Opinion

The hard road ahead for Zelensky in Ukraine

EUROPE

Tony Barber

In *Servant of the People*, the comedy show that propelled Volodymyr Zelensky to the Ukrainian presidency, the politically inexperienced hero who becomes head of state finds ingenious ways of securing IMF funds and outwitting reform-resistant oligarchs. If life imitated art, Ukraine would be as popular with its western backers as Mr Zelensky's show is with millions of the country's viewers.

Mr Zelensky scored a notable success last month when the IMF agreed to extend $5bn to Ukraine in balance of payments and budget support. In return, he committed his administration to prudent economic policies and a crackdown on corruption, a central promise of the campaign that swept the novice politician to victory in last year's presidential election. There remains much sympathy for Mr Zelensky in western capitals. But it is mixed with apprehension about whether he has the political skills and determination to be the truly reforming leader that Ukraine has needed since independence in 1991. These emerging doubts should give pro-western Ukrainians pause for thought. A vigorous reform effort will reinforce the willingness of the country's US and European friends to stand by Kyiv in its conflict with Russia and Moscow-backed separatists in eastern Ukraine.

The concerns are on several fronts. First, the abrupt resignation this month of Yakiv Smolii as central bank governor disturbed the IMF and private sector investors. They admired Mr Smolii and the bank as models of integrity and professionalism.

Mr Smolii's charge that he had been subjected to "systematic political pressure" was aimed partly at legislators allied to Igor Kolomoisky, an oligarch who backed Mr Zelensky's presidential bid and whose media group aired his TV show. But it also appeared to reflect frustration at the president's criticisms of Mr Smolii's interest rate and foreign exchange policies. Kyrylo Shevchenko, Mr Smolii's replacement, lacks his predecessor's solid record as a reformer.

Second, Iryna Venedyktova, Ukraine's top prosecutor, has launched several probes into alleged wrongdoing by Petro Poroshenko, the former president defeated in last year's election. This raises fears that political abuse of justice will persist in the Zelensky era.

> The president displays a puzzling eagerness to get rid of high-level reformist policymakers

Mr Poroshenko, an oligarch known as the "chocolate king" for his confectionery business, is perhaps not the most squeaky-clean politician. But Kurt Volker, a former US special envoy to Ukraine, hit the nail on the head when he said: "With everyone guilty of something, the choice of whom to prosecute is a political decision."

Third, Mr Zelensky has failed to maintain discipline in his party, named Servant of the People after his show, and displays a puzzling eagerness to get rid of high-level policymakers, some with strong reformist credentials. In 14 months, he has not only lost Mr Smolii's services but dismissed Oleksiy Honcharuk as prime minister, Oksana Markarova as finance minister, Tymofey Mylovanov as economy minister and Ruslan Ryaboshapka as prosecutor-general. The last three were all respected reformers.

To his credit, Mr Zelensky has made some progress. A new law that introduces proportional representation for national parliamentary elections, should reduce the scope for corruption. In long-overdue reforms of the agriculture and energy sectors, his administration has passed a land sales law and separated the gas production company from the transmission network of state-owned Naftogaz.

Last but not least, Mr Zelensky has pushed through legislation intended to prevent Mr Kolomoisky from reclaiming ownership of PrivatBank, which was nationalised in 2016 as part of an IMF-backed clean-up of the financial sector. This measure was essential for unlocking the fund's aid package, and a bold step which indicated that, contrary to the early misgivings of some reformers, Mr Zelensky should not be written off as a Kolomoisky puppet.

All that said, the road ahead for Mr Zelensky promises to be difficult. Like the EU countries with which Ukraine's economy is increasingly aligned, the pandemic has struck the country hard. According to OECD projections, Ukraine may suffer a 7.7 per cent contraction in economic output this year.

Most seriously, the Donbass conflict is no closer to a solution than when Mr Zelensky took office. Any compromise with Russia risks a backlash from millions of Ukrainians who regard concessions to Moscow as a sellout of Ukraine's interests and identity. Western support for the country is a precondition of a workable peace settlement. But to keep that support, Mr Zelensky must stay on the reform path.

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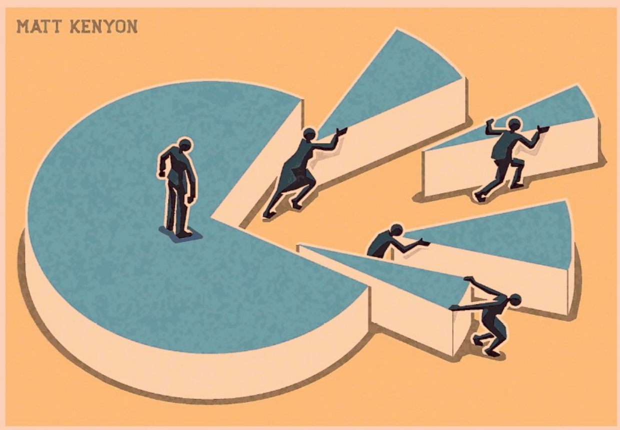
Antitrust is changing from the ground up

BUSINESS

Rana Foroohar



Big Tech is back in the congressional hot seat. On Wednesday, the chief executives of Amazon, Apple, Facebook and Google will be questioned in a House judiciary antitrust subcommittee hearing. This is perhaps the most important and high-profile conversation about monopolies since the Microsoft case of the 1990s.

If Democrats triumph in the November elections, it could also be a major, multi-decade turning point in US antitrust policy. They want to curb not only Big Tech, but a number of other industries with dominant players — finance and pharmaceuticals — with more regulation.

If that happens, we should thank not only Washington, but state and local officials who have been challenging corporate power in their own backyards for several years. As a new report from the Institute for Local Self-Reliance lays out, they have been "on the front lines of the problems caused by excessive concentration" in America, including food insecurity, power outages and poor broadband coverage. These vulnerabilities have been highlighted by the coronavirus pandemic.

Nationally, Democrats are focusing on corporate concentration as a campaign issue. They are pushing back against 40 years of neoliberal thinking that has measured economic success in terms of low consumer prices rather than high incomes and job security. But well before antitrust became trendy, local communities were waging successful fights against corporate behemoths for practical rather than ideological reasons. Those battles have laid the groundwork.

North Dakota, for example, has made a purposeful decision to put community banks and credit unions at the heart of its financial sector, sidestepping the four megabanks that now control 44 per cent of the assets of the US banking system. That looks smart now that research has shown that cities and states with more community banks are receiving more aid from the Covid-19 Paycheck Protection Program. Entrepreneurs have been able to look to local banks to support their applications, and that translates into improved solvency and higher employment in the crisis.

There are countless examples of communities that have successfully waged such David and Goliath battles. They have used not just state antitrust legislation but also rules around land use, tax policy and labour enforcement. Very often, they end up economically better off. Communities with a greater share of their economy in the hands of small businesses are better at solving problems collectively, says Stacy Mitchell, the ILSR's co-director. They also have higher levels of civic participation, according to research. "Just as we know that concentrated power corrupts democracy, the opposite is true," she says. "The more broadly economic decision-making is distributed, and the more say people have over their livelihoods, the more effective and engaged they are as citizens."

That is a key point to get across now, as Congress wrangles over the next Covid-19 relief package, and whether to offer more help to small businesses as well as state and local government. Some believe policymakers should embrace creative destruction in a kind of Schumpeterian culling of what would surely be tens of thousands of small businesses in less productive sectors such as restaurants, services and personal care. They argue this would encourage workers to retrain and redeploy in the digital economy. But that runs into the problem that each generation of Big Tech companies seems to be able to do more with fewer people. A handful of very large, very rich companies that need fewer and fewer workers doesn't add up to an economy.

> Regions with a higher share of SMEs have less income inequality and faster household income growth

Allowing certain kinds of small- and medium-sized enterprises to fail not because they are unsuccessful, but because they are not high-growth digital enterprises, would be a mistake. Economists obsessed with "efficiency" theory have been making it for years. They look simply at a few data points on a spreadsheet, and ignore how SMEs support communities in ways that larger companies often do not or cannot.

Regions with a greater share of SMEs have less income inequality and faster household income growth, according to research gathered by the ILSR. Small businesses tend to be embedded in a web of local and regional economic relationships with other businesses. This creates resiliency and also sparks innovation. Research shows that industries with a mix of firm sizes produce new inventions and processes at a faster clip. Indeed, this is an argument many Big Tech executives would put forward about Silicon Valley. It's that very ecosystem which helped launch generations of successful start-ups.

Battles with big corporations of any kind are hard to fight. EU competition commissioner Margrethe Vestager recently lost a tax case against Apple. But the smaller battles fought at the city and state level can have national impact. During the 1920s, small town protests over issues such as grocery monopolies and Wall Street control of family farms brought the attention of Franklin Roosevelt to antitrust issues. He began to give speeches about the topic — much as Senator Elizabeth Warren, Representative David Cicilline, and Federal Trade Commissioner Rohit Chopra do today. FDR led the last big crackdown on corporate monopolies. It's time for another.

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Testing drugs for humans on dogs makes no sense

Lisa Kramer

The US Food and Drug Administration should stop requiring pharmaceutical companies to perform long, costly dog tests for the drug approval process. So a Congressional appropriations committee told the agency last week. The 2021 FDA spending bill directs the agency to explain how companies can avoid dog testing in favour of "human-relevant alternative test methods". This is an important step.

Common arguments against the FDA's dog-testing mandate range from the heart-tugging — that it is inhumane, to the shocking — that it has its origins in Nazi-inspired methods of experimentation. Animal tests also lack the scientific basis to predict accurately safety and efficacy for humans, leading to massive waste of resources on human trials doomed to worse odds of success than a coin flip. The National Institutes of Health reports that about 30 per cent of drugs that pass animal tests are found to be toxic to humans, while another 60 per cent fail because they are ineffective. That's a dismal performance.

Forcing drug companies to perform dog tests is also bad for business. Pharmaceutical companies have a responsibility to use methods that meet patients' needs by identifying safe and effective drugs. To be financially viable, they must balance costs with benefits. Tests on humans are the most expensive part of drug development. To avoid squandering resources, companies aim to identify ineffective and unsafe drugs as early as possible. But the FDA says human trials cannot advance until the completion of inaccurate animal tests. As Ray Greek and I have written, animal testing's poor results arise because the model is rooted in a flawed paradigm. Even small biological differences between species invalidate attempts to apply results based on one species to another. The real surprise would be if testing drugs on dogs did provide useful information about human outcomes.

> One Covid-19 drug has been allowed to advance to clinical trials without waiting for animal results

This folly results in cascading harms to many parties beyond the companies. Tens of thousands of dogs are expended every year to comply with government regulations. But there are also countless human victims. Taxpayers have to pay for the bureaucratic regime that upholds the FDA's dog-testing rules. Pharma investors see their returns diminished by the huge sums wasted. Patients with life-threatening conditions like Alzheimer's, sepsis and heart disease are restricted to treatments that have lacked any significant innovation in decades. And drug prices are unnecessarily high when companies pass on the costs of both animal and human trials.

The good news is we can do better. The FDA should allow companies the discretion to use modern tools. These include genetically matched treatments, "bodies on a chip" technology built from miniaturised human organs and computer modelling. Personalised medicine can match drugs to patients based on their genes and "microdosing" tests drugs in doses too small to be harmful.

In the age of coronavirus, the need for regulatory reform is greater than ever. It is a hopeful sign that at least one Covid-19 drug developed by Moderna Therapeutics has been allowed to advance to clinical trials without waiting for animal test results. The agency has recently re-evaluated dog-testing requirements for food additives and vet drugs, too, and found that other methods are viable.

A payroll tax holiday will get Americans back to work

Scott Minerd

The US response to the coronavirus pandemic and resulting economic collapse

We need policies to encourage workers to rejoin the labour force, while assisting those who are working and experiencing reduced wages, hours or both.

A voluntary payroll tax holiday could play a pivotal role in boosting disposable income and incentives to work. Although congressional Republicans are resisting this idea, that is a mistake. If structured correctly, it would also

hiring, the employer could receive the same kind of tax holiday. Under the Cares Act, employers are allowed to defer 2020 payroll taxes. Outright elimination would deliver an even bigger economic boost. By driving down the after-tax cost of labour, businesses would receive an immediate incentive to hire and retain workers. The result would be more record-setting job gains

now 67, could be increased by six months each year until it reaches 78 or retirement, whichever comes first. According to the Social Security Administration, the net present value of the Social Security Trust Funds' unfunded liabilities over the next 75 years is $16.8tn. This reform could eliminate $14.1tn of that deficit over the next 60 years, assuming a weighted average

are most likely to consume the increased income, will see the largest relative increases in take-home pay.

Unlike a mandatory reform, workers who opt for the payroll tax holiday would do so willingly in exchange for an extended retirement age. Those who wish to retain their current retirement benefits would continue in the existing programme. This would give them has been impressive in scale and speed, dwarfing the reaction to the 2008 global financial crisis. Provisions in the Cares Act and other measures were designed largely on the assumption that the economic shock would be sharp but shortlived. Policy support was intended to be a temporary bridge lasting a few months as things returned to normal.

With lay-offs mounting and many small businesses on the brink of failure, more fiscal assistance is necessary. A new stimulus round presents an opportunity to rethink employment incentives and get as many people back to work as possible. As the economy reopens, businesses should see demand rise, increasing the need for workers.

make social security more sustainable. The payroll tax withholding rate, currently 6.2 per cent for the employee component, could be cut to zero for the first two years, delivering a much-needed income boost for workers who opt in. The rate could gradually rise after that, returning to 6.2 per cent in the seventh year. This would increase disposable income for existing workers, which would spur consumption and ignite a virtuous cycle that would encourage even more hiring.

Under such a programme, a worker aged 40 earning an average wage ($53,756 in 2019) would receive $15,767 in increased disposable income over the next six years.

As a supply-side incentive to increase and a relatively rapid reduction in unemployment. Employer payroll tax relief would also relieve pressure on small businesses and limit failures and bankruptcies that threaten the economy's structural potential.

> The pandemic has created an opportunity to make social security more sustainable

This temporary payroll tax holiday could be offset by raising the retirement age for those who choose to participate. For instance, the full retirement age,

take-up rate of 66 per cent among current workers. Moreover, roughly 36m new entrants to the workforce over the next 15 years would produce extra savings of $4tn.

For those seeking current income, a higher net pay cheque now would be available in exchange for delaying retirement. This could be attractive for younger workers whose expected retirement date is decades away. Aiding those who are working puts more money in the pockets of consumers, in turn lifting aggregate demand. Since the payroll tax cut is progressive — the 6.2 per cent tax is only charged on the first $137,700 in personal income — lower-income workers, precisely those who need the most assistance right now and

greater freedom and flexibility to customise their retirement.

A payroll tax holiday is a useful incentive to stimulate employment while creating an opportunity for entitlement reform that will shore up social security for future generations. Clearly, this proposal must be just one component of a much larger fiscal package. Such measures should be complemented by continued advances in public health policy and support from monetary policy. We should grab this chance to design a programme that returns the US to work, while enhancing its financial stability and economic growth.

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These first, tentative, steps toward cutting FDA red tape are welcome. The agency can and should expand this flexibility immediately, to meet the urgent need for change to the way innovation occurs in drug development.

Insisting on unreliable animal tests means patients, taxpayers, investors and many others will continue to suffer harm while potentially safe and effective drugs, even for Covid-19, collect dust on the shelf. It's time to deregulate and give pharmaceutical companies the freedom to employ the best tools science has to offer.

The writer, a professor of finance at the University of Toronto, studies the role of animal models in biomedical research