences on the climate in the coming decades. Better data will allow better modelling.

Similarly, climatologists are divided on the effect of rules adopted by the International Maritime Organisation, part of the United Nations, which capped the amount of sulphur in ship fuel starting in January 2020. Some believe the reduction in sulphur in ship exhausts may have contributed to the exceptionally hot temperatures recorded around the world in 2023. Others think the effect was minimal.

There are plenty more questions climatologists would like answered. Scribbled on the whiteboard in Kirk Knobelspiesse's office at NASA's Goddard Space Flight Centre in Greenbelt, Maryland, is a list of 18 projects. It ranges from gathering live data on volcanoes and forest fires to answering what happens when soot from agricultural clearing fires that burn annually in west Africa ends up on the tops of marine clouds, darkening the face they present to the sun. The answers to all those questions depend on the behaviour of tiny things. After decades of uncertainty, answers may be on the way. ■

Endometriosis

A long and winding road

The first new drug in more than 40 years is on the horizon

IN 1690 DANIEL SCHRÖN, a German physician, described a patient with “ulcers” throughout her peritoneum, bladder, intestines, uterus and cervix. It was long thought to be the first documented appearance in medical literature of endometriosis, a painful and debilitating gynaecological condition that today affects as many as 190m women worldwide.

Uteruses are lined with the endometrium, a layer of tissue that thickens during a menstrual cycle. If a fertilised egg does not become implanted, the lining thins and is shed as a period. If endometrial tissue grows abnormally outside the uterus, however, it can cause havoc. In extreme cases of endometriosis, adhesions can “bind” a woman’s organs together—from ovaries to bladder to bowels—and freeze them in place. Milder cases come with severe pain, heavy menstruation, inflammation and scar tissue caused by internal bleeding, fatigue and infertility. There is no known cure, and treatment focuses on controlling symptoms, normally through some combination of hormonal birth control, pain relief or surgery.

The World Health Organisation estimates that endometriosis affects around one in ten women during their lifetime—roughly the same as the proportion of the global population with diabetes. But whereas doctors understand why diabetes occurs and how to treat it, their understanding of endometriosis is languishing “30 to 40 years” behind, according to Andrew Horne, a professor of gynaecology and reproductive sciences at the University of Edinburgh and president-elect of the World Endometriosis Society. He blames it on a lack of research and awareness, driven by funding shortages.

Things are starting to change. A clinical trial of the first non-hormonal, non-surgical treatment for endometriosis, started in 2023 in Scotland, is showing promising results. Dr Horne says that the trial, which he co-leads, grew out of closer examinations of how endometriosis lesions form. By taking samples from patients during diagnostic laparoscopies, his team found that those with peritoneal endometriosis—meaning disease on the lining of the pelvic cavity, which represents around 80% of cases—had significantly higher levels of a chemical called lactate in their pelvises than those without.

Lactate is produced when the body

breaks down glucose (and is also the cause of the uncomfortable stitches that can suddenly strike runners). Its increased presence, the researchers reckoned, suggested a hand in the development of endometriosis lesions, possibly similar to the role lactate plays in helping cancer cells proliferate. Scientists then looked for a drug that had already been tested in cancer patients, settling eventually on dichloroacetate (DCA). This is also used to treat rare types of metabolic disorders in children in which excess lactic acid builds up in the blood.

Lead me to your door

A small group of human patients who were treated with DCA reported lessened pain and better quality of life. A trial with a larger cohort, plus a placebo arm, is next. If the drug is approved, which may be possible within the next five to seven years, DCA will be the first new endometriosis treatment discovered in four decades.

“There is still an issue—and I hate to say it—with issues that only affect women,” Dr Horne says. That observation is borne out elsewhere. A report released last month by McKinsey, a consultancy, concluded that “systematic lack of disease understanding” led to a loss of 40m-45m disability-adjusted life years for women annually, amounting to four lost days of “healthy life” per year per woman worldwide.

In terms of endometriosis, lack of medical understanding impedes diagnosis as

well as treatment. A study conducted by academics at Manchester Metropolitan University, published in January in the *Journal of Health Communication*, interviewed British women at different stages of obtaining a diagnosis, which takes ten years on average. Many respondents said their symptoms were initially (and sometimes repeatedly) dismissed as either normal period pains, the result of lifestyle factors such as being overweight, or as psychological. One reason that diagnosing endometriosis is such a drawn-out, gruelling process is that it almost always requires surgery: most lesions can be found only by inserting a camera (though those which cause cysts generally show up on scans). To speed things up, scientists have therefore been looking for “biomarkers”—the signatures of proteins or processes related to a disease, which show up somewhere easy to test, like a patient’s blood or urine.

Ziwig, a French pharmaceutical firm, claims to have found such a solution for endometriosis. Its test looks for specific microRNAs—tiny strands of genetic material—which, one study shows, appear in the saliva of women with existing endometriosis diagnoses. In January the health-care authority of France approved a pilot scheme to assess the effectiveness of Ziwig’s “Endotest” ahead of a possible roll-out. In 2022 Emmanuel Macron, the country’s president, declared endometriosis “society’s problem” and made improving treatment a national priority.

These developments do not mean that the problem of diagnosis is solved, warns Dr Horne, who believes that more research is required to test how endometriosis biomarkers appear in larger, more disparate populations. But, after years of relative inaction, he now sees endometriosis research as “a fast-moving field” at last. “I think I feel confident,” he says. ■



The Herculaneum papyri

They're on a roll

Efforts to use AI to decipher ancient Roman scrolls have paid off

"I CAN'T BELIEVE it worked!" says Nat Friedman, co-founder of the Vesuvius Challenge, which offered \$1m in prizes to anyone who could use artificial intelligence (AI) to decipher papyrus scrolls carbonised by the eruption of Mount Vesuvius in 79AD. But work it did. On February 5th Mr Friedman awarded \$700,000 to three computer-science students, Luke Farritor, Youssef Nader and Julian Schilliger, for successfully extracting four passages of text, each at least 140 characters long, and with at least 85% of the characters legible, from a scroll known as Banana Boy. The scroll was found in a Roman villa in Herculaneum, thought to have belonged to the father-in-law of Julius Caesar. Along with hundreds of others, it was damaged in the eruption that also buried nearby Pompeii.

Heat turned the scrolls into brittle charcoal logs which disintegrated when efforts were made to unroll them physically. So attention shifted towards finding ways to unwrap them virtually, through computer analysis of 3D scans made using x-rays. This turned deciphering the scrolls into a complex software problem.

Virtual unrolling is a two-stage process pioneered by W. Brent Seales, at the University of Kentucky. The first stage, called segmentation, involves tracing the edges of the rolled-up papyrus sheet inside the 3D scan, then extracting 2D images of the scroll's surface. The second stage, ink detection, analyses the resulting images to pluck the ink of the scroll's text from the papyrus background. This is particularly tricky for the Herculaneum scrolls, which are written in carbon-based ink which provides little contrast.

Dr Seales, along with Mr Friedman and Daniel Gross, two technology entrepreneurs, thought AI techniques might help and launched a prize challenge to find out. A community of thousands of enthusiasts has since developed a range of tools and tricks to speed up the fiddly process. In October 2023 Mr Farritor and Mr Nader won smaller prizes for independently extracting the first legible word ("porphyras", which means "purple" in ancient Greek) from the Banana Boy scroll (named because of its size and shape).

The two students then teamed up and, joined by Mr Schilliger, further improved the machine-learning technique involved in ink detection. By manually labelling areas known to be ink, they could train a neu-

ral network to find more of them; these were fed back into the model to improve its detection abilities. Mr Nader also switched the neural network to a novel architecture called a TimeFormer, which produced sharper results. Mr Schilliger, meanwhile, devised a tool to automate more of the segmentation process (much of which must still be done manually).

The trio were awarded the prize after an assessment of the entries by a team of papyrologists. (Three runners-up will receive smaller prizes of \$50,000 each.) The winning entry revealed 15 columns of text, written in Greek. Reading it was "mind-blowing", says Federica Nicolardi, a papyrologist at the University of Naples Federico II, who was one of the judges. The text is thought to be a previously unknown work on pleasure by Philodemus, an Epicurean

philosopher who lived in Herculaneum.

Mr Friedman now wants to scale up the whole process. With ink detection solved, he says, "the bottleneck is now segmentation". Mr Schilliger has agreed to make his software open source, and to collaborate with others to improve it. Further prizes are being offered as an incentive. Mr Friedman, meanwhile, aims to scan more scrolls using the Diamond Light Source, a particle accelerator in Britain, and to standardise the scanning process.

That will cost money. Having given out \$1.2m in prizes Mr Friedman is looking for other backers. He hopes deciphering ancient scrolls will lead to the rediscovery of lost works—"each scroll is a mystery box", he says—and, ultimately, revive interest in further excavating the Herculaneum villa, which may contain thousands more. ■

Baby AI

Through the eyes of a child

An AI trained on the experiences of an infant learned a handful of basic words

FOR DECADES linguists have argued over how children learn language. Some think that babies are born as "blank slates" who pick up language simply from experience—hearing, seeing and playing with the world. Others argue that experience is not enough and that babies' brains must be hardwired to make acquiring language easy.

AI models such as GPT-4 have done little to settle the debate. The way these models learn language—by trawling through reams of text data from millions of web pages—is vastly different to the experiences of babbling babies.

A team of scientists at New York University examined the question by

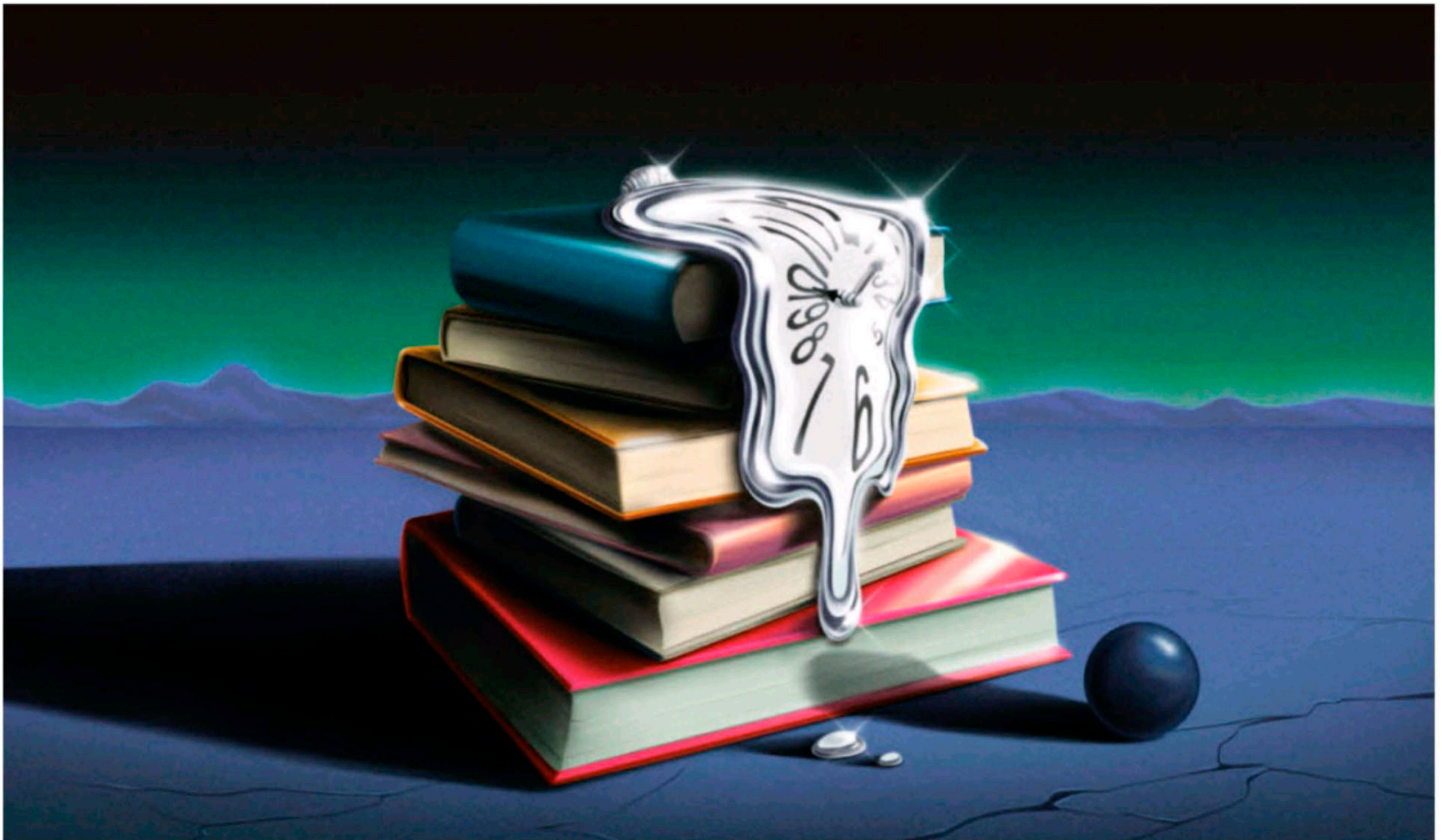
training an AI model on the experiences of a single infant. Between the ages of six and 25 months, a toddler called Sam wore a head-mounted camera for an hour a week—around 1% of his waking hours. The camera recorded everything he saw and heard while he played with toys, enjoyed days at the park and interacted with his pet cats. The recordings and transcribed audio were fed into an AI, which was set up to know that images and words that appeared at the same time were related, but was otherwise left to make sense of the mess of colours and speech that Sam experienced.

Despite the limited training data, the AI was able to pick out objects and learn the matching words. The researchers tested the model by asking it to identify objects that Sam had seen before, such as a chair from his home or one of his toy balls. Given a list of four options the model picked the correct word 62% of the time, far above the chance level of 25%. To the researchers' surprise, the model could also identify chairs and balls that Sam had never seen. The AI learnt at least 40 different words, but it was far from matching Sam's vocabulary and language abilities by the end of the experiment.

The researchers, published recently in the journal *Science*, argue that, to match words to objects, learning from experience may well be enough. Sceptics, however, doubt that the AI would be able to learn abstract nouns or verbs, and question how similar the learning processes really are. The mystery of language acquisition lives on.



This little AI went to market



Chronicling the past

The present as prologue

When is it too soon to write history?

2020. By Eric Klinenberg. *Knopf*; 464 pages; \$32. *Bodley Head*; £25

THE SIGNS, at first, were small. On December 15th 2019 mentions of “pneumonia” and the Chinese word *feidian* (SARS) started to spread on WeChat, a Chinese social-media app, multiplying faster than any disease. By February people outside China had started buying tissues, gloves and masks. Then, as “2020”, a new history of covid, explains, people started keeping their children home from school. Without giving too many spoilers, the reader can guess what happened next. The covid-19 pandemic happened next. History, in other words, happened next.

It has been an alarming few years. History—widely assumed to have stopped somewhere around the fall of the Berlin Wall and the Spice Girls’ first record—has got going again, with gusto. In just the past five years there has been the pandemic (plaguey history), the invasion of Ukraine (bloody history) and now the Israel-Hamas

war (nested history-within-history history). Much is changing, and people are writing about it. “2020” by Eric Klinenberg, a professor of sociology at New York University, joins a rash of other books about the disease. Histories of the Ukraine war have also started to appear (one was even published in May 2023); those of the Israel-Hamas war are doubtless not far off.

To go quickly from missile launch to book launch is an impressive feat of publishing. Whether such speed makes for equally impressive histories is less clear. History has a long history of sniffing at the quick turnaround. When Thomas Carlyle, a Scottish essayist, published a book analysing the French revolution, a reviewer

tutted that it was too soon. (It was half a century after it.) A certain unease about haste remains today. It is not clear when the mundane “present” (to be dealt with by journalists) becomes the monumental “past” (to be dealt with by historians). Is it after a month? A year? A decade? In short: how soon is too soon to write history?

The worry, ironically, is a modern one: history used to be much less historical. “In the classical period it was pretty much an assumption that you can’t write about something that you haven’t been an eyewitness to,” says Tom Holland, a historian and translator of Herodotus, a Greek historian. Herodotus, the “father of history”, was notably nippy. In his “Histories” he wrote about a series of wars (the Greco- Persian ones) that he had lived through.

Among some writers the tradition persisted. Caesar’s “Gallic Wars” gives the sense of a man writing while the mud and blood of Gaul are still wet on his sandals. Much later, Winston Churchill made pandemic histories look slow: he published “The Gathering Storm”, more than 600 pages of billowing prose, just four years after the end of the second world war.

Few would suggest that these memorable works suffered from such speed. Caesar is studied as a stylist to this day; Churchill won the Nobel prize in literature. (The accolade disappointed him; he had been hoping for the peace prize.) “The Showman”, a recent biography of Volodymyr Zelensky, Ukraine’s president, by ▶▶

→ Also in this section

72 The cult of cuteness

73 Labour’s centennial

74 Back Story: The Swift conspiracies

75 China’s cartoon boom

▶ Simon Shuster, a journalist at *Time*, has been described as “thoroughly researched and deeply insightful”. But swift books can often raise other worries.

For example, prompt history can prompt questions of impartiality. Books by those on the front lines of wars or pandemics should make readers wonder whether they are history or self-serving memoir. After the war, Churchill observed that analysis of the past should be left to history but added that “I propose to write that history myself.”

Churchill, like all historians, was being selective. It was not just winning prose but winning the war that led to him being so admired. Had Nazism enveloped Europe his book, replete with phrases about how Britain chose to “march against evil”, would have been received less rapturously—or perhaps never written. After Russia’s invasion of Ukraine, Ukrainians and Russians removed each other’s books from shelves, sometimes burning them or turning them into toilet paper. Understanding of the past depends not merely on what histories are written but on the onward march of history itself.

To the victor, the spoilers

The sheer passage of time matters, too. It is too soon to tell whether swift histories of the Ukraine war will stand that test, but if books about the second world war are any guide, they are unlikely to. There was a “time lag” of perhaps 20-30 years between the end of the second world war and the appearance of really good histories on it, says Sir Ian Kershaw, an English historian. When Sir Ian studied history at Oxford University in the 1960s, the curriculum simply ended in 1914: “It was felt to be too close to be able to deal with properly.”

Some of the problems the prompt historian faces are practical. It takes time for good sources to become available. Many recent books on Ukraine read like dry assemblages of press clippings, with little analysis. It takes yet more time for classified documents to become declassified. Intelligence gained from Bletchley Park’s cracking of the Enigma code changed the course of the second world war, but since Ultra was kept ultra-secret until 1974, it is absent from all early histories.

Arguably the greater difficulties are emotional. Wars are not nice things. As anyone who has attempted to discuss the recent Israel-Hamas war will know, emotions run high; dispassionate analysis is rather lower.

Self-interest and self-justification can be rampant on all sides, and this is inevitably reflected in the pages of history. Consider the second world war. In its immediate aftermath, French histories played up the French resistance; British histories played up British pluckiness; everyone’s



histories played down any earlier enthusiasm for dictators. In many cases, people simply did not want to talk about such a “traumatic period” at all, says Sir Ian. One of the most important books on the Holocaust, Raul Hilberg’s “The Destruction of the European Jews”, was written in 1948 but not published in America until 1961 and not translated into German until the 1980s.

History plays tricks on the reader. It looks like it is about the past—it is full of people in odd, old-fashioned clothes, doing odd, old-fashioned things. But it is often just as much about the present. All history, as Benedetto Croce, a philosopher, observed, is “contemporary history”. Your

view of past events is “completely shaped by the way that those past events are useful to actors in the present day”, says Francis Fukuyama, a professor of political science at Stanford University. He would “clearly” not have written “The End of History and The Last Man”, a book arguing that, in some ways, history was over because Western liberal democracy had won out, today. “Things change,” Mr Fukuyama admits: “I was writing about the things that were going on in 1989.”

The onward march of history (the discipline) as well as history (the thing with bombs and plagues) also matters. Historical accounts change; certain “accepted narratives” are adopted and repeated, “just like conformism with any other social norm”, says Professor Fukuyama. Western history books, once full of tales of biffing foreigners in far-flung places, are now more likely to reflect on the evils of imperialism. At universities today, courses boast less naval history and more navel-gazing.

But to concentrate only on the writing of history is perhaps to miss the point. Read “2020” or indeed any recent book on covid, and another problem with recent history starts to arise in the reader’s mind. Mr Klinenberg’s book is elegantly written and well researched. It is filled with impressive detail on arguments over herd immunity, lockdowns, masks and all the rest of it. It is, in short, for readers who have just lived through all of that, not much fun. So perhaps as well as the complex question of how soon is too soon to write history, another, rather simpler, question should also be considered. Namely, how soon is too soon to read about it? ■

The culture of cuteness

Small but mighty

How cuteness has taken over the world

SCROLL THROUGH any social-media feed, and before long a cute video will appear. Perhaps it shows a giggling baby or a rabbit nibbling strawberries. A red panda might be throwing its paws in the air, like a furry thief being apprehended, or a kitten may sit astride a tiny motorcycle. The supply of these endearing clips is huge. On TikTok there are 65m videos tagged #cute. The demand is even greater: those videos have been viewed more than 625bn times.

Cute things are everywhere, not just online. In Japan—where appreciation for all things *kawaii* is especially keen—roadblocks come in the form of dolphins, ducks or frogs. Hello Kitty, a cartoon, adorns

everything from phone chargers to first-aid kits. In America a puppy has advertised beer, and an endearing gecko helps GEICO sell around \$39bn in car insurance a year. In Britain a cartoon koala helps peddle toilet paper.

An interest in the adorable has long been derided as girlish and frivolous. But cuteness has recently become a subject of serious inquiry, inspiring scientific research, academic literature—dubbed “Cute Studies”—and a recent book, “Irresistible: How Cuteness Wired our Brains and Conquered the World”. A new exhibition at Somerset House in London (pictured on next page) also examines the ubiquity of ▶▶



A fluffy subject

▶ cuteness in culture, bringing together art, games and toys. Cuteness “has taken over”, says Claire Catterall, the curator. “It’s infiltrated almost every aspect of our lives.”

What do humans consider cute? In the 1940s Konrad Lorenz, an Austrian zoologist, found that people are drawn to babies with big eyes, a small nose and mouth and round cheeks, as well as a pudgy body, short arms and legs and a wobbly gait. These traits motivated people to nurture and protect babies, helping ensure their survival. Humans are so drawn to these attributes that cats and dogs may have been bred to emphasise those same features. Cartoon characters have morphed, too. For instance, Mickey Mouse’s arms, legs and nose have shrunk since 1928, while his head and eyes have become larger.

A study from 2015 found that participants felt more energetic and positive, and less annoyed, anxious or sad, after watching cat videos. Morten Kringelbach, a neuroscientist at Oxford University, has studied the brain’s rapid reaction to baby faces: the orbitofrontal cortex—a region linked with pleasure, among other things—is activated within a seventh of a second. (Men and women are equally eager to look at adorable infants.)

Cuteness is not a new obsession. Japanese artists in the Edo period (between 1603 and 1868) painted puppies or fashioned them out of ivory. Joshua Paul Dale, the author of “Irresistible”, argues that the popularity of Cupids in Renaissance and Rococo art made winged babies “the major expression of cuteness in Western art for three centuries”. Technology has offered new ways to enjoy winsome things. Harry Pointer’s photographs from the 1870s, on display at Somerset House, depict felines in anthropomorphised ways, sitting on tri-

cycles or in prams. As he added amusing captions, he is credited as the inventor of the cat meme.

It was in the 20th century that cuteness dug in its tiny claws. Walt Disney brought a parade of wide-eyed creatures to cinemas across the world. (He apparently instructed his animators to “Keep it cute!”) Japanese *kawaii* culture also went global, with the spread of anime films and manga comic books. After the advent of mass production, cute trinkets and toys became widely available; Sanrio, which owns Hello Kitty, has \$3.8bn in sales a year.

Then, with the internet, cuteness became available on demand. People could watch and share amusing content of their children or favourite animals at any time—in 2022 more than 90,000 videos of cats were uploaded to YouTube every day. So voracious is the appetite for cute content that in 2014, when Tim Berners-Lee, the inventor of the world wide web, was asked what surprised him most about internet usage, he replied simply: “Kittens.”

Cuteness has real-world uses. Lovot, a doe-eyed companion robot with a button nose, is covered in sensors and responds positively when cuddled. Such innovations may help combat loneliness among the elderly. Policymakers, too, might harness the power of cute to nudge people’s behaviour. Japan’s *kawaii* barriers are thought to reduce road-rage incidents. Putting images on bins of sea turtles or dolphins trapped in rubbish has been shown to reduce plastic waste. Mr Kringelbach says that cute babies can encourage people to have empathy for demonised groups such as refugees. An appreciation for cute things is a joy in and of itself, but it also “has the potential to change the world”, he argues. How’s that for a cute idea? ■

Britain’s Labour government at 100

Labour pains

The Wild Men. By David Torrance.
Bloomsbury Continuum; 336 page; £20

IT SEEMS ALL but certain that the Labour Party will win the British election, expected later this year. Rishi Sunak’s Conservatives are lagging in the polls, consumed by in-fighting and division. All this makes for a propitious moment to assess the first-ever Labour government, which took office in January 1924. The leader of the opposition, Sir Keir Starmer, himself christened after Labour’s first leader, Keir Hardie, could learn from the story.

In “The Wild Men”, David Torrance, a journalist, recounts how Labour rocked the political establishment when it came to power. The minority Labour government, led by Ramsay MacDonald (pictured), lasted only nine months, during which it managed to make some progress with reforms in areas ranging from welfare to education and health. But its principal achievement was simply to demonstrate that, contrary to loud claims by Tories, Labour was fit to govern. In doing this, MacDonald paved the way for the collapse of the Liberal Party in the election of October 1924, creating the two-party system that has largely prevailed ever since.

Even such a short period in office offers useful lessons for later Labour governments. One was the fiscal austerity shown by Philip Snowden as chancellor of the ▶▶



Old MacDonald has a charm

► exchequer. Contrary to the usual charge that Labour is addicted to taxing and spending, in office the party has often held down public expenses, partly to protect the value of the pound. In the 1920s Labour scotched plans for a Channel tunnel. Rachel Reeves, today's shadow chancellor, promises to be similarly austere.

A second lesson is the big role that Labour leaders often find themselves playing in foreign affairs. MacDonald, who was his own foreign secretary (exhausting himself in the process), presided over two big European conferences to settle dip-

lomatic and economic problems caused by the first world war. Once again, later Labour leaders have followed suit: Clement Attlee helped to set up NATO in 1949; Harold Wilson pulled British troops back from east of Suez in 1968; and Sir Tony Blair, who served as leader of the Labour Party from 1994 to 2007, carved out a big—and not always successful—global role.

And third is Labour's tradition of treating its leaders as betrayers of the party's fundamental beliefs. MacDonald was criticised by his political peers for not being sufficiently committed to socialism; he

was later branded a traitor for forming a national government with the Tories in the 1930s. Wilson was similarly attacked as unprincipled. As for Sir Tony, despite his three election victories, many in the party still hate him today. Only Attlee seems secure in Labour's pantheon.

Sir Keir, who has weeded out many of those most closely linked to Jeremy Corbyn, his far-left predecessor as party leader, may have his work cut out to avoid being seen by some in the party as just another traitor. He could do worse than read this book to ponder what history can teach. ■

Back Story Look what she made them do



Hysteria over Taylor Swift reflects the overlap of politics, conspiracy and celebrity

AS EVERY PAID-UP conspiracist knows, the NFL was rigged to ease the Kansas City Chiefs into the Super Bowl on February 11th—ensuring the attendance of Taylor Swift, girlfriend of one of the players, or so they say. But why? Not just to lift the TV ratings, surely. No, the scheme is a deep-state “psy-op” to boost Joe Biden's electoral hopes. Or the real aim is to promote satanism, as online exorcists reckon Ms Swift's concerts do. In any case, don't fret about the singer getting from her gig in Tokyo to Las Vegas for kickoff. Elvis is flying her in his UFO.

Only that last bit was made up by Back Story (though—you never know—playing Ms Swift's new album backwards might confirm it). The rest of the wacky conjecture is, in part, the one-off fallout of a pop juggernaut colliding with a mainstay of sport. But it also reflects two important overlaps: between celebrity and conspiracy theories, and between both and American politics.

Claims that starry love affairs are shams, such as Ms Swift's with Travis Kelce of the Chiefs, are a common strand of conspiracy theories. More often they involve death. Some celebrities are said to be secretly alive: thus Tupac Shakur, a murdered rapper, is safely ensconced in Cuba. Others were supposedly assassinated, such as Bob Marley, allegedly poisoned by contaminated sneakers. Still others have died and been replaced with clones, by nefarious spooks or greedy executives or just for the hell of it.

Doubting the fact or manner of a star's demise invests consoling meaning in the dust of mortality. If Elvis can simply die, what hope is there for everyone else? Yet, as Swiftmania suggests, there is a wider synergy between the worship of celebrities and the peddling of conspiracies.

It isn't just that both appeal to people

with too much time on their hands. At the astral heights Ms Swift has reached, celebrity can be a form of mass hypnosis or magical thinking. Fans conspire to imbue their idol with powers and significance beyond the merely mortal. Many feel they share a personal connection with a total stranger. A conspiracy theory doesn't have to make sense to you, only to its adherents; likewise the cultish devotion of Swifties can seem baffling to the uninitiated. Ask any parent forced to listen to “Illicit Affairs” on repeat.

Conspiracists have often worried about artists being manipulated for political ends. After Anna Akhmatova, a Russian poet, gave a recital in Moscow, Stalin is said to have raged: “Who organised the standing ovation?” In the 1950s America's paranoid “Red Scare” blighted careers and lives, including Charlie Chaplin's.

As during the cold war, American politics is now especially conducive to suspicion of entertainers. One of them became president, a reality-TV star whose rallies combine the vitriol of a witch-burning with the reassuring formula of a

game show. Donald Trump blurred to vanishing the line between politics and showbiz; he also dragged conspiracy theories to the centre of debate. And he exacerbated a prior political trend—America's extreme polarisation—which encourages conspiratorial thinking.

In an ultra-polarised outlook, your opponent is not a rival but an enemy, and he is always up to something. Political strife spreads into unlikely crannies of life, from beer to sport to music. Politics starts to resemble a contest between conspiracy theories. This ratchet effect mirrors the momentum of conspiracism, which is always moving on to new, more outlandish speculations. The most ambitious claim to be comprehensive, decoding not this or that murder but the hidden mechanism of the universe.

It may seem odd for Ms Swift to feature in the fantasies of conspiracists and the rants of apparatchiks—to be the actress starring in their bad dreams, as she might put it—but looked at in this light, it is natural. Her ongoing tour has been blamed for causing inflation in Singapore and an earthquake in Seattle. She is so famous that both the Pentagon and Japanese diplomats have made cringey statements punning on her lyrics. She must be explained.

Perhaps, at half-time during the game, the conspiracists will be vindicated, and Ms Swift will somehow endorse Mr Biden (as she did in 2020). Maybe Mr Kelce will be outed as a shape-shifting lizard. If not, the conspiracy-mongers will find an explanation, as millenarians do when the world fails to end on the appointed day. It is theoretically possible that the Chiefs got to the Super Bowl on merit, and that Ms Swift and Mr Kelce are a likeable young couple in love. But only a sap would believe that.



Chinese animation

Name that toon

China's animated films are booming despite watchful censors

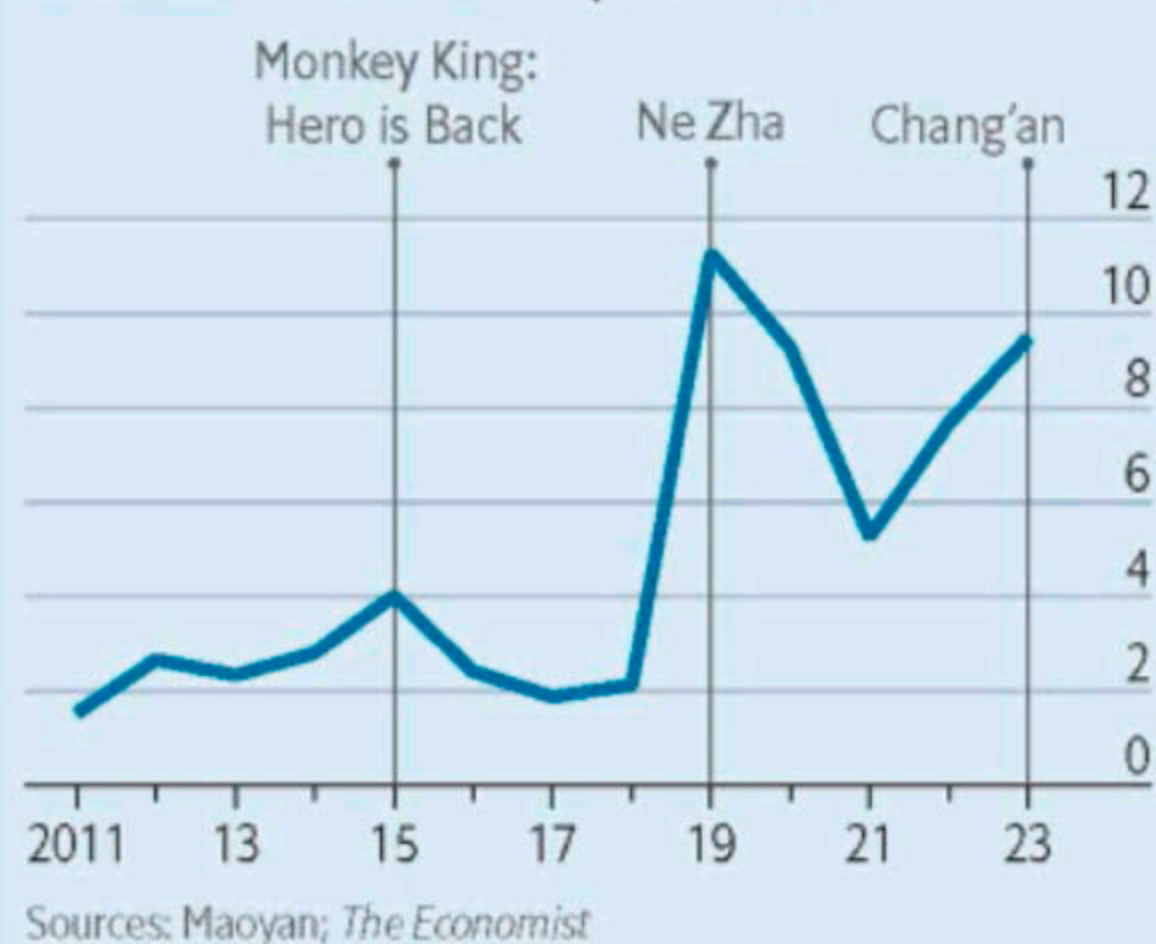
THE "BLACK CAT DETECTIVE", released 40 years ago, was a childhood fixture for many Chinese. The protagonist was a stern-faced, feline cop with a law-and-order demeanour befitting a cool communist cat. His adventures involved apprehending suspects (rats), prosecuting criminals (rhinos and hippos) and protecting citizens (rabbits and pandas). Cheers from grateful onlookers greeted him as he rode around on his motorbike.

Chinese cartoons have come a long way since then. While "Black Cat Detective" was simply drawn and packed with blunt propaganda, today's offerings boast technical sophistication and engrossing narratives. The aesthetics of "The Storm", which opened in cinemas in January, look a lot like Studio Ghibli, the celebrated Japanese animation studio behind films such as "Spirited Away". Another new movie, "Boonie Bears: Time Twist" (pictured), released on February 10th, is a family-friendly adventure with slick scenes reminiscent of Pixar, a pioneering animation studio now owned by Disney.

These recent leaps in quality have propelled Chinese cartoons to success at the domestic box office. "Ne Zha: Birth of the Demon Child" was the highest-grossing film in China in 2019, beating out "Avengers: Endgame", a superhero movie by Marvel Studios, and "The Wandering Earth",

A big draw

China, box-office revenue of Chinese-made animated films as % of top 100 films



a home-grown sci-fi epic. *The Economist* crunched data from Maoyan, a movie-ticketing service in China, and found the share of box-office receipts going to Chinese animated films took off after 2019 (see chart). In 2023 animations' share of the top 100 films' box-office intake was 9.5%, more than four times that in 2018.

China's burgeoning animation industry withered during the purges of the Cultural Revolution, launched by Mao Zedong in 1966. After China opened up economically, studios in America and Japan trotted their films into China. Japanese anime (including "Doraemon", starring a schoolboy and a

robot cat) and Western cartoons (such as "Finding Nemo" and "Cars") dominated television and cinema screens. Chinese animators turned to outsourcing work for Western clients.

Things changed in 2015 with "Monkey King: Hero is Back", the first breakout success for Chinese animation at home. It was based on "Journey to the West", a famous Chinese novel from the 16th century. (In August 2023 a newer adaptation started streaming on Netflix, though not in China.) A big step up in graphical fidelity helped draw audiences, and so did filmmakers' insistence that the storytelling appeal to adults. The movie's protagonist, the Monkey King, is portrayed as emerging from a mid-life crisis. "I never believed that cartoons are just for children," Tian Xiaopeng, the director, has said.

Just as Pixar helped animated films captivate an audience beyond popcorn-popping children, Light Chaser Animation, a studio in Beijing, has boosted cartoons' popularity in China. Light Chaser's first three productions were cinematic marvels but financial flops. It was not until "White Snake" (2019), a love story between a snake hunter and snake spirit (made for adults), that the studio enjoyed its first success. Its "30,000 Miles from Chang'an", which was the seventh-highest-grossing film of 2023, featured lyrical recitals of poetry from the Tang dynasty and blended elements from Chinese culture, history and mythology.

That is a common theme among successful Chinese animations: the top three highest-grossing ones all drew on traditional themes. This chimes with the Communist Party's drive for "cultural confidence"; in other words, China should be proud of its heritage and not in thrall to Western cultural influences.

Indeed, authorities have taken an interest. China's 14th five-year plan, which guides policy priorities, called for supporting development of the domestic animation industry. Traditional culture is the "best foundation" for Chinese animation, ran a boosterish headline last June in *Global Times*, a nationalist tabloid. Cartoons have become like other industries, from automobiles to internet companies: inspired by Western innovations but with added "Chinese characteristics".

Ironically, China's censorship-heavy environment may have fostered the relative success of its cartoons. Animations are usually chaste and do not touch on topics like sex, drugs or crime. That means they are less likely to fall foul of regulators, who vet and approve all films. But if Chinese animators can make films like the ravishing "Chang'an", imagine what they could accomplish if they did not have to contend with censors, who are the real villains no hero (animated or otherwise) has been able to defeat. ■



Even the bearish have been impressed

Planning a New Career Challenge?



Unique Access to Confidential Opportunities

InterExec is the global leader in assisting Top Executives to access £200k to £2m+ unadvertised vacancies worldwide.

We act discreetly through our 15,000 strong Headhunter network.

london@interexec.net www.interexec.net +44 (0)20 7256 5085

EST 1976

InterExec

UNIQUE NETWORK ♦ OUTSTANDING TALENT

Courses



Online programmes

Prepare for an ever-changing and uncertain future with Saïd Business School

It has never been more important to understand and respond to the issues shaping the future. Recognising the increasing complexity of our global landscape and often inevitable choices for sectors which operate within competitive environments.

Our online programmes fall into five categories



DISRUPTIVE



LEADERSHIP



ENTREPRENEURSHIP



STRATEGY & INNOVATION



FINANCE

If you would like to discuss our online programmes further, please get in touch with our team.

OnlineExecEd@sbs.ox.ac.uk
Or call +44 (0)7701 305954

Business & personal



SECURING SENSITIVE DATA SINCE 2001

STRONGKEY GETSECURE@STRONGKEY.COM

The Economist

To advertise within the classified section, contact:

UK/Europe

Alexandra Helmer-Jensen

Tel: +44 (0) 7805661656

alexandrajensen@economist.com

North America

Richard Dexter

Tel: +1 212 554 0662

richarddexter@economist.com

Asia

Chris Phang

Tel: + 65 6428 2662 (Ext. 662)

chrisphang@economist.com

Middle East & Africa

Philip Wrigley

Tel: +44 20 7576 8091

philipwrigley@economist.com

Readers are recommended

to make appropriate enquiries and take appropriate advice before sending money, incurring any expense or entering into a binding commitment in relation to an advertisement.

The Economist Newspaper Limited shall not be liable to any person for loss or damage incurred or suffered as a result of his/her accepting or offering to accept an invitation contained in any advertisement published in *The Economist*.

Economic data

	Gross domestic product				Consumer prices			Unemployment rate			Current-account balance		Budget balance		Interest rates		Currency units	
	% change on year ago				% change on year ago			%			% of GDP, 2023†		% of GDP, 2023†		10-yr gov't bonds latest,%	change on year ago, bp	per \$ Feb 7th	% change on year ago
	latest	quarter*	2023†	latest	2023†	latest	2023†	latest	2023†	latest	2023†	latest	2023†	latest,%	change on year ago, bp	per \$ Feb 7th	% change on year ago	
United States	3.1	Q4	3.3	2.4	3.4	Dec	4.1	3.7	Jan	-2.8		-6.3		4.1	42.0	-		
China	5.2	Q4	4.1	5.2	-0.8	Jan	0.3	5.1	Dec [‡]	1.7		-3.8		2.3	‡‡	7.19	-5.6	
Japan	1.5	Q3	-2.9	1.8	2.6	Dec	3.3	2.4	Dec	3.9		-5.0		0.7	20.0	148	-11.3	
Britain	0.3	Q3	-0.5	0.2	4.0	Dec	6.8	3.9	Oct ^{††}	-2.9		-3.9		4.1	94.0	0.79	5.1	
Canada	0.5	Q3	-1.1	1.1	3.4	Dec	3.9	5.8	Dec	-0.4		-1.3		3.5	39.0	1.35	nil	
Euro area	0.1	Q4	0.1	0.6	2.8	Jan	5.4	6.4	Dec	2.4		-3.3		2.3	-4.0	0.93	1.1	
Austria	-1.8	Q3	-2.1 [†]	-0.7	4.3	Jan	7.7	5.6	Dec	1.6		-2.2		2.9	-6.0	0.93	1.1	
Belgium	1.5	Q4	1.6	1.3	1.5	Jan	2.3	5.7	Dec	-1.1		-4.3		2.9	-2.0	0.93	1.1	
France	0.7	Q4	-0.1	0.8	3.4	Jan	5.7	7.3	Dec	-1.1		-4.9		2.8	19.0	0.93	1.1	
Germany	-0.2	Q4	-1.1	-0.2	3.1	Jan	6.0	3.1	Dec	5.6		-2.2		2.3	-4.0	0.93	1.1	
Greece	1.8	Q3	0.1	2.2	3.7	Dec	4.2	9.2	Dec	-5.3		-2.1		3.4	-79.0	0.93	1.1	
Italy	0.5	Q4	0.7	0.7	0.9	Jan	5.9	7.2	Dec	0.5		-5.4		3.9	-30.0	0.93	1.1	
Netherlands	-0.8	Q3	-1.2	0.1	3.1	Jan	4.1	3.6	Dec	9.4		-2.1		2.6	-3.0	0.93	1.1	
Spain	2.0	Q4	2.5	2.3	3.5	Jan	3.4	11.7	Dec	2.0		-4.0		3.2	5.0	0.93	1.1	
Czech Republic	-1.0	Q3	0.8	-0.5	6.9	Dec	10.7	2.7	Dec [†]	-1.3		-3.9		3.8	-75.0	23.2	-4.2	
Denmark	-0.5	Q3	-2.6	1.5	0.7	Dec	3.8	2.9	Dec	11.1		1.5		2.5	-3.0	6.93	0.4	
Norway	-1.9	Q3	-2.1	0.4	4.8	Dec	5.4	3.7	Nov ^{††}	17.2		10.6		3.7	70.0	10.6	-1.9	
Poland	0.5	Q3	6.1	0.5	6.2	Dec	11.4	5.1	Dec [‡]	1.7		-4.7		5.3	-79.0	4.04	10.2	
Russia	5.5	Q3	na	2.8	7.4	Dec	6.2	3.0	Dec [‡]	3.0		-2.8		11.8	114	91.2	-21.7	
Sweden	-0.5	Q4	0.4	-0.6	4.4	Dec	6.0	7.7	Dec [‡]	4.6		-0.3		2.4	37.0	10.5	1.4	
Switzerland	0.3	Q3	1.1	0.8	1.7	Dec	2.1	2.2	Jan	10.9		-0.7		0.9	-47.0	0.87	5.8	
Turkey	5.9	Q3	1.1	4.5	64.9	Jan	53.9	8.8	Nov [‡]	-4.4		-5.0		24.3	1,289	30.6	-38.5	
Australia	2.1	Q3	0.9	1.9	4.1	Q4	5.7	3.9	Dec	0.3		0.3		4.0	48.0	1.53	-5.2	
Hong Kong	4.3	Q4	2.0	3.4	2.4	Dec	2.1	2.9	Dec ^{††}	7.2		-1.7		3.6	28.0	7.82	0.4	
India	7.6	Q3	8.6	6.9	5.7	Dec	5.7	6.8	Jan	-0.5		-5.9		7.1	-24.0	83.0	-0.3	
Indonesia	5.0	Q4	na	5.0	2.6	Jan	3.7	5.3	Q3 [‡]	0.4		-2.5		6.6	-11.0	15,635	-3.1	
Malaysia	3.4	Q4	na	3.8	1.5	Dec	2.5	3.3	Nov [‡]	1.5		-5.1		3.8	-2.0	4.76	-9.7	
Pakistan	nil	2023 ^{**}	na	nil	28.3	Jan	30.8	6.3	2021	0.2		-8.0		14.6	†††	279	-1.4	
Philippines	5.6	Q4	8.7	5.4	2.8	Jan	6.0	4.2	Q4 [‡]	-4.1		-7.2		6.2	-4.0	56.0	-1.6	
Singapore	2.8	Q4	7.0	1.2	3.7	Dec	4.8	2.0	Q4	18.8		-0.7		3.0	-8.0	1.34	-0.8	
South Korea	2.2	Q4	2.5	1.3	2.8	Jan	3.6	3.3	Dec [‡]	2.1		-2.7		3.4	8.0	1,328	-5.5	
Taiwan	5.1	Q4	8.8	1.4	1.8	Jan	2.5	3.4	Dec	12.9		-0.1		1.2	3.0	31.4	-4.2	
Thailand	1.5	Q3	3.1	2.5	-1.1	Jan	1.3	0.8	Dec [‡]	0.8		-2.7		2.8	18.0	35.6	-5.6	
Argentina	-0.8	Q3	11.3	-1.0	211	Dec	133.5	5.7	Q3 [‡]	-3.5		-6.0		na	na	830	-77.2	
Brazil	2.0	Q3	0.6	2.9	4.6	Dec	4.6	7.4	Dec ^{†††}	-1.2		-7.5		10.6	-273	4.96	4.6	
Chile	0.6	Q3	1.3	nil	3.9	Dec	7.6	8.5	Dec ^{†††}	-3.4		-2.4		5.5	-18.0	952	-16.0	
Colombia	-0.3	Q3	1.0	1.1	8.3	Jan	11.7	10.0	Dec [‡]	-3.4		-4.2		9.6	-218	3,963	21.0	
Mexico	2.4	Q4	0.4	3.4	4.7	Dec	5.5	2.8	Dec	-1.5		-3.9		9.3	64.0	17.0	11.8	
Peru	-1.0	Q3	-1.1	-0.5	3.0	Jan	6.3	5.8	Dec [‡]	-1.0		-2.7		6.7	-110	3.87	-0.5	
Egypt	2.7	Q3	na	3.8	33.6	Dec	33.9	7.1	Q3 [‡]	-1.5		-6.2		na	na	30.9	-1.9	
Israel	3.4	Q3	2.7	1.5	3.0	Dec	4.2	3.1	Dec	5.8		-4.1		4.1	85.0	3.65	-4.7	
Saudi Arabia	3.8	2023	na	-1.1	1.5	Dec	2.3	5.1	Q3	3.0		-2.0		na	na	3.75	nil	
South Africa	-0.7	Q3	-1.0	0.6	5.2	Dec	5.9	31.9	Q3 [‡]	-1.9		-5.2		9.9	13.0	18.9	-6.9	

Source: Haver Analytics. *% change on previous quarter; annual rate. †The Economist Intelligence Unit estimate/forecast. ‡Not seasonally adjusted. ††New series. **Year ending June. †††Latest 3 months. †††3-month moving average. ‡‡5-year yield. ††††Dollar-denominated bonds. Note: Euro area consumer prices are harmonised.

Markets

In local currency	Index Feb 7th	% change on:	
		one week	Dec 30th 2022
United States S&P 500	4,995.1	3.1	30.1
United States NASComp	15,756.6	3.9	50.5
China Shanghai Comp	2,829.7	1.5	-8.4
China Shenzhen Comp	1,528.9	-1.0	-22.6
Japan Nikkei 225	36,119.9	-0.5	38.4
Japan Topix	2,550.0	nil	34.8
Britain FTSE 100	7,628.8	nil	2.4
Canada S&P TSX	20,969.2	-0.3	8.2
Euro area EURO STOXX 50	4,678.9	0.7	23.3
France CAC 40	7,611.3	-0.6	17.6
Germany DAX*	16,922.0	0.1	21.5
Italy FTSE/MIB	30,976.0	0.8	30.7
Netherlands AEX	830.1	1.5	20.5
Spain IBEX 35	9,888.2	-1.9	20.2
Poland WIG	79,473.4	2.7	38.3
Russia RTS, \$ terms	1,124.7	-0.1	15.9
Switzerland SMI	11,210.3	-1.1	4.5
Turkey BIST	8,843.0	4.1	60.5
Australia All Ord.	7,850.9	-0.8	8.7
Hong Kong Hang Seng	16,081.9	3.9	-18.7
India BSE	72,152.0	0.6	18.6
Indonesia IDX	7,235.2	0.4	5.6
Malaysia KLSE	1,513.1	nil	1.2

	Index Feb 7th	% change on:	
		one week	Dec 30th 2022
Pakistan KSE	64,143.9	3.5	58.7
Singapore STI	3,156.2	0.1	-2.9
South Korea KOSPI	2,609.6	4.5	16.7
Taiwan TWI	18,096.1	1.2	28.0
Thailand SET	1,400.0	2.6	-16.1
Argentina MERV	1,152,888.0	-8.5	470.5
Brazil BVSP*	129,949.9	1.7	18.4
Mexico IPC	58,711.9	2.3	21.1
Egypt EGX 30	27,906.0	-1.3	91.2
Israel TA-125	1,876.6	0.8	4.2
Saudi Arabia Tadawul	12,165.9	3.1	15.4
South Africa JSE AS	74,313.4	-0.3	1.7
World, dev'd MSCI	3,265.1	1.9	25.4
Emerging markets MSCI	1,002.6	2.7	4.8

US corporate bonds, spread over Treasuries

	latest	Dec 30th 2022
Investment grade	111	154
High-yield	388	502

Sources: Refinitiv Datastream; Standard & Poor's Global Fixed Income Research. *Total return index.

Commodities

The Economist commodity-price index

	2020=100	Jan 30th	Feb 6th*	% change on	
				month	year
Dollar Index					
All Items	126.3	124.5	-2.6	-8.4	
Food	131.0	132.4	3.0	-7.9	
Industrials					
All	122.5	118.0	-7.3	-8.9	
Non-food agriculturals	102.8	103.4	-18.6	-23.7	
Metals	127.6	121.7	-4.4	-4.9	
Sterling Index					
All items	128.2	127.2	-1.6	-12.6	
Euro Index					
All items	133.2	132.4	-1.0	-8.9	
Gold					
\$ per oz	2,033.4	2,036.7	0.5	8.6	
Brent					
\$ per barrel	82.8	78.7	1.0	-6.2	

Sources: Bloomberg; CME Group; Cotlook; Refinitiv Datastream; Fastmarkets; FT; ICCO; ICO; ISO; Live Rice Index; LME; NZ Wool Services; Thompson Lloyd & Ewart; Uner Barry; WSJ. *Provisional.

For more countries and additional data, visit economist.com/economic-and-financial-indicators



Backwards up the Khyber

Rosemary Smith, first queen of motor rallying, died on December 5th, aged 86

AS SHE BATTLED through her first Monte Carlo rally in 1962, Rosemary Smith learned later, a man was closely observing her. For fully two hours he followed her twists and turns in the terrible weather, the snow and sleet. It wasn't so much her driving he was appraising, though she could pull out of a skid on an icy road as well as anybody, having learned that when driving the big old family Vauxhall on wet Irish grass at the age of 11. No; he was enjoying the rarity of seeing a woman in a rally at all.

They made quite a carload, it was true. She and her co-driver had a passenger, Sally Anne Cooper, who wore a mink coat and carried a picnic basket. She herself, mostly at the wheel, was impeccably turned out, make-up and crimson nails perfect, her blonde hair stylishly waved beneath her helmet. She looked every inch the fashion icon she had been not long before, modelling Christian Dior's New Look in Dublin and designing dresses for her boutique; never dreaming, moreover, that she would spend most of her life forging through mud, floods and deserts, keen as mustard to prove that women, too, could be good at it.

And she was very good. In a sport where to finish at all was something of a miracle for anyone, she finished 21 out of 24 international rallies she entered. These included eight Monte Carlo rallies, the 17,000km London to Sydney Marathon and the 27,000km rally in 1970 from London to Mexico City. The East African Safari in 1974 was the hardest, with so much mud that her car could hardly move. She and her co-driver were so tired, late and filthy after the first leg that they could barely go on. But from a field of 99 only 16 cars finished, and one was theirs, and they won the Ladies Prize.

One rally, too, she won outright, beating all the boys. That was the 1965 Tulip Rally, the oldest in the Netherlands, which ran for 3,000km through five countries. The weather, again, was awful, with thick snow, but she and her co-driver triumphed, and Richard Burton and Elizabeth Taylor, no less, sent her flowers. She had

become, as she fully intended to be, the queen of world rallying, toasted in Swinging London, Paris, Sydney and New York as well as in the pubs at home.

So the man who trailed her on her first Monte Carlo rally and pretty soon recruited her for his car company—Norman Garrad, competition manager of Rootes—was on to a better thing than he realised. At the time he was mostly thinking how good she would look draped over the bonnets of Rootes's cars and flashing her long legs around. His marques might not be winning races but, with her in the picture, they would definitely draw the eye.

She didn't object to that. If the boys wanted to call her a dolly bird and that sort of carry-on, fine. She had spent enough of her life being horribly shy about her height; now, confident that she looked good, she was happy to pose on an unfolded road map or winsomely change a tyre. Besides, it was a fact that she had no clue what the various parts of an engine were, and couldn't actually read a map for toffee—which was why, having been plucked from the fashion world for her very first rally as a navigator, she was firmly the driver ever after. Nevertheless, behind the technical gaps lay a will to win as steely as any man's. With her at the wheel of Rootes's Hillman Imps and Sunbeam Rapiers, the company was soon in the spotlight for the right, rallying, reasons.

To drive any car at all was glorious to her. It was her life. Once inside the car, strapped in, she was completely in control. She was free, herself against the world, well away from the mother who constantly nagged her, the men who disappointed her, the pregnancies that didn't work out and the business ventures that turned sour. She especially forgot all that at the wheel of her faithful blue-and-white Hillman Imp, EDU 710C, the boxy but brave little car in which she had won the Tulip Rally and driven her many Circuits of Ireland. It was less speedy even than a Mini, but for traction on gravel or ice, and taking narrow lanes, she found nothing better. For some years it disappeared from her life, only to be rediscovered in an English hay barn, dismantled but still, by great fortune, owning its original number-plate.

Other cars let her down quite badly. One lost its brakes on a road so precipitous that she had to smash into a rock face to stop. Between Herat and Kabul, engine trouble meant the car would not move at all; she had to be towed for 600 miles. The same thing, failing cylinders, struck as she was going over the Khyber Pass; with no hope of climbing in first gear, she drove up for 33 miles in reverse. She also tumbled down a mountain or two. But risks like that were part of the job, and she bounced back all the more determined, fortified by her stock of Liquorice Allsorts and wine gums.

More annoying than the scrapes, in any case, were the little humiliations dished out routinely to a woman in a man's world. On test teams, even after years, some men would still ask why she was there, and the men mostly got the better cars. Le Mans was closed to women in her peak rallying days. Though she won 12 Ladies Cups or Coupes des Dames, she felt a sting of separation from the men; it was a great day when they were all just drivers, competing together. That long, kind tow into Kabul, too, was annoying because the "girls" had to be rescued by the men. How much she preferred to roar past the boys and force them to respect her! Still, chivalry had its uses, as when in the Andes the bandits who had blocked the road with rocks politely moved them aside to let her Austin Maxi past, while stopping and robbing the men.

The fastest Imp she drove in her heyday of competing had 65 brake horsepower (bhp) and a top speed of 92mph. But she dreamed of wildly swifter rides. In 2017 her chance came, when she was invited to drive an 800bhp Renault Sport Formula 1 car. She was 79, the oldest person ever to try, but that didn't deter her. The racing suit, black with yellow trim, looked great. On the day, as she wedged herself into a car that felt more like a submarine, she was shaking, but once she sensed her roaring speed the fire in her belly returned. In that fire, her troubles simply burned up. The song she wanted for her funeral was "Blaze Away". ■

**ECONOMIST
EDUCATION**

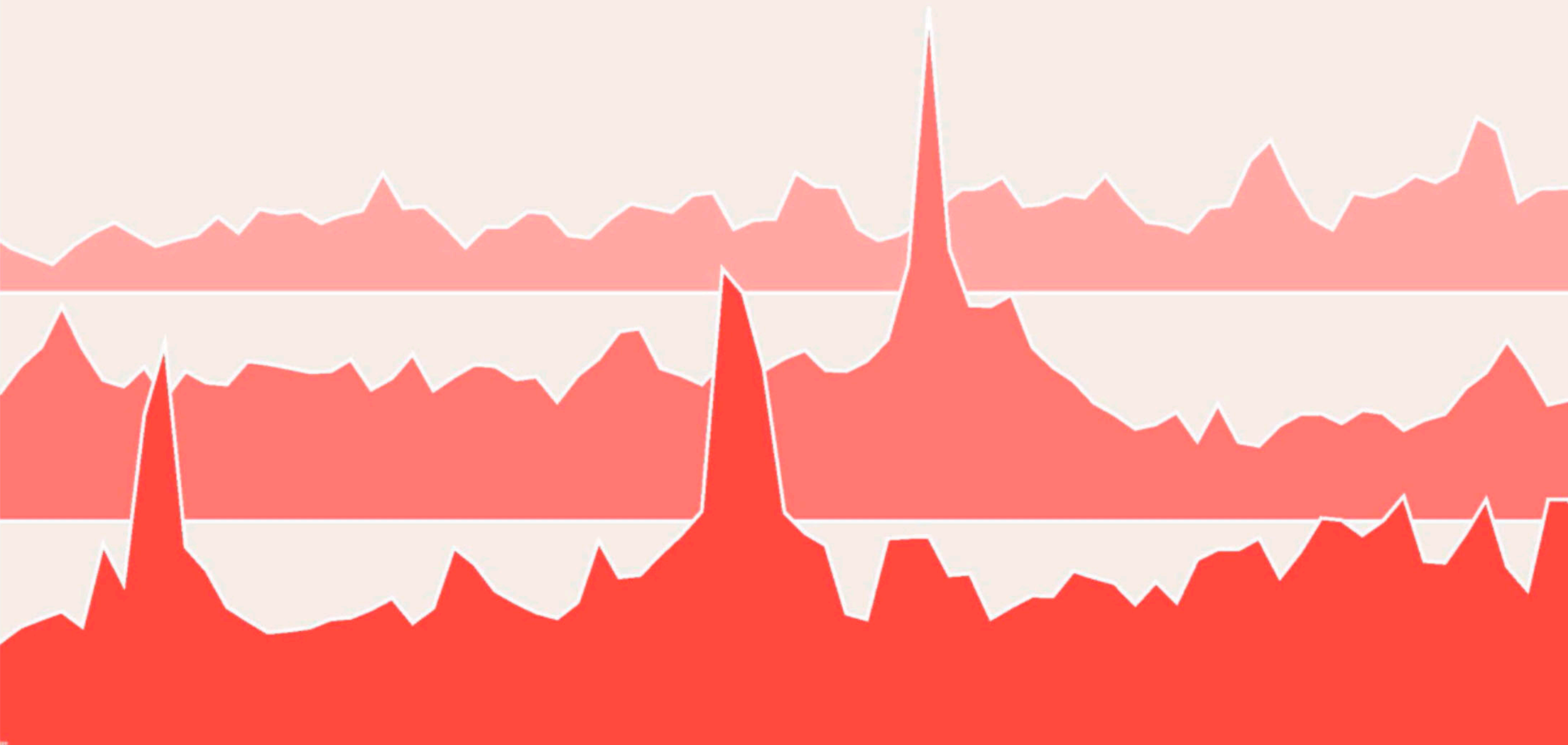
Develop a powerful data mindset for business

Communicate with numbers in our practical, online course

Explore and practise ways to depict different types of data to convey clear, powerful messages, reveal new insights and aid decision-making.



For details, visit
economist.com/data-course





LOUIS VUITTON

HAUTE HORLOGERIE