The Economist

- Who is leading in Chinese AI?
- Why a cleaner India is a hotter India
- Bukele: from cool to cruel
- MAGA v foreign students

MAY 31ST–JUNE 6TH 2025

New, untested and dangerous

A special report on American finance

The Economist

[May 31st 2025]

The world this week

The world this week

Politics

May 29, 2025 12:49 PM

The Trump administration intensified its crackdown on **foreign students**· coming to American universities, as the State Department instructed American embassies not to process new visa applications. The government intends to strengthen its vetting process. That includes trawling students’ social media for anything inflammatory, such as support for Hamas. Marco Rubio, the secretary of state, said the administration would also “aggressively” rescind the visas of Chinese students, who normally eschew campus activism and make up a quarter of international students.

The resistance

The government escalated its fight with **Harvard**, telling federal departments to cancel contracts with the university worth around $100m. Donald Trump has already decided to terminate $2.6bn in research grants and has suggested he will give the money to schools that teach a trade instead. Earlier, a federal judge put a temporary stop to the Department of Homeland Security’s attempt to bar Harvard from enrolling foreign students.

Harvard was not the only august liberal institution to fight back against the Trump administration. NPR and other public radio stations filed a lawsuit against Mr Trump's directive to end all of their federal funding. The suit argues that the directive violates the constitution's protections of free speech, and that only Congress has the power to pull the funding anyway.

Elon Musk decided to leave his job in the administration heading the Department of Government Efficiency. Mr Musk's announcement came soon after he criticised Mr Trump's One Big Beautiful Bill Act, which passed the House of Representatives with just a one-vote margin and is headed to the Senate. Mr Musk said he was "disappointed" by the sweeping tax-and-spending bill, because it would undermine his work. A White House official was quoted as saying that the process of "offboarding" Mr Musk had begun.

Russia stepped up its bombardment of **Ukraine⋅**, as Vladimir Putin seized the opportunity of America's disengagement from peace talks. Mr Putin had gone "absolutely crazy", said Mr Trump, also noting that "he's sending rockets into cities and killing people, and I don't like it at all." However, the American president has not authorised any new weapons for Ukraine, and shipments may soon end.

Meanwhile, Russia regained some of the territory in **Sumy** that Ukraine had forced it out of in 2022, near the start of the war. Assessing the latest intelligence, Volodymyr Zelensky said there was no indication that Russia was "seriously considering peace or diplomacy". He also said that Russia had amassed 50,000 troops near Sumy to prepare for a major offensive.

The National Assembly in France voted in favour of a bill to legalise **assisted dying**, which will allow anyone over 18 who is suffering a life-threatening or terminal illness to apply for the procedure. Mental suffering alone will not be counted as a qualifying condition. The legislation winds its way to the Senate. Supporters of assisted dying hope it will become law in 2027.

In Britain a 53-year-old man was arrested on suspicion of attempted murder, after he ploughed his car into crowds of football fans celebrating **Liverpool** winning the Premier League. Around 80 people were injured. The man is suspected of having been on drugs.

Britain's King Charles visited **Canada·**, where he is also head of state, on a trip that was seen as providing moral support to Canadians amid Mr Trump's trade war and musings about taking over the country. The king avoided any reference to Mr Trump or tariffs, but noted that "The true north is indeed strong and free."

The electoral authorities in **Venezuela·** claimed the government had almost swept the board in regional and local elections. Filled with supporters of Nicolás Maduro's autocratic regime, the electoral council provided no evidence for the victory. Observers said that a lack of voters at polling stations belied its statement that turnout was 43%. Only one state, Cojedes, now has a governor from the opposition.

Mexico's electoral body was reportedly investigating claims that political parties were trying to influence voters ahead of the country's first-ever judicial elections on June 1st. All positions for magistrates, federal judges and Supreme Court justices are up for grabs, though the 5,000 or so candidates are not allowed to have any formal links with parties.

An election in **Suriname** gave the opposition National Democratic Party 18 seats in the national assembly and the ruling Progressive Reform Party 17 seats. Smaller parties are being courted for their support to form a government. Like neighbouring Guyana, Suriname is on the cusp of an oil boom after the discovery of huge offshore reserves.

Israel faced growing condemnation for its conduct in **Gaza·**. Speaking about the war, Mr Trump said he would like “to stop that whole situation as quickly as possible”. Friedrich Merz, the chancellor of Germany and one of Israel’s staunchest supporters, said “the current level of attacks on Gaza can no longer be justified.” Meanwhile, it was confirmed that Muhammad Sinwar, one of the last senior commanders in **Hamas**, was killed in an Israeli strike in early May.

Israel launched the American-backed Gaza Humanitarian Foundation, which is meant to distribute **aid** through private contractors via a number of hubs. It suspended the programme after crowds of Palestinians overran one site where food was to be handed out. Jake Wood, the head of the group, resigned, citing principles of “humanity, neutrality, impartiality and independence”. Amid the disorder a UN food warehouse was looted. Scores of people were injured as they scrambled for supplies.

Israel hit back at **Houthi rebels** in Yemen, after the Iranian-backed group launched a missile and projectile at Israel, both of which were intercepted. Israel said it destroyed the last remaining aeroplane used by the Houthis at Yemen’s main airport.

There’s trouble afoot

According to press reports Joseph Kabila has returned to the **Democratic Republic of Congo**, which he led as president from 2001 to 2019 before going into voluntary exile. He visited Goma in eastern Congo, which is held by M23 rebels backed by Rwanda. Mr Kabila has denied claims that he supports the insurgency.

Just a week after announcing that they would split, **Australia’s·** Liberal and National parties said they had resolved their policy differences and would reunite their conservative alliance in opposition to the Labor government.

The **Association of South-East Asian Nations** (ASEAN) and the **Gulf Co-operation Council**, which represents Saudi Arabia, the United Arab Emirates and other Persian Gulf countries (but not Iran), held a joint summit in Kuala Lumpur, Malaysia’s capital. The meeting was called to develop economic ties between the regions. Li Qiang, China’s prime minister, spoke in support of globalisation and urged the summit to commit to expanding free trade.

---

https://www.economist.com/the-world-this-week/2025/05/29/politics

The world this week

Business

May 29, 2025 12:49 PM

Donald Trump’s signature policy of arbitrarily imposing **tariffs** on countries was thrown into disarray· when the federal US Court of International Trade decided that he did not have the power to issue the duties under the economic-emergency law that he has cited. Its ruling does not apply to tariffs imposed under different laws, such as on steel and cars. The White House criticised the court, saying “It is not for unelected judges to decide” how to respond to an emergency. It will appeal against the finding. Before the decision Mr Trump suspended a threat to impose 50% tariffs on the European Union and extended a deadline for a trade deal to July 9th.

Nvidia reported another bumper set of quarterly earnings. The producer of high-end chips for artificial intelligence saw its revenue soar by 69%, year on year, to $44.1bn, and net profit jump by 26%, to $18.8bn. And that was despite booking a $4.5bn charge in relation to Mr Trump’s curbs on sales to China. Jensen Huang, Nvidia’s chief executive, reiterated his criticism of those restrictions, arguing that shielding Chinese firms from American competition “only strengthens them abroad”.

Xiaomi reported first-quarter revenue of 111.3bn yuan ($15.3bn), up by 47% year on year. The Chinese smartphone giant has been building up its electric-car business: deliveries rose by 9% compared with the previous quarter. But the venture is not yet turning a profit. Xiaomi's units that develop electric cars, artificial intelligence and other new technologies lost 500m yuan.

BYD, China's leading maker of **electric cars**, sold more fully electric vehicles in Europe than Tesla for the first time, according to JATO Dynamics, a market research firm. Registrations of BYD cars soared in the region by 169% in April, year on year, as consumers soured on Elon Musk's Tesla. The European carmakers' association noted a 26.4% increase in overall sales in the EU of pure-battery vehicles in the first four months of the year.

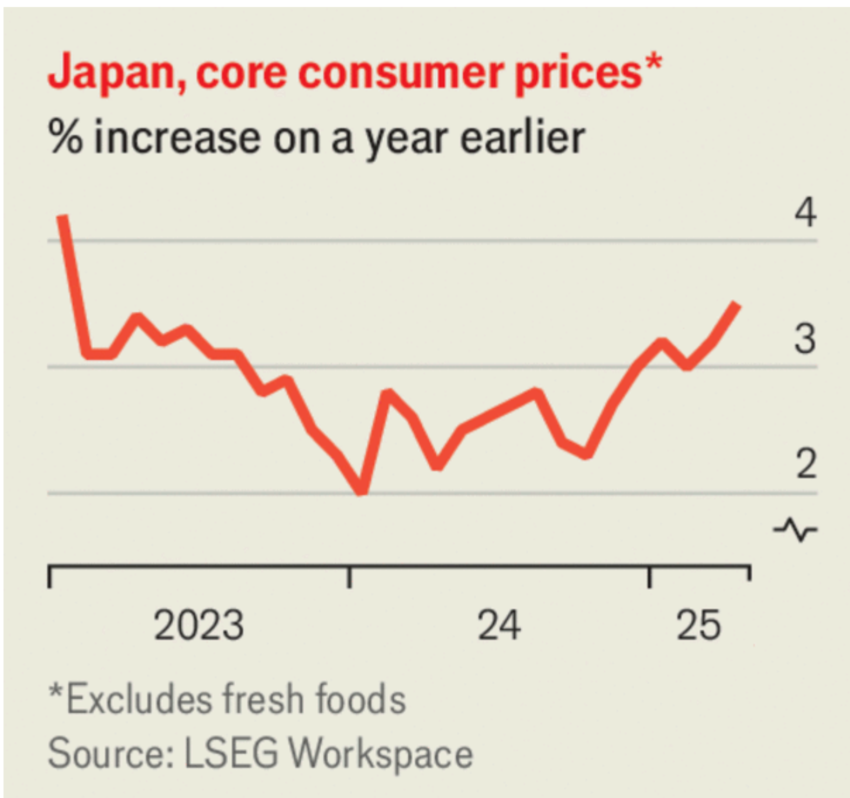
In the driving seat

Stellantis, which counts Chrysler, Fiat and Peugeot among its brands, announced that Antonio Filosa would take over as chief executive, replacing Carlos Tavares, who resigned abruptly in December. Mr Filosa, an Italian, currently heads the carmaker's North American division. He will have to steer Stellantis through uncertainty in the industry over tariffs. (The company's biggest shareholder part-owns *The Economist*'s parent firm.)

Volvo announced 3,000 lay-offs, affecting roughly 15% of its workforce, in an attempt to reduce costs. The carmaker said the job cuts would mostly affect office workers in Sweden, its home country. Volvo has promised to cut SKr18bn ($1.9bn) in costs after it announced a big drop in operating income in the first quarter.

Nippon Steel's bid to buy US **Steel** was back on again, after Donald Trump gave his support to the "planned partnership". The president offered few details, saying only that America would retain control over US Steel. A senator from Pennsylvania, US Steel's home state, said the government would retain veto power over key decisions at the company. Joe Biden blocked the takeover in the dying days of his presidency.

Germany overtook Japan to become the world's biggest holder of **foreign assets**, a position it last held in 1991. According to figures from Japan's finance ministry, Japan's net external assets rose to an all-time high of ¥533trn ($3.7trn). But Germany's foreign assets rose faster, to ¥570trn. The trend was in part driven by the euro's strength against Japan's currency, which increased the value of many of Germany's foreign assets in yen terms. China ranked third, with ¥516trn.



Japan's annual inflation rate held steady in April at 3.6%. But the core rate, which in Japan excludes food prices but includes energy, rose to 3.5%, the fastest pace since January 2023. Traders are now guessing whether the Bank of Japan will increase interest rates sooner rather than later.

Salesforce agreed to buy **Informatica** for $8bn. Salesforce provides data-management software for businesses. Salesforce says the deal will strengthen its autonomous “AI agents”, which firms can deploy in areas such as customer service.

Burning out

After successfully making its way to space, SpaceX’s **Starship·** fell back to Earth. The uncrewed rocket broke up while re-entering the atmosphere over the Indian Ocean, after spinning out of control. It was Starship’s third test flight since it was upgraded with a new design. Elon Musk, SpaceX’s boss, spied a silver lining: “Lot of good data to review,” he posted on X.

---

https://www.economist.com/the-world-this-week/2025/05/29/business

| Section menu | Main menu |

The world this week

The weekly cartoon

May 29, 2025 01:31 PM

Dig deeper into the subject of this week's cartoon

Russia is raining hellfire on Ukraine
Donald Trump dashes any hope that he will get tough with Russia
Would Vladimir Putin attack NATO?

The editorial cartoon appears weekly in The Economist. *You can see last week's here.*

https://www.economist.com/the-world-this-week/2025/05/29/the-weekly-cartoon

Leaders

- ## American finance, always unique, is now uniquely dangerous
  New and untested :: Donald Trump is putting an untested system under almighty strain
- ## Pausing foreign applications to American universities is a terrible idea
  How to repel talent :: The Trump administration hobbles a great American export
- ## First he busted gangs. Now Nayib Bukele busts critics
  A dictator’s progress :: El Salvador’s president has all the tools of repression he needs to stay in power indefinitely
- ## How Labour should save the NHS
  Intensive care :: Among all its ideas, the most important is to go all-in for digital transformation
- ## India needs to turn the air-con on
  The lesser of two evils :: If its awful air pollution is ever solved the country will get even hotter

New and untested

American finance, always unique, is now uniquely dangerous

Donald Trump is putting an untested system under almighty strain

May 29, 2025 02:31 PM

A LWAYS A HAVEN in dangerous times, America has itself become a source of instability. The list of anxieties is long. Government debt is rising at an alarming pace. Trade policy is beset by legal conflicts and uncertainties. Donald Trump is attacking the country's institutions·. Foreign investors are skittish and the dollar has tumbled. Yet, astonishingly, one big danger lurks unnoticed still.

When you think of financial risk, you may picture investment-banking capers on Wall Street or subprime mortgages in Miami. But, as our special report explains, over the past decade American finance has been transformed. A mix of asset managers, hedge funds, private-equity firms and trading firms—including Apollo, BlackRock, Blackstone, Citadel, Jane Street, KKR and Millennium—have emerged from the shadows to elbow aside the incumbents. They are fundamentally different from the banks, insurers and old-style funds they have replaced. They are also big, complex and untested.

The financial revolution is now encountering the MAGA revolution. Mr Trump is hastening the next financial crisis by playing havoc with trade, upending America's global commitments and, most of all, by prolonging the government's borrowing binge. America's financial system has long been dominant, but the world has never been as exposed to it. Everyone should worry about its fragility.

Special report: A new financial order

The new firms are a magnet for financial talent. They also enjoy regulatory advantages, because governments forced banks to hold more capital and rein in their traders after the financial crisis of 2007-09. That combination has led to a spate of innovation, supercharging the firms' growth and propelling them into every corner of finance.

Three big private-markets firms, Apollo, Blackstone and KKR, have amassed $2.6trn in assets, almost five times as much as a decade ago. In that time the assets of large banks grew by just 50% to $14trn. In the search for stable funding, the upstarts have turned to insurance; Apollo, which made its name in private equity and merged with its insurance arm in 2022, now issues more annuities than any other American insurer. The firms lend to households and blue-chip companies such as Intel. Apollo alone lent $200bn last year. Loans held by large banks increased by just $120bn. New-look trading firms dominate stockpicking and marketmaking. In 2024 Jane Street earned as much trading revenue as Morgan Stanley.

There is much to like about this new financial system. It has been highly profitable. In some ways, it is also safer. Banks are vulnerable to runs because depositors fear being the last in the queue to withdraw their money. All things being equal, finance is more stable when loans are financed by money that is locked up for longer periods.

Most importantly, the dynamism of American finance has channelled capital towards productive uses and world-beating ideas, fuelling its economic and technological outperformance. The artificial-intelligence boom is propelled by venture capital and a new market for data-centre-backed securities. Bank-based financial systems in Europe and Asia cannot match America’s ability to mobilise capital. That has not only set back those regions’ industries, it has also drawn money into America. Over the past decade, the stock of American securities owned by foreigners doubled, to $30trn.

Unfortunately, the new finance also contains risks. And they are poorly understood. Indeed, because they are novel and untested by a crisis, they have never been quantified.

One lot of worries come from within the system. The new giants are still bank-like in surprising ways. Although it is costly to redeem a life-insurance policy early, a run is still possible should policy holders and other lenders fear that the alternative is to get back nothing. And although the banks are safer, depositors are still exposed to the new firms’ risk-taking. Bank loans to non-bank financial outfits have doubled since 2020, to $1.3trn. Likewise, the leverage supplied to hedge funds by banks has ballooned from $1.4trn in 2020 to $2.4trn today.

The new system is also dauntingly opaque. Whereas listed assets are priced almost in real time, private assets are highly illiquid. Mispriced risks can be masked until assets are suddenly revalued, forcing end investors to scramble to cover their losses. Novel financial techniques have repeatedly blown up in the past because financial innovators are driven to test their inventions to breaking-point and, the first time round, that threshold is unknown.

Under Mr Trump, the next upheaval is never far away. The government's excessive borrowing imperils bond markets, alarming foreign investors. Although a court has this week limited the president's powers· to wage trade wars, the administration is appealing and Mr Trump is unlikely to abandon tariffs altogether. A toxic combination of uncertainty, institutional conflict, volatile asset prices, higher capital costs and economic weakness threatens to put the new-look financial system under almighty strain.

A crisis would test even the most capable policymaker. Much about the risks of the superstar firms, and their linkages to the wider financial system and the real economy, will become clear only when trouble strikes. New emergency-lending schemes would be needed. Rescuing banks last time was politically toxic. Saving billionaire investors would be an altogether harder task. And yet if the biggest of these giant firms were left to fail, it could lead to a global credit crunch.

Under Mr Trump a rescue would be unpredictable. In 2008 the Treasury and the Federal Reserve acted quickly to save the banks, and set up swap lines to offer dollar funding to much of the world. Mr Trump might decide to bail out everyone. But imagine the panic if he started to pick his favourite financiers, threatened to abandon or charge countries that displeased him and changed his mind every five minutes on Truth Social.

There will be another financial crisis—there always is. Nobody knows when disaster will strike. But when it does, investors will suddenly wake up to the fact that they are dealing with a financial system they do not recognise. ■

---

https://www.economist.com/leaders/2025/05/29/american-finance-always-unique-is-now-uniquely-dangerous

| Section menu | Main menu |

How to repel talent

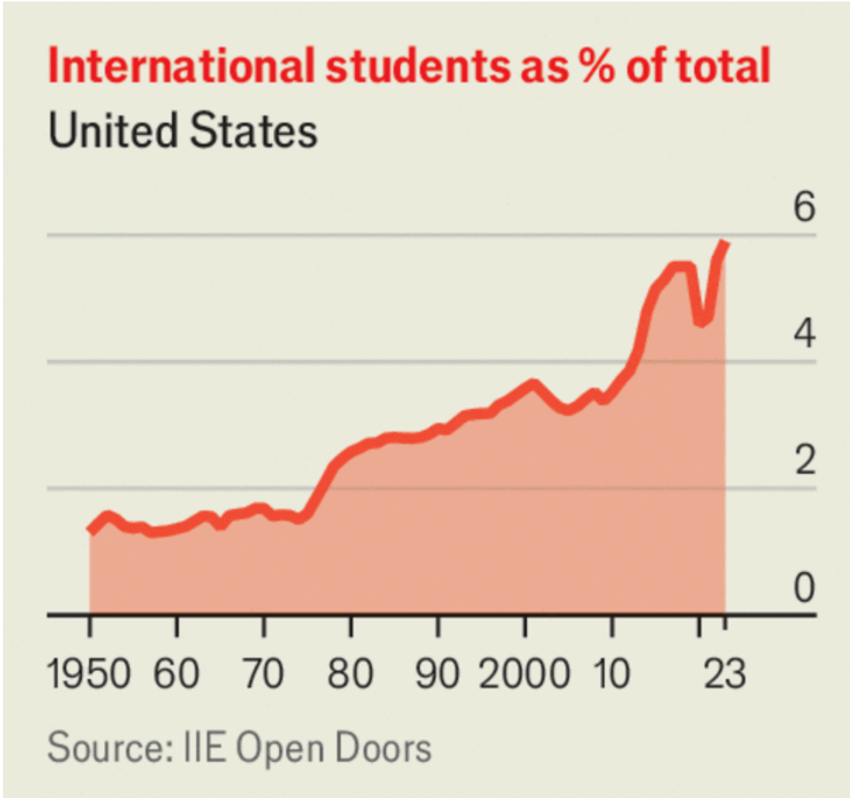
Pausing foreign applications to American universities is a terrible idea

The Trump administration hobbles a great American export

May 29, 2025 02:18 PM

THE TRUMP administration's decision to pause all visa interviews for foreign students who want to study in America, pending a review of how applicants' social-media posts are vetted, is yet another escalation in the power struggle over who controls the world's best universities. The policy may be modified. It may prove less onerous than it looks at first glance. Even if that happens, though, this is another blow to a great American success story·.

President Donald Trump cares about America's trade deficit. So it is perverse for him to make it harder for one of America's most prodigious exporters—the education industry—to sell its services to foreigners. Some of his supporters imagine that foreign students are taking places that could have gone to Americans. This could be called the lump-of-college fallacy. In fact, by paying higher fees, foreign students tend to subsidise locals. American universities attract a wider variety of the best minds from around the world than any of their global rivals. That makes them more dynamic and innovative. And by pulling foreign elites into America's cultural orbit, they magnify America's soft power abroad.



Unfortunately, that is not how Mr Trump and his cabinet see it. To them, elite universities, in particular, are hotbeds of antisemitism and wokery. They are factories for future Democratic Party leaders and donors. And they must be brought to heel. "The universities are the enemy," as J.D. Vance (Ohio State and Yale Law) told a conference of national conservatives before he became the vice-president.

There is some truth to MAGA criticisms of elite universities. Some have indeed been too soft on antisemitism and too dismissive of conservative viewpoints. But that hardly justifies the cudgels the administration is wielding against the entire college system. So far they include: deporting foreign students for wrongthink, freezing applications from foreign students, suspending government research grants and promising to increase taxes on big college endowments.

Mr Vance has often complained, with some justification, about censorship on campus. So it is galling for him now to favour deporting foreign students for their views and making new student applications subject to social-media vetting. College is supposed to be a place where the young explore new ideas, not a place where they venture only with burner phones, terrified to reveal they once shared a meme sympathising with Palestinians or mocking Mr Trump. The only students likely to have clean social-media feeds will be those from police states like China, who have internalised the lesson that free expression attracts unwelcome attention. Perhaps that is why the administration has also said that it will "aggressively" revoke visas of Chinese students.

In the global war for talent, America's universities have long been its most persuasive recruiters, with huge benefits for American science, business and arts. Mr Trump's policies will make them less attractive. Foreigners have other options. Why pay to study in a country where the president doesn't want you, your visa could be revoked before you graduate, you will be snooped on and you may not be allowed to work?

American universities are so good that large numbers of foreigners will still jostle to attend them. However, the early signs are that all this really is deterring applicants. Mr Trump and his supporters may think that, by cutting snooty lefty institutions down to size and shutting out foreigners with distasteful views, they are making higher education in America great again. They are on course to make it mediocre. ■

This story has been updated

---

https://www.economist.com/leaders/2025/05/28/pausing-foreign-applications-to-american-universities-is-a-terrible-idea

A dictator’s progress

First he busted gangs. Now Nayib Bukele busts critics

El Salvador’s president has all the tools of repression he needs to stay in power indefinitely

May 29, 2025 01:41 PM

NAYIB BUKELE’S autocratic tendencies were already clear when he ran for a second term as El Salvador’s president in 2024. He had extended a “temporary” state of emergency for two years, and used it to lock up legions of alleged gangsters without due process. He had ignored court rulings and used soldiers to bully lawmakers into supporting him. After his party won a supermajority in the legislature in 2021, he used it to stack the justice system with cronies. El Salvador’s constitution limits presidents to one five-year term, but those friendly judges waved him through. There was evidence that his government had done deals with the gangs, and bought their support in elections.

Salvadorans did not care. They re-elected Mr Bukele in a landslide, with 85% of the vote. They loved him because he made the streets safe. Gangs had terrorised the country for decades. The murder rate in 2015, at 106 per 100,000 people, was the highest in the world.

Every corner shop and bus company faced the threat of extortion. Mr Bukele ended this by jailing 85,000 people, equivalent to 8% of all young men in El Salvador. Anyone suspected of gang ties—because of a tattoo, a tip-off or a policeman's hunch—could be locked up indefinitely without trial. By 2024 the official murder rate was only 1.9 per 100,000: lower than in the United States. Extortion all but disappeared, since gangsters were too scared to show their faces.

Nayib Bukele is devolving from tech-savvy reformer to autocrat·

Voters were so grateful that they overlooked the power grabs that came with all this. Only a few liberal voices warned that the strongman would one day aim his weapons of repression more widely.

One year after his re-election, he is doing just that. Journalists who report on his tyranny are being arrested, along with union leaders who question government spending and farmers protesting against land seizures. On May 18th his goons seized Ruth López, a prominent human-rights lawyer.

On May 20th his tame legislature passed a law that mimics the repression of Vladimir Putin. Any organisation that receives foreign funds or merely "responds to the interests" of foreigners must register as a foreign agent. It can then be strictly monitored and shut down on a whim. That will be crippling for human-rights groups, anti-corruption NGOs, and so on. Mr Bukele has also empowered himself to rewrite the constitution more easily. Now that the opposition has been neutered and most watchdogs are muzzled, there is little to stop the 43-year-old from remaining "the world's coolest dictator", as he styles himself, well into old age.

Mr Bukele has been a beneficiary of President Donald Trump's values-free foreign policy. Whereas President Joe Biden objected to

Mr Bukele’s power grabs and slapped sanctions on his allegedly corrupt or abusive associates, Mr Trump gushes that he is doing “a fantastic job”. In turn, Mr Bukele lets Mr Trump use El Salvador’s brutal prisons as a memory hole for deportees, beyond the reach of any law.

At home, however, Mr Bukele’s popularity has started to slip. Many Salvadorans dislike playing jailer for Uncle Sam. Despite safer streets, the economy is lacklustre. Poverty is rising, many public services are dismal and ordinary Salvadorans smell whiffs of grotesque corruption in high places.

Recent revelations about Mr Bukele’s cosy relationship with the gangs have been damaging, too. *El Faro*, a news outlet, reports that gangs helped him win his first big election·, as mayor of the capital, San Salvador, and agreed to make the murder rate look lower by hiding bodies better. Mr Trump has obligingly sent back to El Salvador some gang members who were detained in America under Mr Biden and may have dirt on Mr Bukele. But silencing them will not hush up the scandal.

Polls in El Salvador are unreliable, given widespread fear of the government, but some show Mr Bukele’s approval rating far below its peak of nearly 90%. This may explain his recent crackdown on critics.

A spiral of souring public opinion and greater repression looms. However, Mr Bukele will probably weather it. He has a knack for social media, a powerful propaganda machine and all the tools he needs to crush his opponents. As Nicaragua and Venezuela show, autocrats can cling to power long after they cease to be admired.

Mr Bukele’s entrenchment as a despot holds a simple lesson, especially for other countries made miserable by gang violence, such as Ecuador and Peru. When a would-be strongman promises to keep you safe from criminals by suspending the rule of law, he may succeed for a while. But there will be no law left to keep you safe from him. ■

---

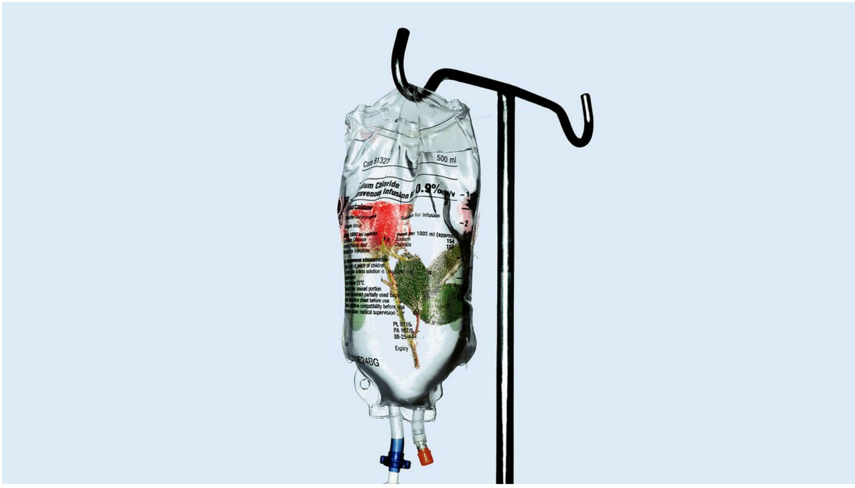
https://www.economist.com/leaders/2025/05/29/first-he-busted-gangs-now-nayib-bukele-busts-critics

Intensive care

How Labour should save the NHS

Among all its ideas, the most important is to go all-in for digital transformation

May 29, 2025 02:18 PM



REFORM UK, THE party leading in Britain's polls, has an uninspiring slogan: "Britain is broken". The fact that even the populists' bumper sticker carries none of the hope of "Make America Great Again" says a lot about Britons' mood. Nothing illustrates the malaise more strikingly than the state of their beloved National Health Service (NHS). Hospitals are crumbling, sometimes literally. Waiting lists in England are 7.4m, twice as long as before the covid-19 pandemic. Public satisfaction has collapsed from 70% in 2010 to 21% in 2024. "Broken" was also how Wes Streeting, Labour's health secretary, described the service on his first day in office last year.

But in the crisis lies an opportunity, particularly for the digital revolution the NHS needs. If Labour grabs it, it could cement its reputation as the only party to be trusted with the nation's health. If it falters, voters will not forgive it.

Labour has two big incentives. The first is political: to its voters, the NHS matters more than any other issue. Its strategists see saving the NHS as central to winning re-election. The ambitious Mr Streeting knows that fixing the NHS will be seen as a test of whether he is prime minister material.

The second incentive is practical. Without reform, things will only get worse as the population ages and demand for health care grows. Other, better-funded health-care systems are struggling, too. France has a shortage of doctors; Australian emergency departments are as dreadful as British ones; some Canadian hospitals are as overcrowded as Latin American jails. To make the NHS sustainable, Labour must modernise the health service. Its blueprint is a ten-year plan·, expected to be released in June.

The plan involves three main shifts: moving care out of costly hospitals and into the community; focusing on prevention rather than just sickness; and dragging the NHS from paper and pagers into the digital age. All are sensible. And all have also been promised before. Past would-be reformers got sidetracked by penny-pinching and short-term fixes; Labour has already shown it could be vulnerable to repeating such mistakes. But this time there are also grounds for optimism—so long as Labour sets some priorities.

The key will be for Mr Streeting to go all-in on digital transformation. This holds great potential to align Labour's short- and longer-term ambitions. Some doctors already use artificial intelligence (AI) to transcribe patient consultations; studies suggest this can reduce time spent on clinical notes by 20%. Another AI app, which lets patients scan moles at home using their mobile phones, has cut skin-cancer referrals in half—a potential game-changer for dermatology. And in some GP surgeries, the use of online triage has slashed waiting times and removed the stress of the 8am appointment rush.

But tech performs wonders only if staff and patients embrace it, and working practices adapt. To maximise the benefits of AI, more should be done with the health service's trove of data. The NHS is unique in holding cradle-to-grave records on an entire population. This makes it a potential gold mine for research. Researchers at two London universities are training an AI model on anonymised data from 57m people in England, the aim being to predict future health risks such as heart attacks and hospital stays for groups of patients.

Harnessing such potential requires investment: new computers, digital patient records and integrating the NHS's fragmented and incompatible systems. It also requires avoiding being bogged down by centralised solutions. The government's plans for a national single patient-record resembles a previous attempt that flopped. Instead, the NHS should learn from banking, which overcame a lack of standardisation to enable customers to see their bank and credit-card accounts in one place. In parts of the country, shared records are already helping plan, manage and provide services. In Lincolnshire linking NHS and social-care data helped cut emergency-department admissions by 58% in six months, by flagging those who needed social care.

Reforming the NHS is a huge task, across many fronts. One is motivating demoralised staff, some of whom are planning strikes. Efforts to modernise IT systems are routinely caught up in a culture of mistrust and malaise. A proper transformation needs cash that the Treasury is wary of spending. The Health Foundation, a think-tank, estimates the digital shift for England alone will cost £15bn ($20bn) over five years—around 7% of the NHS's annual budget. Labour did the unthinkable before, when it founded the NHS in 1948. It must not squander the opportunity to modernise its own creation. ■

---

https://www.economist.com/leaders/2025/05/29/how-labour-should-save-the-nhs

The lesser of two evils

India needs to turn the air-con on

If its awful air pollution is ever solved the country will get even hotter

May 29, 2025 02:18 PM

AT THE END of March the India Meteorological Department predicted a warmer-than-usual April, the first month of India’s hot season. The forecast was soon proved right: in the first week of April temperatures in big cities were 3°C above normal. By the second, Delhi was suffering an intense heatwave. Even night-time minimums hit their highest in years. Heat-related illnesses soared.

India, always hot, has been getting hotter. The past decade was the warmest on record. Yet it has not been warming as quickly as the rest of the planet. In the past four decades temperatures over Earth’s land mass have risen by 0.30°C per decade, and by 0.23°C at comparable latitudes. The figure for India is a mere 0.09°C.

Two things are responsible for keeping India relatively cooler. One is the expansion of irrigated land, the area of which has doubled since 1980. Moisture in the air lowers temperatures, but comes at the cost of increasing humidity, sometimes to dangerous levels. In the baking Indo-Gangetic plain a combination of temperatures of just 37°C—a nice day for many—with 90% humidity can be fatal.

As we explain this week, the second cooling agent is horrific air pollution·. During the day, particulate matter intercepts the sun's rays, absorbing heat. It also makes clouds more reflective. The combined effects lead to a comparatively cooler surface. It follows that there is a tension: if India achieves cleaner air, an unintended effect would be higher daytime temperatures.

Some call for natural, energy-neutral methods to deal with rising heat, such as painting buildings white, using less concrete, and covering roofs in reflective tiles or second roofs. These low-cost solutions help somewhat, but they are no match for a north-Indian heatwave. More air-conditioning is necessary. Those who can afford it are already fuelling a boom: annual sales doubled between 2020 and 2024. Often these machines clean air as well as cool it.

One problem is that too few people yet have air-con: just one in ten households owns a unit, whereas two-thirds do in China and four-fifths in Malaysia. Air-con also creates even more pollution. During a heatwave last year, it accounted for a fifth of power demand, much of it met by dirty thermal-energy plants which provide three-quarters of generation. Air-conditioners throw heat into their immediate environment, making conditions worse for those without them. The hydrofluorocarbons they use as coolants are powerful greenhouse gases.

What to do? The only rational path is for India to push for cleaner energy and more air-con, simultaneously. The country is getting many things right. State and central pollution-control boards are responsible for cleaning up the air. Renewables, including hydro, make up 224GW of installed generation capacity of 472GW and there are ambitious plans for them to provide half of total capacity of 1,000GW by 2030. There are new efficiency standards for air-conditioners.

Yet the country needs to move faster. Pollution in the northern plains routinely exceeds the maximum readings of air-quality sensors. That means millions die from pollution-linked disease every year. And if the skies become clearer, temperatures will rise faster.

Speeding up land acquisition for solar projects, investing in the grid and reforming the market for purchasing and distributing power would accelerate private-sector investment in renewables. And a faster roll-out of air-conditioning could be encouraged by lowering the tax on machines from 28%, the highest-available rate (Apple’s iPhones are charged just 18%). The government should lead by example, air-conditioning offices where citizens meet public servants, not just those of politicians and elite bureaucrats.

Across Asia, the Middle East and the southern United States air-conditioning has helped make cities dynamic and more productive. There is a way for India to combine that goal with cleaner air. It should seize it. ■

---

https://www.economist.com/leaders/2025/05/29/india-needs-to-turn-the-air-con-on

Letters

- **Does Europe have a free-speech problem?**
  A selection of correspondence :: Also this week, the Baltics and Russia, deep-sea mining, Catholicism, Adele and guinea pigs

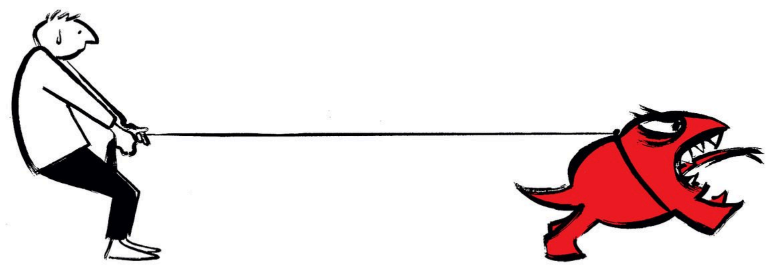
| Next section | Main menu | Previous section |

A selection of correspondence

Does Europe have a free-speech problem?

Also this week, the Baltics and Russia, deep-sea mining, Catholicism, Adele and guinea pigs

May 29, 2025 12:49 PM



Letters are welcome via e-mail to letters@economist.com
Find out more about how we process your letter

Protecting free speech

Your leader on "Europe's free-speech problem" (May 17th) mentioned countries such as America and Hungary where free speech is actually threatened by the actions of autocratic governments. But when it came to western Europe you chose to focus on the regulation of "hate speech". This buys into right-wing populist narratives about supposed infringements on free speech. These "infringements" are in fact important regulations that ultimately protect free speech.

The rise of social media means that comparatively new forms of communication, including hate speech, require new and different responses from policymakers. Pursuing a libertarian approach, such as Elon Musk has done with X, boosts and empowers radicals, who are currently mostly on the right but potentially also on the left. And although it may be true that politicians sometimes overreact in their attempt to fight against hate speech, this is for the courts to sort out.

Regulatory policies such as the European Union's Digital Services Act are important tools ensuring that the voices of those who are less aggressive and more sensible get heard. Such legislation is based on democratic decisions, in contrast to the autocratic overreach in countries like America and Hungary on free speech.

Marius Busemeyer
Professor of political science
University of Konstanz
Konstanz, Germany

Europe is the birthplace of the Enlightenment and has forgotten how to nurture free expression, you say. On the contrary, Europe's debates have never been livelier. Unlike America, where debate is based on emotion, or in China, where opinions are censored, European debates are grounded in free, honourable and principled dialogue. Europe has clear rules guaranteeing morality, factuality and plurality in its public discourse. There is a reason why the press in most European countries are consistently categorised as the freest in the world.

Nandor Györffy
Constance, Germany

You think that J.D. Vance was right to criticise Europeans on free speech. Europe is where the history comes from. America a land of ideals. In Europe we have been there, done that, lived through the Reign of Terror in the French Revolution and the Nazis. Speech matters. British police may have a bee in their bonnet about what anti-migrant riots stirred up online, but legislating and policing is messy and difficult. Free speech has to be balanced. All laws and policing are imperfect. We need a pragmatic approach that balances everyone's rights. In America the poor and the marginalised are not heard.

Like infinite monkeys typing Shakespeare's plays, Mr Vance may occasionally be right, but this is not one of those occasions.

Ed Manning
Coventry

You are correct in saying that "Noisy disagreement is better than enforced silence." Suppressing speech is often counterproductive, giving power to the voice that is suppressed. This is a global problem, from the Trump administration's attempt to deport protesting students to India's arrest of a professor for his recent comments on the conflict with Pakistan. In "Areopagitica", one of the most famous defences of free speech, John Milton wrote, "Let her [truth] and falsehood grapple; who ever knew truth put to the worse in a free and open encounter."

Kai Mistry
Lake Oswego, Oregon

Defences against Russia

The Telegram column (April 26th) on the Baltic republics hardening their borders with Russia and Belarus was compelling. The countries are also using advanced technologies to enable their collective defence. For instance, the three Baltics along with Finland, Norway and Poland want to create a Drone Wall on their eastern flank to serve as an early-warning system through an unbroken layer of aerial systems.

In addition, Estonia, a hub for tech startups, is galvanising local entrepreneurs to create solutions that boost Ukrainian and Baltic security. This includes government-backed regional hackathons, where innovators from all walks of life get together for a weekend. Estonian defence companies, such as Milrem Robotics and KrattWorks, take organised visits to Ukraine to learn some lessons and bring their products to the battlefield.

Importantly, the government has launched a €100m ($114m) defence fund that will invest directly in defence companies and serve as a fund-of-funds for venture capitalists. This forms part of the government's effort to pump additional private-sector investment into the industry.

Unsurprisingly, the Baltics see themselves as next in line for Russian aggression, spurring an incredible focus on defence innovation. So the launch of new companies such as Frankenburg Technologies, which develops anti-drone missile systems for Ukraine, is designed to tackle the threat of a revanchist Russia.

Joel Burke
Washington, DC

The English-speaking world

Banyan's column on the linguistic politics of India (May 10th) remarked on the resurgence of English. Nandan Nilekani, the co-founder of Infosys, wrote a book in 2009 titled "Imagining India: The Idea of a Renewed Nation". In it he traced how decades of trying to suppress English in post-colonial India had some success as a way of drawing a line under the British Raj, but that in recent years the language had experienced a resurgence. Clearly that has continued, and probably gained momentum.

Surprisingly, Mr Nilekani did not notice that the variety of language experiencing an Indian renaissance isn't actually the one that post-colonial leaders attempted to suppress. They wanted to rid India of British English. What has been steadily growing during this century is American English.

Frank Lowther
New Paltz, New York

The problems with deep-sea mining

We stand to lose far more than we could possibly gain by mining the deep seabed. Life-saving pharmaceuticals and unique organisms are not the only things at stake from this untested, risky experiment ("Race to the bottom", May 3rd).

As recently as one year ago, scientists on board Schmidt Ocean Institute's philanthropic research vessel, *Falkor (too)*, deployed a new technology, the mTail, or miniature trace analyser in situ logger, to search for oxygen in areas of the ocean where scientists haven't detected any before. The device detected a surprising amount of oxygen, a discovery that has implications for how these areas of the ocean help regulate our planet's greenhouse gases.

The ocean is critical to human existence, and the deep sea is unlikely to recover from mining on human time scales. Battery innovation is leapfrogging. Researchers are already pursuing more sustainable types of batteries that require no seabed minerals. Cries to mine the deep sea sound as archaic as "drill, baby, drill." Indeed, no one has dared drill since the Deepwater Horizon spill in 2010 because the costs and risks are so great, and the equipment to do it is exceedingly expensive and complex.

And we have barely begun to explore the possibilities of reusing, repurposing and recycling batteries, which studies have shown could significantly reduce the amount of mining we need to do. Or better yet, think of the idea that we would be better served not by bigger or more electric cars but by effective, accessible transit systems.

The international community has the opportunity to agree to a moratorium on deep-sea mining, as 33 countries and counting are advocating before the international body that actually has legal jurisdiction on this issue, and which is gathering this summer to consider it. Let's ensure that decisions about the ocean are made with an eye to the future rather than a backslide toward our extractive and destructive past.

Wendy Schmidt
President and co-Founder
Schmidt Ocean Institute
Schmidt Family Foundation
Santa Barbara, California

Holy waters

I enjoyed your article on the increasing number of young men in Britain who are turning towards Catholicism ("Altered minds", May 10th). You referred to Graham Greene's faith. Britain's other great 20th-century Catholic novelist was Evelyn Waugh, and the article mentioned Farm Street Church in Mayfair. In "Brideshead Revisited" this is where Rex Mottram is sent for Catholic instruction. Discussing papal infallibility, the priest asks Mottram what would happen if the pope said it was going to rain, but it didn’t? Mottram replies, “I suppose it would be sort of raining spiritually, only we were too sinful to see it.”

PAUL FERGUSON
Englefield Green, Surrey

Adele’s yells and decibels

The illustration of a guinea pig with headphones in your article on research into damaged ears was magnificent (“Uneasy listening”, May 10th). I was less pleased to learn that scientists had exposed the animals to Adele’s song, “I Miss You”, long enough to hurt their hearing.

Guinea pigs are formidable biters. I hope they bit the scientists hard, thereby demonstrating sound judgment.

Ruth Morss
Cambridge, Massachusetts

---

https://www.economist.com/letters/2025/05/29/does-europe-have-a-free-speech-problem

By Invitation

- **Want to destroy American business? Protect it, writes Carl Benedikt Frey**
  American business and trade :: The lessons of the past are clear, argues the economic historian: in the long run, tariffs choke growth

American business and trade

Want to destroy American business? Protect it, writes Carl Benedikt Frey

The lessons of the past are clear, argues the economic historian: in the long run, tariffs choke growth

May 29, 2025 12:49 PM

DONALD TRUMP insists that tariffs will bring back jobs and revitalise American industry, and that short-term pain would be worth it for long-term gain. Yet history suggests they are more likely to steepen America's slide into stagnation.

Cheerleaders of tariffs argue that, as Oren Cass, one of the most vocal, put it, "Behind some of the world's highest tariff barriers, the United States transformed from colonial backwater to continent-spanning industrial colossus." They claim that Thomas Jefferson's trade embargo in 1807, followed by the war of 1812 with Britain, jump-started American industrialisation.

Not so. America's early industrial gains owed far more to pirated British technology and welcoming European talent than to protectionism. Though the embargo indeed encouraged the rise of small-scale textile mills, trade restrictions ensured these were persistently inefficient. These mills collapsed once trade resumed because they could not compete with superior British imports. The real drivers of New England’s textile revolution were people who brought skills learned abroad, including Samuel Slater, an immigrant from Britain who memorised the country’s textile-machinery designs and established America’s first cotton mills, and Francis Cabot Lowell, who secretly replicated British power-loom technology. Waves of European craftsmen and engineers brought expertise that propelled the country’s 19th-century boom.

Critics today point to Chinese imports harming American manufacturing, yet not long ago similar fears surrounded Japanese competition. By 1980, when Ford and General Motors recorded combined annual losses exceeding $1.3bn (over $5bn today), Japanese car workers had become 17% more productive than American ones. Similarly, in semiconductors America’s share of global production dropped from 57% in 1977 to just 40% by 1989, while Japan’s share almost doubled, to 50%. Japan’s manufacturing edge came not from unfair trade practices but from innovation: lean-production techniques (like Toyota’s just-in-time system) and a talent for refining foreign inventions (Sony’s Walkman and VCR were adaptations of Western innovations).

America ultimately regained its technological edge not through isolation but by embracing global economic integration. Silicon Valley, recognising it could no longer compete with Japan’s process technologies and manufacturing efficiency, pivoted to innovation, design and software development. Meanwhile, it offshored assembly to low-cost East Asian manufacturers, especially in China, cutting costs and neutralising Japan’s competitive edge.

In contrast, Britain’s post-war history provides a cautionary tale. While continental Europe pursued integration through the European Economic Community, a forerunner to the European Union, Britain remained out until 1973, shielding domestic industries from competition. Internally, weak competition policy enabled widespread cartelisation, resulting in persistently low productivity growth. Britain fell behind more open and competitive economies like West Germany and France, both of which had overtaken Britain's GDP per person by the 1970s.

Today, despite its large domestic market, America faces similar threats from declining competition. Even before Mr Trump's first term, three-quarters of American industries had become more concentrated than they were in the highly competitive era of the 1990s computer boom, exercising a drag on productivity. This pattern extends into the historically dynamic technology sector, where, despite a few bright spots like OpenAI, fewer startups now challenge entrenched incumbents.

Meanwhile, spending on corporate lobbying has risen by almost two-thirds in real terms since the late 1990s, increasing regulatory capture and weakening antitrust enforcement. Compounding this, Mr Trump's selective, sector-specific tariffs have set off a scramble for exemptions, with his corporate allies well placed to win relief while their rivals bear the full duty. This environment favours politically connected incumbents, which tend to produce fewer patents than the startups snapping at their heels.

Though there are valid national-security reasons for reducing dependence on China in specific sectors, such as critical minerals, America's technological strength hinges largely on global integration. No country can hope to be technologically self-sufficient: America may dominate electronic-design-automation software but Japan produces 56% of global silicon wafers, Taiwan makes 95% of advanced chips and China processes over 90% of critical minerals and magnets. American security depends on strengthening alliances, not weakening them.

Nor do tariffs protect workers. The tariffs in Mr Trump's first term ultimately caused a net loss in American jobs. Duties on essential inputs, such as Canadian steel, only drive up costs and weaken

American competitiveness. Indeed, about half of American imports directly support domestic manufacturing, and hence American exports.

America's greatest economic strength has always been its capacity for industrial renewal—enabling new companies to emerge, innovate and grow. Century-old firms dominate in many advanced economies: the five biggest companies are, on average, 84 years old in Japan, 116 in Britain, 120 in Germany and 152 in France. In America, by contrast, they average just 39 years, and are all technology firms. Such dynamism is not guaranteed.

History shows that when competition yields to cronyism, technological leadership slips. America must choose between keeping its economy open and relinquishing its competitive edge. ■

Carl Benedikt Frey is the Dieter Schwarz Associate Professor of AI and Work at Oxford University and the author of "How Progress Ends: Technology, Innovation, and the Fate of Nations" (2025)

---

https://www.economist.com/by-invitation/2025/05/27/want-to-destroy-american-business-protect-it-writes-carl-benedikt-frey

Briefing

- ## Nayib Bukele is devolving from tech-savvy reformer to autocrat
  From cool to cruel :: El Salvador’s president is young, MAGA-friendly and ruthless

From cool to cruel

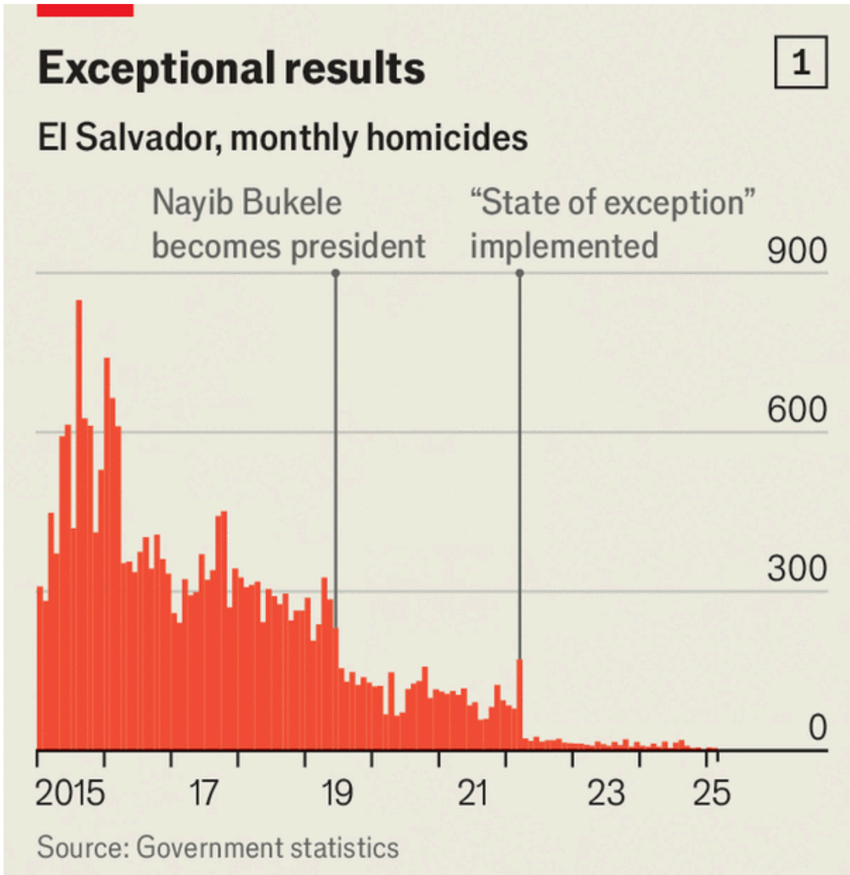
Nayib Bukele is devolving from tech-savvy reformer to autocrat

El Salvador's president is young, MAGA-friendly and ruthless

May 29, 2025 02:18 PM | SANTA TECLA

THE KNOCK on the door came at 11pm on a Sunday evening, as Ruth López, a lawyer and anti-corruption investigator at Cristosal, an NGO, was getting ready for bed. Police claimed her car had been involved in an accident, but when she stepped outside they arrested her on suspicion of embezzling government funds in a job she left over a decade ago. In a recording Ms López is heard saying, "The only reason I am being detained is that I am a defender of human rights and I work for an NGO that makes the government uncomfortable." Most observers agree. That makes her the first high-profile political prisoner incarcerated by Nayib Bukele, El Salvador's president.

Mr Bukele has never had much respect for civil liberties. He became president in 2019 by promising to rid El Salvador of paralysing gang violence. To that end he has locked up some 85,000 suspected gang members without trial. Salvadorans have accepted Mr Bukele's authoritarian streak as a means to an end, as murder rates have plummeted. Mr Bukele himself revels in his tough-guy image, calling himself “the world’s coolest dictator”.



Mr Bukele also has fans abroad, including his American counterpart. After he agreed to jail prisoners deported from the United States, Donald Trump welcomed him to the White House in April, calling him “one hell of a president”. Various American dignitaries, including Marco Rubio, the secretary of state, and Kristi Noem, the secretary of homeland security, have visited El Salvador to lionise him. Even as the Trump administration has been cheerleading, Mr Bukele has been lashing out. Whereas previously he rode roughshod over civil liberties in the name of suppressing gangs, now he seems to be doing so simply to silence critics like Ms López. Journalists, NGOs, even supplicant farmers—anyone who embarrasses him faces fierce repression. Mr Bukele’s carefully crafted image as a young, innovative, can-do reformer, all baseball caps and bitcoin, is wearing away, to reveal just another thin-skinned Latin American dictator.

Mr Bukele's political party is called New Ideas, and when he won the presidency at the age of 37, he seemed to have lots of them. He promised El Salvador's 6.3m people flashy infrastructure, big investments from cryptocurrency firms and, above all, a respite from violence. On the last score, at least, he delivered. After 87 people were murdered in a single weekend in 2022, Mr Bukele declared a "state of exception", which allows the police to hold people without trial. As arrests soared, crime plunged.

Death-defying

The official murder rate has plummeted from 51 per 100,000 in 2018 to 1.9 last year, lower than in the United States (see chart 1). The government massages these figures somewhat by excluding those killed by the police, or in prison or whose bodies are discovered long after their deaths. But the two main gangs, Barrio 18 and Mara Salvatrucha 13, have been dismantled. "I used to see dead bodies on the street, like, right there, in front of me," says José Francisco, a taxi driver who lives in a once dangerous suburb of San Salvador, the capital. "I could never have worked at night as I do now."

El Salvador has the world's highest incarceration rate, at 1,700 people per 100,000 (see chart 2). In 2023 Mr Bukele opened the "Terrorism Confinement Centre" (CECOT), with a capacity of 40,000. Inmates are stripped, shaved and squished together like sardines in huge windowless cells. Human-rights groups say many innocent people have ended up inside, arrested for no more than a tattoo. No one has been tried, even though Gustavo Villatoro, the security minister, told *The Economist* two years ago that trials would be complete by now. (Mr Villatoro has also said that the only way out of CECOT is in a coffin.)

Gravity-defying

Throughout all this Mr Bukele has enjoyed sky-high approval ratings, of close to 90%. That is in part because he has dominated the national conversation, abetted by slick public relations, state media and online trolls**.** But in recent months it has become clear that his war on the gangs was not quite what he claimed. In May *El Faro*, an investigative outlet, published videos featuring two leaders of the 18th Street Revolutionaries, another gang. They describe a series of pacts with Mr Bukele stretching back to 2014, when he was running for mayor of San Salvador. The men claim that Mr Bukele's party paid them $250,000 to drum up votes for him in the mayoral race. After he became president, they allege, there were further deals to suppress the murder rate and enforce curfews during the covid-19 pandemic. The main video has been viewed 850,000 times—750,000 more than the norm for *El Faro*.

Other sources, including American legal proceedings, paint a similar picture. In 2021 the US Treasury imposed sanctions on Osiris Luna, Mr Bukele's prison director, for his links to gangs. He is alleged to have given imprisoned gang leaders time with sex workers and mobile phones in exchange for helping Mr Bukele.

Although reports have long circulated that the police crackdown of 2022 marked a rupture between Mr Bukele and the gangs, there are indications of further contact after that. At least two gang members have since been released from prison unexpectedly and without explanation. One, Elmer Canales Rivera, aka Crook, who was wanted in the United States, was captured in 2023 in Mexico when he was supposed to be behind bars in El Salvador. *El Faro* reported that officials had let him out and helped him escape to Guatemala. “It has become clear that El Salvador’s security model is not what the world thought it was,” says Claudia Ortiz, one of only three opposition members in the 60-seat Legislative Assembly.

Rather than refute *El Faro*’s claims, the government has responded by issuing arrest warrants for three of the journalists involved. A law Mr Bukele pushed through in 2022 allows jail terms of 10-15 years for those who transmit or reproduce messages “created or allegedly created” by gangs that could foster “anxiety and panic”. The journalists have fled the country. Then, on May 18th, came Ms López’s arrest.

Two days later the Legislative Assembly used an emergency procedure to rush through a “foreign-agents law”, which requires people or organisations receiving money from abroad to apply for permission to do so and to pay a 30% tax on it. The sweeping law, which resembles measures adopted in Nicaragua and Russia, gives the government discretion to ban “foreign agents” it does not like and, for good measure, prohibits them from pursuing activities with “political ends”.

It is “an instrument of persecution to drown civil society and generate fear”, says Verónica Reyna of Passionist Social Service, an NGO in San Salvador that, like many others, gets some funds from abroad. It documented 538 assaults on activists and journalists in 2024, up 136% from 2023.

Mr Bukele is becoming more repressive in other ways, too. He has promised spiffy new highways to ease El Salvador’s traffic congestion, but construction has barely begun. After the threat of landslides led to road closures in late April, intensifying the jams, he declared he was offering Salvadorans a week of free bus journeys. When the owners of eight private transport companies balked, he had them arrested. One later died in custody. In a similar vein, the authorities have responded to unhappiness about the repeal of a ban on mining by harrying environmental activists.

On May 12th it was a group of farmers who were targeted. They had gathered outside Mr Bukele’s residence to petition against their impending eviction. Military police brutally dispersed them. Two supporters—a pastor and a lawyer—have been detained. Like other prisoners, they are not allowed to see their families, who must pay $7.50 a day for their meals.

In the village they are from, near the town of Santa Tecla, people are in shock. No one wants to give their name for fear of repercussions for themselves or the prisoners. “We thought the president would send out a delegation to talk to us, not the police,” says a man sitting on his porch as chickens wander around. “I don’t think people would go out again now.”

They are not alone. “People are now afraid of us rather than the gangs,” laments a former policeman. A journalist explains how he does not dare sleep in his own home. A worker at an NGO debates whether to leave the country. It is reminiscent of more run-of-the-mill autocracies in the region, such as Nicaragua or Venezuela.

Mr Bukele’s deal with Mr Trump to imprison deportees from the United States at CECOT (run by the same Mr Luna who is under American sanctions) is another sore spot. It is awkward for the president of a country of migrants to lock up deportees—especially to help someone who once called El Salvador "a shithole". Worse, one of the people he is detaining on Mr Trump's behalf is an apparently blameless Salvadoran, Kilmar Ábrego García.

Some suspect Mr Bukele has ulterior motives. He seems keen to secure the return from the United States of jailed Salvadoran gang members—odd for a supposedly inveterate enemy of gangsters. The Trump administration has sent back 23 so far, including one who had been expected to testify in American courts about his past alliance with Mr Bukele's government.

At any rate, there are many boons Mr Bukele could have requested in addition to the $6m the Trump administration is paying. He could have pushed for better treatment of Salvadorans, who are the second-biggest group of undocumented immigrants in the United States after Mexicans. He might have negotiated some sort of exemption from the United States' proposed 3.5% tax on remittances, which are equivalent to a quarter of GDP in El Salvador,

Perhaps Mr Bukele's biggest problem is the economy, which in 2023 surpassed security to become Salvadorans' biggest preoccupation, according to the polls. Like others in Central America, it relies heavily on remittances and services. By making El Salvador safer and stamping out extortion, Mr Bukele has definitely given it a boost. Google arrived last year to help with the government's "digital transformation". Tether, a cryptocurrency exchange, announced it would move its headquarters to El Salvador this year. Tourism has boomed, with a record 3.9m people arriving in 2024, up 40% from 2019. In El Tunco, a beach town, bars and restaurants are multiplying to cater to the many American visitors.

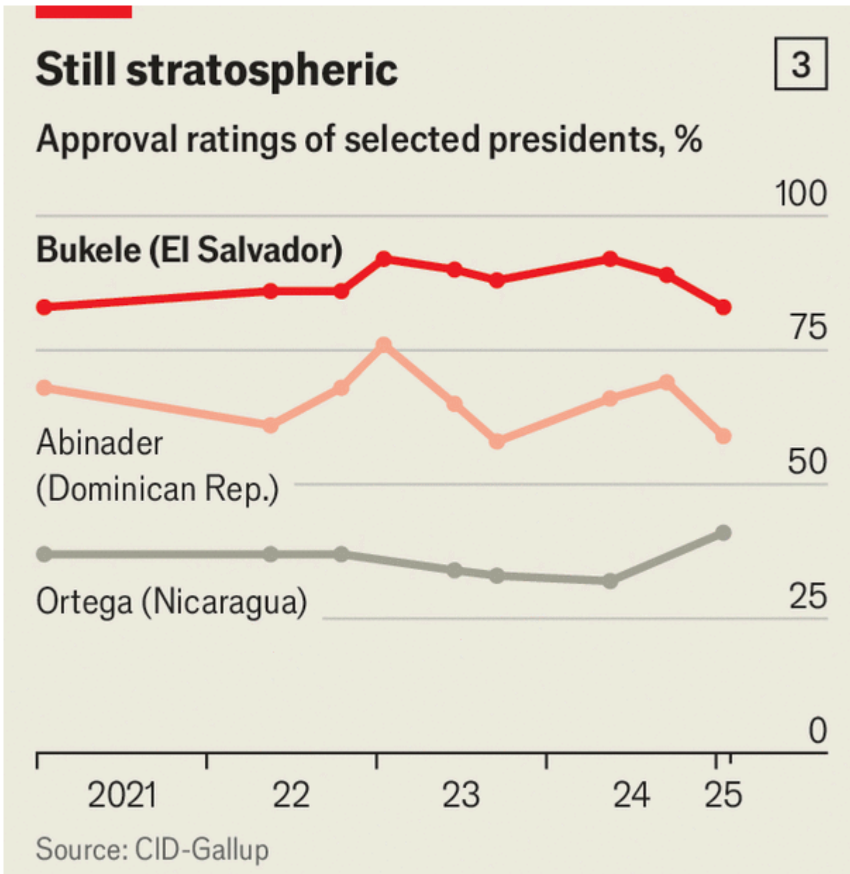
Expectation-defying

But the improvement has not been as dramatic as some had hoped. A study in 2016 estimated that gang violence shaved 16% off the economy each year. Yet annual GDP growth, which had hovered between 2% and 2.5% before the pandemic, rose only to 3.5% in 2023 before falling to 2.6% last year. This year the IMF predicts growth of just 2.5%, less than in Honduras or Guatemala. Private investment is less than in Nicaragua, a fully-fledged dictatorship. Businessmen say they are fearful of arbitrary measures from the government.

Government debt is a worrying 88% of GDP—up ten percentage points since Mr Bukele came to power. He tends to resort to handouts when rattled: this year alone, in addition to free transport when traffic became especially snarled, he has raised the minimum wage and waived electricity and water bills for a month. This profligacy, along with the government's investments in cryptocurrency, dismays the markets. Instead in February El Salvador agreed a $1.4bn loan with the IMF, which wants the government to curb its exposure to cryptocurrency and to trim spending.

Mr Bukele has duly produced an "austerity budget" this year. That entails cuts to health and education, which will not go down well. As it is, the percentage of the population living in poverty grew from 27% in 2019 to 30% in 2023. The problems are particularly evident in health care. A doctor says everything from medicines to hand soap is lacking in public hospitals. In some cases medical staff are reduced to simply changing the gauze on a wound rather than properly cleaning it because they lack the necessary supplies, he says. The shortages naturally lead to griping. "I take my mother to appointments and see it for myself," grumbles one man.

The economy's travails are all the more galling to many given the evident prosperity of many of Mr Bukele's inner circle. His family has reportedly acquired 34 properties in El Salvador worth around $9m since he became president. The US Treasury imposed sanctions on Mr Luna, the prison director, in part for embezzling millions of dollars in government funds and misusing pandemic-relief supplies. Last year, the government spent $1.4m to buy land for a new presidential residence next to Mr Bukele's private home in a grand gated community called Los Sueños (The Dreams). "Why would the next president live next to Mr Bukele's house?" asks a Salvadoran. The purchase confirms what many already thought: that Mr Bukele has no plans to leave the presidency.



Salvadorans increasingly perceive that "the government has not performed satisfactorily in any other area" besides security, says Ms Ortiz. How this will affect Mr Bukele's popularity is hard to predict. He has consistently enjoyed approval ratings above 80%, although there is some doubt over their accuracy, since the majority of the population also tell pollsters they are afraid to express their opinion. Recently his popularity seems to have slid a little (see chart 3).

Even small dips are significant, says Noah Bullock of Cristosal, since Mr Bukele’s apologists use his sky-high support to justify his near-absolute power. Previous dips in support seem to have been to tied to spikes in prices. This time, some analysts detect the beginnings of a more gradual erosion, tied to the cycle of embarrassing news and subsequent repression that has been under way this year. “He started well, fighting gangs. But along the way he decided he didn’t want to let go of power,” says the man from Santa Tecla.

Some fear that, rather than try to regain popularity, Mr Bukele may find it simpler to repress dissent. “He will become more dangerous…like a beast about to be captured or killed who bites and lashes out,” says the former policeman.

Surf’s up

If so, Mr Bukele certainly has the tools he needs to preserve himself in power. In the course of his crackdown on crime, he has amassed extraordinary control. By the time he declared the state of exception in 2022, he had already won over the army and police with lavish benefits, secured a super-majority in the Legislative Assembly and slashed the number of lawmakers and municipalities to the benefit of his party.

Mr Bukele has used his legislative power to stack the courts with yes-men. In 2024 the newly domesticated courts found a way round the constitutional ban on a second consecutive term in power. That paved the way for his re-election last year, which will keep him in office until 2029. The Legislative Assembly has also made amending the constitution much easier. Whereas changes used to have to be approved by two consecutive sessions of the assembly, with an election in between, they can now be made in a single sitting.

A series of seemingly benign laws are “traps” entrenching Mr Bukele’s authority, says Sergio Arauz, a journalist at *El Faro*. In December Human Rights Watch, an international monitor, criticised a data-protection law that could erase critical reporting. The state of exception, which suspends all due process, is in its fourth year.

The troubling reality is that there is little to restrain Mr Bukele’s worst tendencies. He holds untrammelled power. Civil society is cowed. “There is no brake on him left; we are alone,” says Juan Meléndez of the Netherlands Institute for Multiparty Democracy, another NGO. “What happened to Ruth can happen to any of us.” ■

---

https://www.economist.com/briefing/2025/05/29/nayib-bukele-is-devolving-from-tech-savvy-reformer-to-autocrat

United States

- **America’s Senate plans big changes for the House’s spending bill**
  A big, beautiful do-over :: What to expect from the upper chamber
- **America has found a new lever to squeeze foreigners for cash**
  Unfair taxes :: Donald Trump’s tax bill targets foreigners with alarming levies
- **Demand for American degrees is sinking**
  Ivy beleaguered :: Trump’s war on universities is driving talent away
- **MAGA: protecting the homeland from Canadian bookworms**
  Elbows up, library cards out :: A dispatch from the library that straddles the US-Canada border
- **America’s immigration detention centres are at capacity**
  Lumpkin it :: A visit to the second biggest, in Georgia, shows what that looks like
- **How young voters helped to put Trump in the White House**
  The Zillennial election :: And why millennials and Gen Zers are already leaving the president
- **Why would Texas Republicans object to conservative, pro-family developers?**
  Lexington :: Because they’re Muslim, of course

A big, beautiful do-over

America’s Senate plans big changes for the House’s spending bill

What to expect from the upper chamber

May 29, 2025 02:18 PM | WASHINGTON, DC

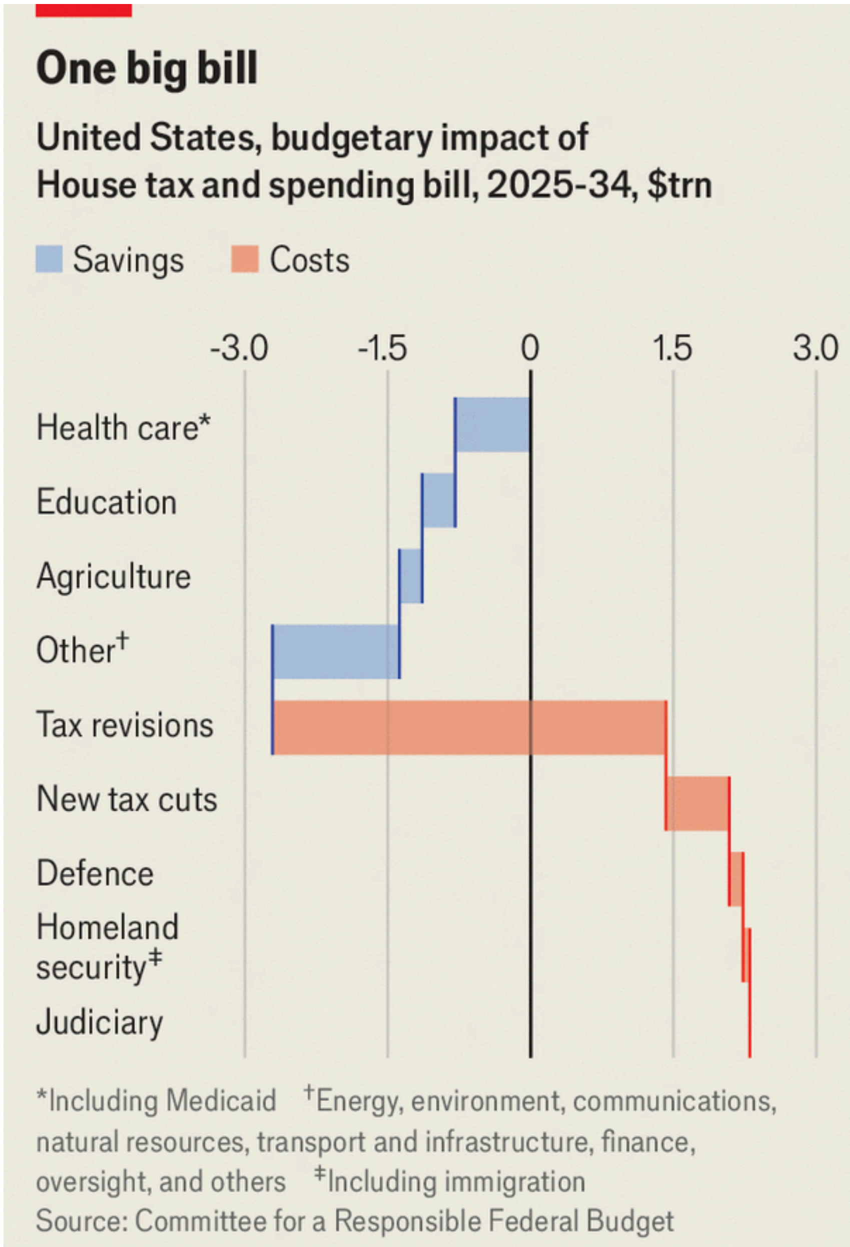
WHIPPING VOTES is a hard job in Congress, especially with as narrow a majority as the one overseen by Mike Johnson, the House speaker. But even the most masterful legislators can’t account for everything. Andrew Garbarino, a New York Republican, fell asleep early on May 22nd as his colleagues considered HR 1, also known as the One, Big, Beautiful Bill Act. He missed the vote. “I’m going to just strangle him,” Mr Johnson joked to reporters. The bill passed, but that was the easy part. The Senate will now negotiate its own version of the most consequential legislation of Donald Trump’s second term.

Mr Trump prefers to govern by executive order, but the House bill addressed administration priorities that couldn’t be tackled with his signature alone. Most significantly, it makes permanent his 2017 income-tax cuts, a policy broadly popular with Republicans in both chambers. Yet the multitrillion-dollar legislation will also have far-reaching effects on immigration, energy production, social insurance and defence spending. And the august Senate has very different ideas on many of these issues from the rowdier lower chamber.

Tax-reform discussions in the Senate picked up in recent weeks, with senators debating among themselves even as they watched House negotiations. Fiscal hawks in the Senate are upset that the House bill would add more than $3trn to the deficit over the next decade. Moderates, meanwhile, have been critical about changes to safety-net programmes. Still, it is already possible to discern the changes coming from the Senate.

Top of the list is killing the expansion of the state-and-local-tax (SALT) deduction, a policy traditionally supported by Democrats that reduces the income-tax burden for high-earners. A handful of House Republicans from high-tax states won an increase of the cap to $40,000, up from $10,000. Yet there is virtually no constituency for the pricey policy among Senate Republicans, who would rather prioritise making permanent the few pro-growth business provisions in the bill.

Then there are Mr Trump's tax handouts, which in the House's bill would add about $500bn to the deficit. The Senate, recognising political reality, is expected to include some version of these campaign promises, but is likely to craft less ambitious tax relief on tips, on overtime pay and on car loans (all Trump campaign pledges). Its version would add about half as much to the deficit as the House bill.



The House bill contains about $1.5trn in spending cuts over a decade. Most of this comes from government-funded health-care and food-assistance programmes. Ron Johnson, a Wisconsin senator and leading Republican fiscal hawk, would prefer about $6trn in cuts. That would return America to pre-pandemic spending levels, but he knows this maximalist position is unattainable in an ideologically diverse party. The Senate will probably aim for more like $2trn in cuts.

Cuts to food assistance and Medicaid, a government health programme for poor and disabled Americans, are unpopular with some senators, including economic populists. These differences are unresolved in the Senate and could be the trickiest point when the House and Senate bills are merged in reconciliation, which could still be months away.

That won't be easy. But the alternative is allowing tax cuts to expire and therefore taxes to rise. Avoiding that may be the single policy all Republicans agree on. There also seems to be consensus around using the tax system to make life harder· for foreigners working, investing and doing business in America.

The most likely outcome is that the Senate passes a bill that is slightly less bad for the deficit than the House version, and which strips out the SALT deduction. But that would just be the starting-point for high-stakes negotiations between the two chambers, with the president standing by with a smartphone and a war chest of campaign finance to cajole holdouts.

For now both chambers are steeling themselves for a bicameral brawl. "The number that we care most about is 218," Kevin Cramer, a North Dakota senator, told *Politico*, referring to the size of the House Republican majority. "Depending on how many we can get to fall asleep." At least the Republican Party can count on help from Democrats: some of its more elderly House members have died since the last election and their seats are vacant. ■

---

https://www.economist.com/united-states/2025/05/26/americas-senate-plans-big-changes-for-the-houses-spending-bill

Unfair taxes

America has found a new lever to squeeze foreigners for cash

Donald Trump’s tax bill targets foreigners with alarming levies

May 29, 2025 12:49 PM

Foreigner policy

TARIFFS PARTICULARLY enthuse Donald Trump because foreigners pay them—at least as he sees it—and merely threatening them is an easy way to mess with other countries. Two months on from “Liberation Day”, the president and his allies in Congress are trying the same trick with the tax code.

A little past the 1,000-page mark in HR 1, or the “One, Big, Beautiful Bill Act”, sits a provision labelled Section 899, on “unfair foreign taxes”. The proposal, now approved by the House of Representatives and under review by the Senate, would put punitive levies on people, investors and companies from countries with taxes Congress dislikes—like a digital services tax (DST), which mainly affects American tech giants, or an undertaxed profit rule, designed to ensure multinationals pay a global minimum corporation tax. On the naughty list would probably be most members of the European Union, plus Britain, Australia, Canada, South Korea and others.

Section 899 would add a 5% tax surcharge in its first year, and another 5% each year after that to a maximum of 20%. That higher rate would target dividend, interest and property income flowing abroad. For now, the language in the bill leaves open a few possible gaps, but punitive rates would almost certainly hit any lending in America by banks from offending countries, dividends on American stocks for those countries' investors and profits sent home from American subsidiaries. Sovereign wealth funds and public pension funds linked to governments that fall afoul of the Section 899 regime would also lose their existing tax exemptions. Altogether, the move amounts to a radical act of tax protectionism, a near-unprecedented plan to use America's tax code as a cudgel to knock other countries into line.

If enacted, this would render America all-but-uninvestable for many foreigners, and clog up the supply of capital to American firms. Perversely, companies that had been successfully cajoled by tariffs into scaling-up their American operations would be punished with a surcharge on any cash they sent back to their headquarters overseas. Capital flight could cause bond-market tremors. The bill also gives the Treasury discretion to add new "unfair foreign taxes" to the list and ensnare more countries.

Like the yo-yoing "reciprocal" tariffs, Section 899 may be intended more as an immediate threat to knock other governments into line than a new long-term arrangement. Britain refused to drop its DST in negotiations over the trade deal announced in early May. Many other rich countries have either enacted a DST, or plan to do so. Section 899 would give the White House fresh leverage to squeeze out concessions where tariffs failed.

Meanwhile, many foreigners working in America would be hit by another provision in HR 1: a 3.5% tax on any money they sent home. That would particularly hurt Central American countries like Guatemala, El Salvador and Honduras. The Centre for Global Development, a think-tank, reckons each would lose 0.7-1% of GNI in remittances.

Tariffs were a first step in remaking how America engages with the world. The Trump administration is now following a similar playbook on tax. Foreigners' labour, investment and business operations in America are treated not as opportunities to be embraced, but choke-points to be squeezed. So far, new tariffs have produced few tangible gains for America. This adventure in cross-border tax policy won't be any better. ■

---

https://www.economist.com/united-states/2025/05/29/america-has-found-a-new-lever-to-squeeze-foreigners-for-cash

| Section menu | Main menu |

Ivy beleaguered

Demand for American degrees is sinking

Trump’s war on universities could drive away America’s brightest import

Jun 05, 2025 11:37 AM

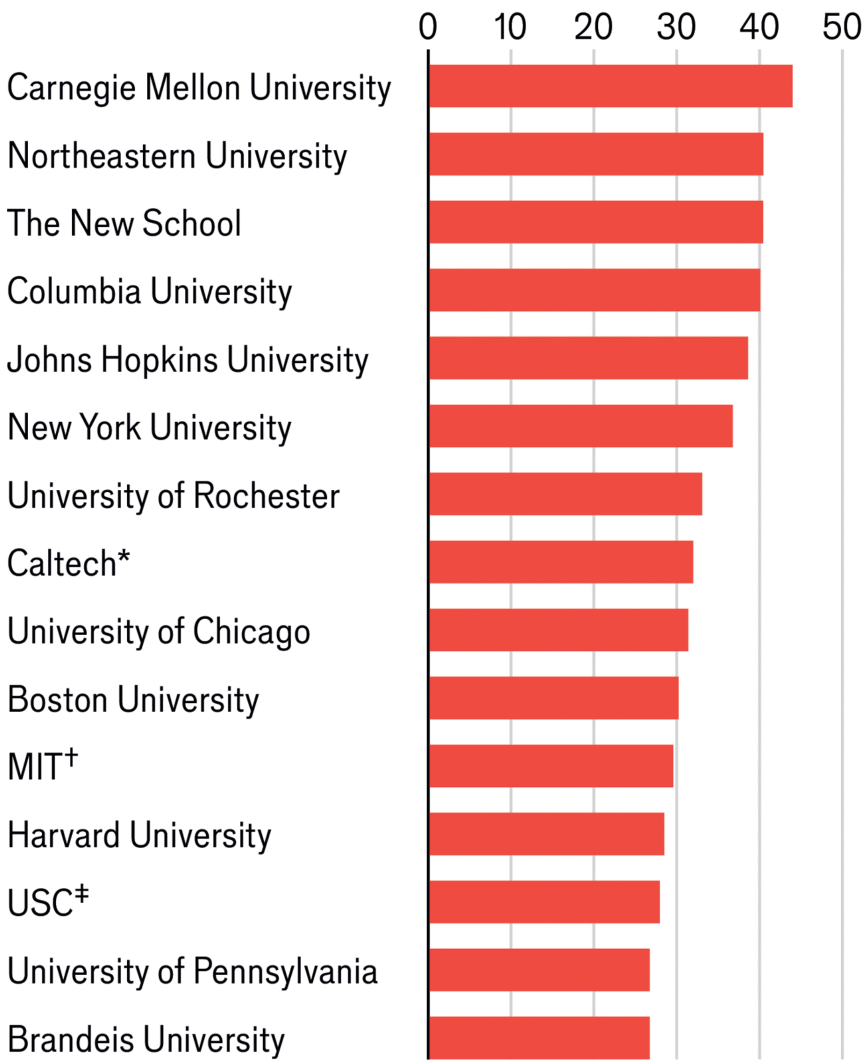
Some of America’s most valuable companies were built by people who came to America as students. Elon Musk was born in South Africa and lived in Canada before studying physics at the University of Pennsylvania. Patrick and John Collison moved from Ireland to attend MIT and Harvard, respectively, before founding Stripe, a digital payments company. All told, more than half of America’s billion-dollar start-ups were founded by at least one immigrant; a quarter have a founder who arrived as a student.

That pipeline of talent is now under heavy pressure. On May 22nd the Trump administration abruptly stripped Harvard University of its ability to enroll foreign students. A judge blocked the move the following day. But the administration only tightened its squeeze: on May 27th it suspended all new visa interviews for foreign students hoping to study in America. Officials say the pause is temporary. The damage might not be.

Attracting global talent has long been one of American academia’s greatest strengths. The country draws more international students than any other; over the past two decades the share of foreign students has nearly doubled, reaching almost 6% in 2023 (see chart 1). Most pursue degrees in fields such as science, engineering and maths. Nearly a third come from India; a quarter from China.

Brainy imports

US research universities, full-time international students, 2023, % of total



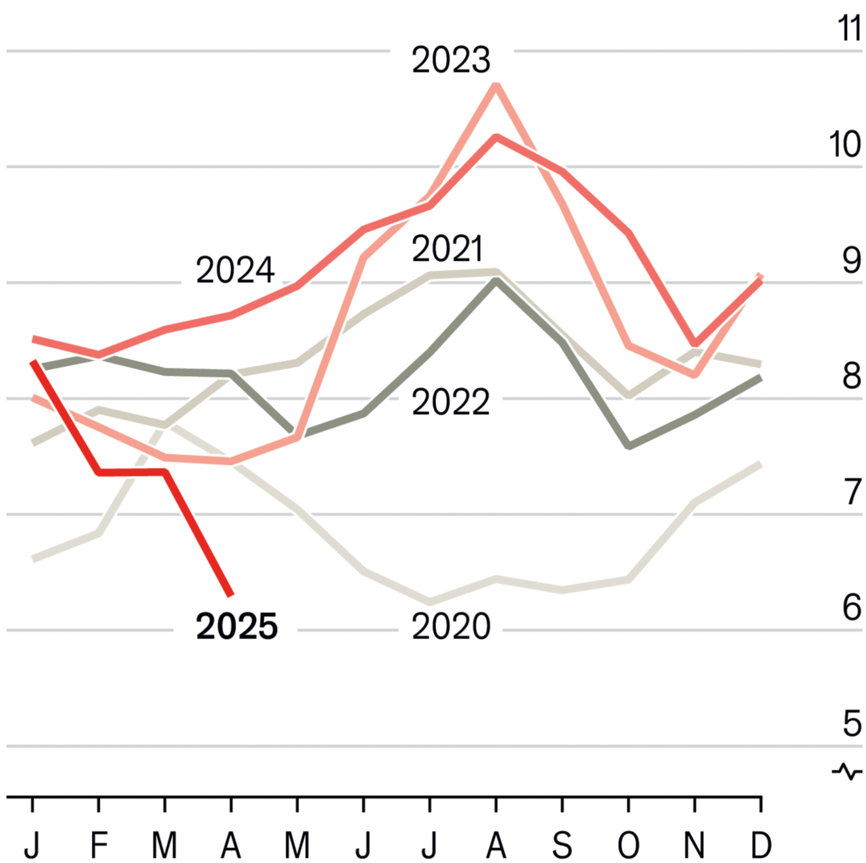
*California Institute of Technology
†Massachusetts Institute of Technology
‡University of Southern California
Sources: National Centre for Education Statistics; Carnegie Classification; *The Economist*

America's top private universities attract the lion's share of foreign talent (see chart 2). International students make up 14% of the intake at the country's 158 most selective research institutions—more than double the national average. At the dozen "Ivy-plus" universities—including the Ivy League and peers such as Stanford and MIT—the share reaches 28%. Columbia and Harvard, two institutions that President Donald Trump has recently targeted in his broader assault on elite universities, rely heavily on international enrolment, at 40% and 28% respectively.

Public universities, although less exposed in terms of headcount, face other risks. They tend to depend more on foreign tuition, which is often several times higher than the rates charged to local students, and lack the endowments that cushion private institutions.

Poison ivy

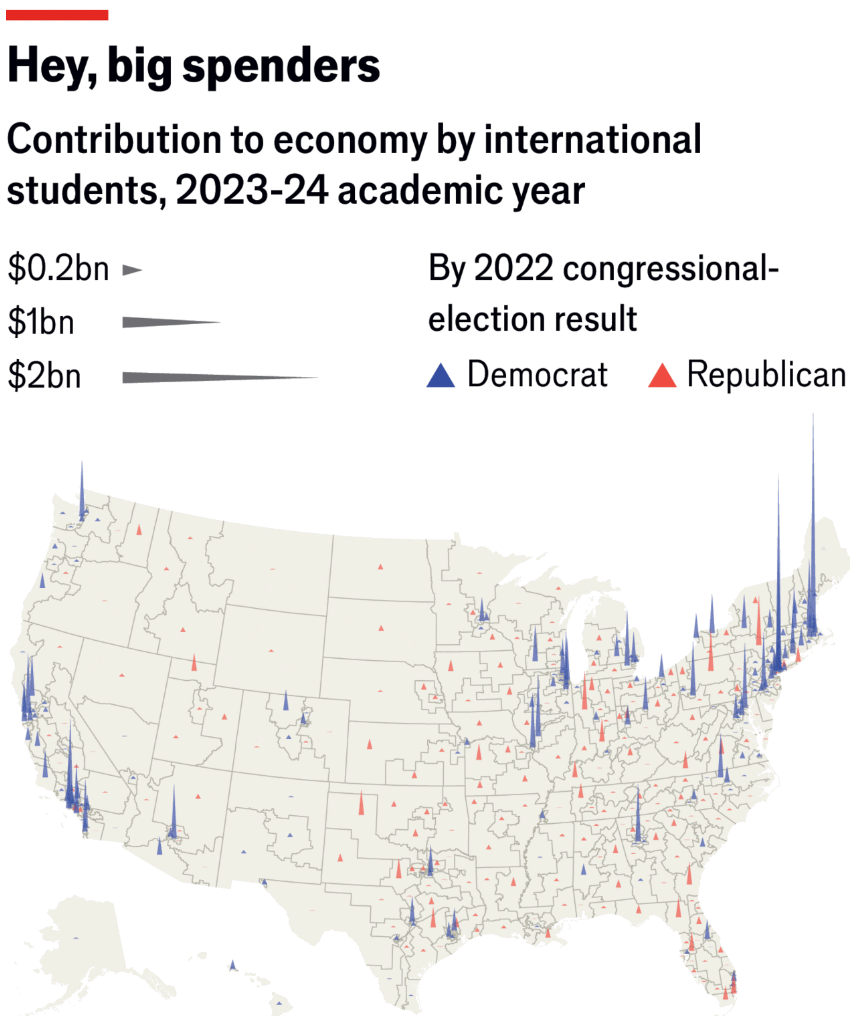
Webpage views of US university courses from outside the US, as % of views of all university courses worldwide*



*In-person bachelor's and master's degrees

Source: Studyportals

Prospective students are already looking elsewhere. Studyportals, an online directory for degree programmes around the world, says clicks on American courses are now at their lowest level since the covid-19 pandemic (see chart 3). Weekly page views halved between January 5th and the end of April. First-quarter traffic to American undergraduate and master's degrees was down by more than 20% year on year; traffic to PhD courses fell by a third. The biggest drop was from India, where interest fell by 40%. The data suggest that British universities would be the most likely beneficiaries.



Source: National Association of International Educators

The financial stakes are high. In the 2023-24 academic year foreign students added $43.8bn to America's economy, according to the National Association of International Educators, a non-profit—

mostly in Democratic-leaning areas (see map). They also supported jobs at universities and in other sectors, such as food services and health care.

But the heaviest cost to America will be in talent. Around three-quarters of international PhD students say they intend to stay in America after graduating. Blocking the next generation of students may punish the Ivies. Over time, though, it is America's edge in science, business and innovation that will suffer.■

---

https://www.economist.com/united-states/2025/05/29/demand-for-american-degrees-is-sinking

Elbows up, library cards out

MAGA: protecting the homeland from Canadian bookworms

A dispatch from the library that straddles the US-Canada border

May 29, 2025 12:48 PM | DERBY LINE, VERMONT and STANSTEAD, QUEBEC

Border chaos

STRADDLING THE border between Canada and America is the Haskell Free Library and Opera House. It serves two places—Stanstead in Canada's Quebec province and Derby Line in Vermont—which are one community. The twin towns also share water and sewerage systems. For more than a century the library was an example of America's special friendship with its neighbour. Not only did the pair once have the longest undefended border in the world, they shared books.

Once a patron enters the library, the only indication that they are in Canada is a thin black line delineating the border, which runs diagonally across the foyer, the children's reading room and through the book stacks. A small opera house sits on the library's second storey. The stage is in Canada. Most of the audience sits in America, though a handful of audience members have a foot in both countries (there's a metaphor here somewhere). The front door of the library is in America. Canadians used to be able to walk across the border with little fuss to get to it. No longer.

Thanks to new restrictions placed by President Donald Trump’s Department of Homeland Security, Canadians are allowed through that door only if they first check-in with border patrol agents a few streets away. Until October 1st, library cardholders coming from Canada may still walk across the border to use the front door. After that anyone in Canada will have to enter through a converted emergency exit to enter the library. Kristi Noem, America’s secretary of homeland security, visited the library in March. According to the library’s director, she stepped back and forth across the border in the library. “The 51st state!,” she announced when she stepped into Canada.

This is the latest episode in a slow hardening of the border that began after September 11th, 2001. Big metal gates turned residential streets that once led into Canada into dead-ends, causing headaches for snowploughs and the fire brigades. One apartment building is so close to the border that residents must check in with border patrol to put their children on the school bus, which stops next to the border checkpoint. Sylvie Boudreau, head of the library's board of trustees, is a former Canadian border agent. She is sympathetic to America's wish to control crossings. But the one high-profile smuggling case cited by the Trump administration took place over a decade ago. And it involved guns being smuggled into Canada.

Kelly Brennan, a Canadian patron, was not thrilled about entering through the back door instead of the grand foyer. Her son was tickled that the toilet was in America. "Hey Mom, I just went to the bathroom in the States." Local officials of Derby Line and Stanstead have held joint meetings to discuss the changes. "Our friends live across the street, and we don't think of them as being in another country," says Sarah Webster, a Derby Line official. Jody Stone, mayor of Stanstead, says "we are still the same people, and we want to continue to have that good relationship".

Some Derby Line residents (the Vermonters) have hoisted Canadian flags in front of their homes or stuck maple-leaf signs on their lawns. But some Canadians are boycotting and booing all things American. "A lot of Americans are pretty alarmed by Trump's sort of antagonism towards Canada. I think a lot of Americans were pretty shocked to hear Canadians boo the anthem," says Asa McKercher, an expert in Canada-US relations at St Francis Xavier University in Nova Scotia.

On the other, western, side of the continent, the Peace Arch Park, which straddles Washington State and British Columbia, was once a similar symbol of close relations. Since 2024 Canadians must check in with America's border patrol to access the Washington side of the park. "We have proven that you can secure a border by working together," says Laurie Trautman of the Border Policy

Research Institute at Western Washington University. “But once you put these borders up, they’re really hard to tear down.” ■

---

https://www.economist.com/united-states/2025/05/25/maga-protecting-the-homeland-from-canadian-bookworms

| Section menu | Main menu |

Lumpkin it

America's immigration detention centres are at capacity

A visit to the second biggest, in Georgia, shows what that looks like

May 29, 2025 12:48 PM | Lumpkin, Georgia

IN APRIL TODD LYONS, the acting director of Immigration and Customs Enforcement (ICE), lamented that it takes too long to deport illegal immigrants. At the Border Security Expo in Phoenix he told a crowd of startup bosses vying for government contracts that a better deportation system would function more like Amazon, the tech giant whose delivery drivers zigzag the country at record speed. "Like Prime, but with human beings," he said.

His agents are scrambling to make that happen. In Nashville ICE teamed up with highway patrol to arrest 196 immigrants in just one week in May. In San Diego, New York and other big cities agents are suddenly picking up far more people at scheduled hearings in courthouses. But what happens after the arrests is another matter. To carry out Donald Trump's mass deportations the government must hold immigrants while they wait for court dates or deportation flights. Four months into the president's term, detention centres are full.

The newest data released by ICE show a drop in the number of immigrants in detention for the first time since January. The fall is modest—from 49,184 on May 4th to 48,870 on May 18th—but indicates that the administration may have hit a bottleneck. Congress allocated funds for 41,500 beds this year, almost 20% fewer than the current number of detainees. In early May the Senate appropriations committee warned Kristi Noem, the secretary of homeland security, that she is set to run out of money before the fiscal year ends. To reach Amazonian efficiency, or even to continue booking people at the current pace, Mr Trump needs more funds and more space.

At Stewart Detention Centre, America’s second-biggest, overcrowding is causing chaos. The constellation of low-slung buildings in rural Georgia has roughly 1,750 beds, but on any given day in April the number of people living there was closer to 2,200. One room which housed 30 people in rows of bunk beds last autumn now has over 70. Newcomers sleep on plastic sheets on the floor. Women are stealing toilet paper because there aren’t enough tampons.

The usual order is crumbling because guards are overwhelmed, says a detainee who has been there for months. In normal times uniforms distinguish between tiers of inmates—red for ones who committed crimes, khaki for ones who didn’t—but now people are being dressed in the wrong colours. Enough drugs were being smuggled inside in hair scrunchies that the facility recently banned them. Detainees report not getting medicines for conditions like high blood pressure. A study by a trio of watchdog groups found that 95% of the 52 deaths in detention centres between 2017 and 2021 were due to medical negligence. As conditions worsened the federal government closed the Office of the Immigration Detention Ombudsman, which gave detainees advocates on the inside.

The Trump administration is on the hunt for a fix. In May a detention centre in New Jersey reopened, after an eight-year lull, at twice its previous capacity. Many more will be needed. The government put out an emergency request for companies to bid on building them, but getting new facilities running could take months. In the meantime plans are under way to convert part of a military base in El Paso into a camp where immigrants sleep in tents; a shuttered women's prison near San Francisco known as the "rape club", after half a dozen staff were charged or convicted of sexual assault, might be repurposed.

The House's new budget bill gives the administration $59bn to play with. The government reckons that should be enough to double the number of beds. But in the short term Mr Trump may quietly resort to the catch-and-release strategy he chastised his predecessor for. ■

---

https://www.economist.com/united-states/2025/05/29/americas-immigration-detention-centres-are-at-capacity

The Zillennial election

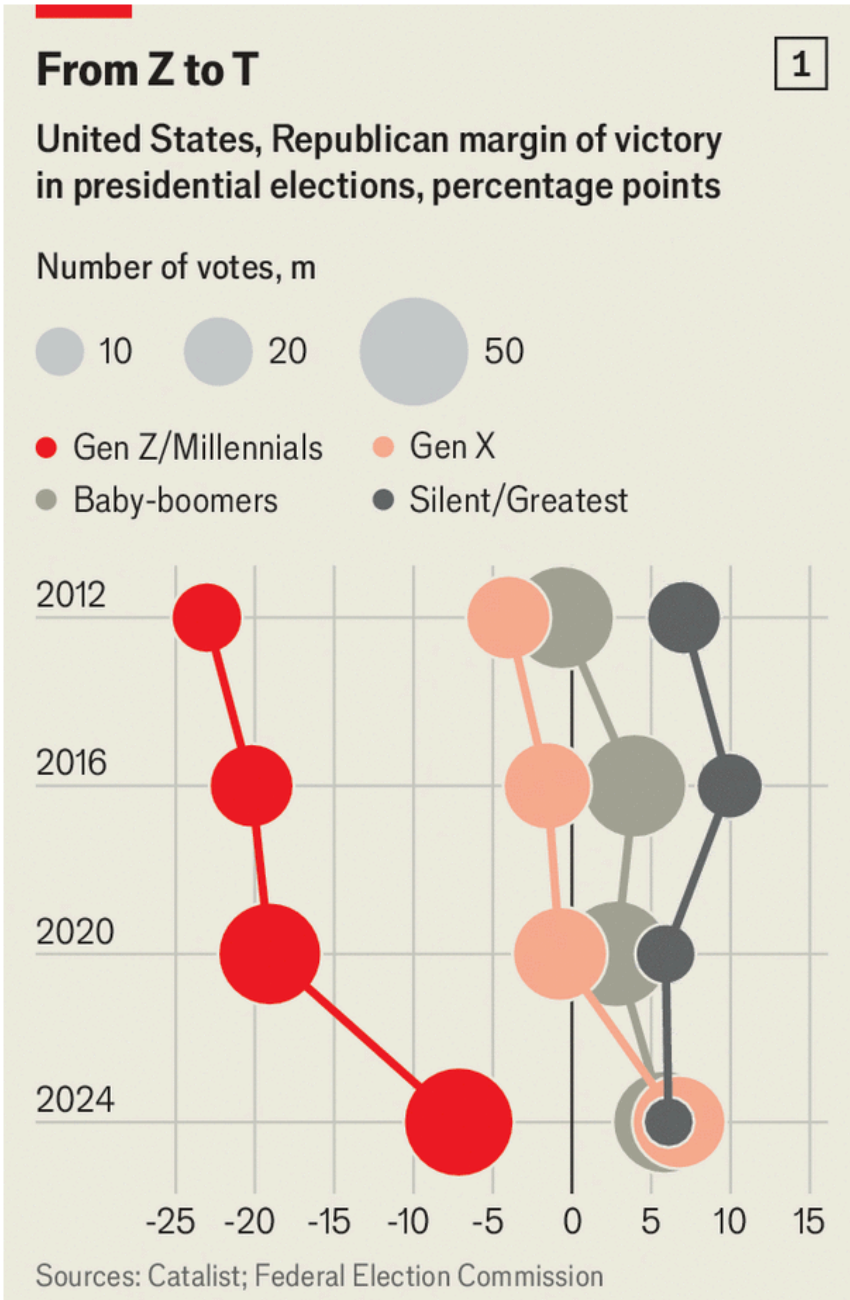
How young voters helped to put Trump in the White House

And why millennials and Gen Zers are already leaving the president

May 29, 2025 01:09 PM | BOSTON

THE 2024 ELECTION unfolded like a political thriller, replete with a last-minute candidate change, a cover-up, assassination attempts and ultimately the triumphant return of a convicted felon. But amid the spectacle, a quieter transformation took place. For the first time, millennials and Gen Z, people born between 1981 and 2006, comprised a plurality of the electorate. Their drift towards Donald Trump shaped the outcome.

Millennials and Gen Z are the most diverse and educated generations in American history, traits long thought to favour the Democratic Party. Yet a new report from Catalist, a left-leaning political-data firm, shows that although Democrats still won a majority of young voters, their long-standing advantage over the Republican Party was reduced by nearly two-thirds. In 2024 Kamala Harris's margin of victory among these voters was 12 points smaller than was Joe Biden's in 2020, a bigger swing than for any other cohort (see chart 1). The exodus was caused in large part by non-whites and helped propel Mr Trump back into the White House. But many of these voters lack firm partisan loyalties. They are still up for grabs.



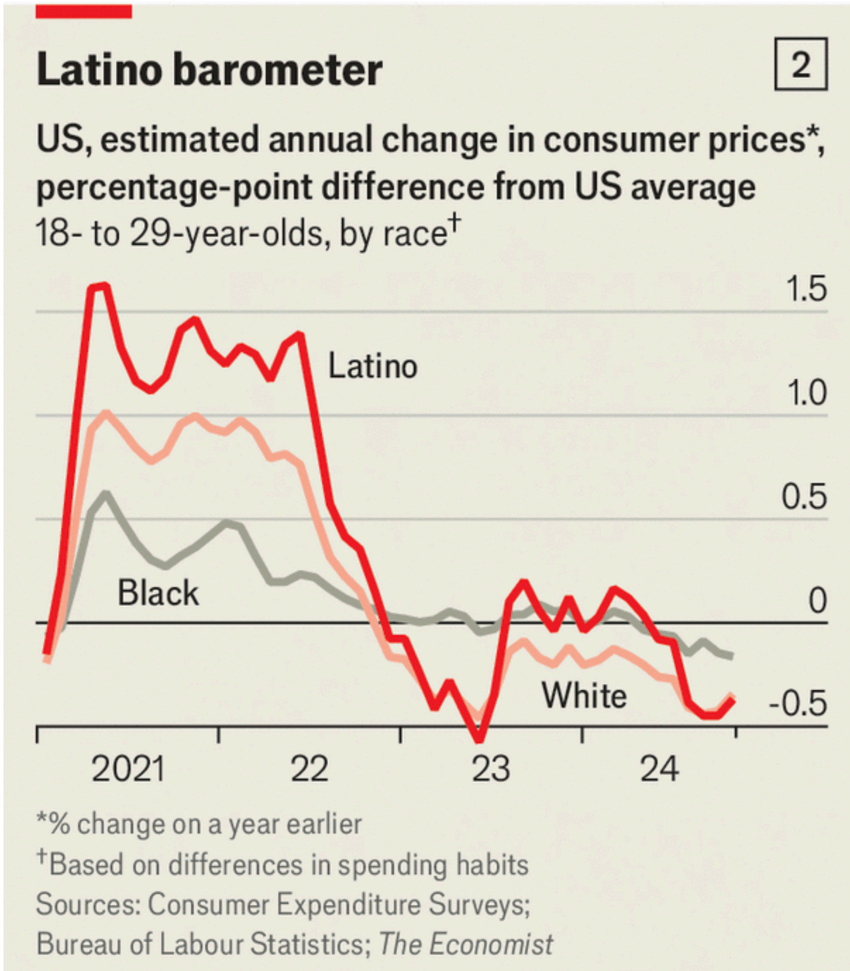
Younger voters appear highly sensitive to economic pressures. They earn less than their elders and are less likely to own their home or have substantial savings. America’s overall unemployment rate was a healthy 4.2% in November 2024. But the figure was nearly double that for 20- to 24-year-olds and roughly triple that for

18- and 19-year-olds. Younger voters were more likely to say that the economy was the most important issue to them and substantially less likely to cite immigration.

Catalist's numbers are only available six months after the election, and their analysis avoids many of the pitfalls that plague pre-election polling, which underestimated Mr Trump for the third consecutive presidential election. The average American voter swung towards Mr Trump by six points in 2024. The lion's share of that shift came from the youngest voting-age generations. Gen Z and millennial voters preferred Mr Biden by 19 points in 2020.

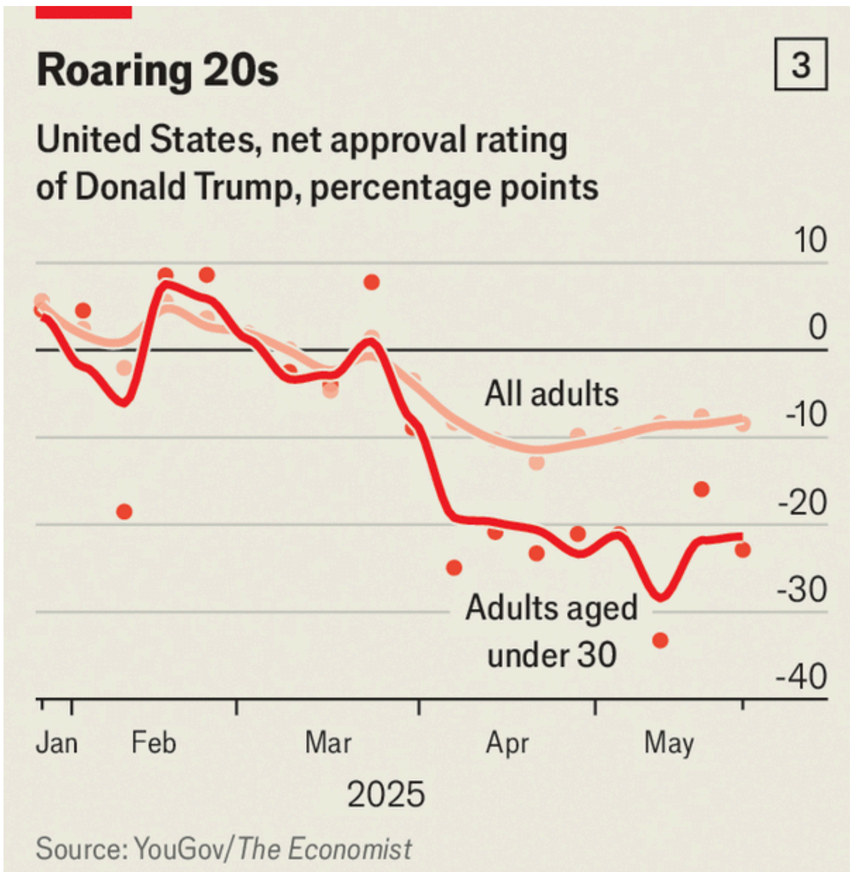
Had these two cohorts voted as they did in 2020, Ms Harris would have won the popular vote by 2.8 points, rather than losing it narrowly to Mr Trump. And though turnout fell by around two points nationwide, it fell by double that among 18- to 29-year-olds. This also hurt Ms Harris, since she attracted a majority of the young vote, even if by declining margins.

Most worrisome for Democrats is their clear loss of purchase on younger black and Latino voters. Though Democrats have long hoped that a more diverse young electorate would help tilt the political map in their favour, the latest data show that it was those voters who revolted most fiercely. Among 18- to 44-year-olds, white voters swung towards Mr Trump by 4.6 points, while their black counterparts shifted by 14.6 points and Latinos by a sobering 22.6 points. The impact was all the greater because just under a third of millennials and Gen Z are non-white, a higher percentage than for older generations.



One reason all groups of young people swung against the Democrats in 2024 seems to be their perceptions of the economy. In polling conducted by YouGov/*The Economist* before the election, 18- to 29-year-olds gave Mr Biden a net rating of minus 23 percentage points on his handling of inflation, for example. Indeed, *The Economist*'s analysis of the Consumer Expenditure Surveys found that young people's consumption habits meant they were exposed to higher rates of inflation in 2021 and 2022, when prices were rising at their fastest (see chart 2). The Fed reports that used cars and fuel make up a larger portion of young people's (and especially Latinos') spending. Prices for those goods rose dramatically in 2021 and 2022.

Yet economic stress is not the only plausible explanation for young voters' desertion of the Democratic Party. They are also more likely to consume news from non-traditional sources. YouGov's pre-election polling showed that six in ten young people had learned something new about Mr Trump from social media; one in four had heard new information about him from podcasts. In the final days of the campaign Mr Trump went on a tour of "bro podcasts", fishing for viral moments. Social media were also a hotbed for left-wing criticism of Mr Biden and Ms Harris, especially of their handling of the conflict in Gaza. Analysis by Blue Rose Research, a Democratic firm, found that voters who got their news from TikTok were substantially more likely to switch to the Republican Party, even after controlling for other factors.



Perhaps the only good news for Democrats is that millennial and Gen Z voters appear persuadable. Already, data from YouGov/*The Economist* show that many of the gains Mr Trump made for his party among the youngest voters have begun to diminish. After a chaotic first few months in office the president's net approval has fallen by around 13 points nationwide. Among the under-30s it has plunged 25 points, from net positive four to a net negative 21 (see chart 3).

Research by Columbia University found that events in voters' early adulthood have an outsize effect on their long-term partisanship. Older millennials aged into the electorate against the backdrop of the financial crisis and Occupy Wall Street. But for the youngest voters formative political events have been more diverse and disruptive. They have come of age during covid-19 lockdowns, cost-of-living shocks and the rise of and backlash against wokeness. How they will make ideological sense of the whiplash is difficult to predict. ■

---

https://www.economist.com/united-states/2025/05/27/how-young-voters-helped-to-put-trump-in-the-white-house

Lexington

Why would Texas Republicans object to conservative, pro-family developers?

Because they’re Muslim, of course

May 29, 2025 07:02 PM

A FEW STEPS past torn and twisted steel beams from the destroyed World Trade Centre, the George W. Bush Presidential Library in Dallas, Texas, projects clips of Mr Bush speaking in the days after the attacks of September 11th 2001. In different settings he is by turns sorrowful, fierce and resolute, yet the video shows he also struck another note, not just of tolerance but of goodwill towards people some Americans might immediately suspect as enemies. Six days after the attacks Mr Bush spoke at a mosque, the Islamic Centre of Washington, DC. “These acts of violence against innocents violate the fundamental tenets of the Islamic faith,” he informed the country. Islam, he said, “is peace”.

“That really helped things for us here in America,” recalls Yasir Qadhi, the resident scholar of the East Plano Islamic Centre, a mosque in Plano, a suburb north-east of Dallas. He chuckles at his own wistfulness for Mr Bush’s leadership, but he has reason for it. The crude incentives of today’s politics are pointing the inheritors of Mr Bush’s political machine in Texas in the opposite direction. Intra-party rivalry is fanning fears that Dr Qadhi’s mosque, known by its acronym, EPIC, is out to impose Islamic law in the state.

It all started, of course, online. In February the state’s Republican governor, Greg Abbott, retweeted a post from a right-wing influencer ringing alarms about a housing subdivision, with the regrettably grandiose name “EPIC City”, that EPIC wanted to build. “Sharia law is not allowed in Texas,” the governor wrote. “Nor are sharia cities.” At least six investigations have since been opened into the mosque’s plans, including by the Texas Rangers and the Texas Funeral Service Commission, though no one has produced any evidence that anyone intended to impose sharia law, or to break the law at EPIC City in any other way. The mosque has not yet even applied for permits to build, a process that, ideally, should ensure that any developer would follow the law.

One might imagine reasons to resist developing the 402 acres purchased for the subdivision, now a cornfield edged with purple thistle and white Queen Anne’s lace, about 40 miles from Dallas: the impact on the environment, say, or the strain on sewage and water systems. But Texas’s government is practised at dispensing with such worries to accommodate the state’s population boom. Its easy permitting ways, and lower housing costs and rates of homelessness, are rightly the envy of “Abundance” Democrats who bemoan restrictions in states dominated by Democrats.

With such concerns set aside, one might think Texas’s pro-development, conservative, pro-faith, pro-family government would be particularly delighted with a development by a conservative, pro-faith, pro-family community. “There’s nothing more Republican and Texan,” says Dr Qadhi. The community’s goal, he says, is to create a neighbourhood where families can live close to facilities for elderly parents and grandparents. The plan is for more than a thousand homes, a mosque, a school and fields for sport.

The competition to condemn the subdivision is the kind of thing that happens in America's one-party states, where politicians worry far more about primary challenges from more extreme candidates than about winning general elections. In Texas, Senator John Cornyn has a primary race on his hands against Ken Paxton, the state attorney-general. Mr Cornyn, who first won the office in 2002 after Mr Bush endorsed him, has recast himself as a stalwart supporter of Donald Trump. But Mr Paxton, who tried to overturn the 2020 election and has, like Mr Trump, weathered impeachment, is more beloved on the Trumpist right. Recent polls place Mr Paxton well ahead among Republicans.

Mr Paxton called for a state investigation of the development in March; Mr Cornyn then urged a federal investigation, warning the development "could violate the Constitutional rights of Jewish and Christian Texans", and the Department of Justice obliged. (The development's planners say it will be open to people of all faiths—anything else would violate fair housing laws.) Mr Cornyn's campaign has tried to score points by noting that the mosque is employing a lawyer, Dan Cogdell, who also defended Mr Paxton in his impeachment.

Like leaders of the mosque, Mr Cogdell says he has been doxxed and threatened. He professes astonishment at the anger he is encountering, which he says has exceeded what he experienced when defending people accused of murder. "I thought we had inched past some of our guttural reactions post-9/11," he says. "If this was a Baptist church in Red Oak Texas none of this shit would be happening."

No country for apolitical men

Dr Qadhi says the uproar has shown that Muslims in Texas need to cultivate political allies, an undertaking he says many in his community have resisted because it risks raising more suspicions of nefarious influence. "Damned if you do, damned if you don't," he says. Born in Texas, Dr Qadhi argues Muslims should exercise the political rights guaranteed to all Americans, and he notes people of other faiths, such as Catholics, have successfully weathered the struggle for acceptance. “You can’t stop progress,” he says. “We’re just a part of the American process here.”

Maybe he is right. But that process can run in reverse. The Bush library, more of a shrine to the aspirations of the 43rd president than an unflinching appraisal of his record, reminds visitors that he wanted to promote democracy, development and human rights abroad, and, at home, to turn more immigrants into citizens and to enrich the education of American children, in addition to fostering comity and kindness. Part of the legacy of the September 11th attacks, and of Mr Bush’s own mistakes in their wake, is that his party, and his country, are moving further away from realising so many of those hopes. ■

---

https://www.economist.com/united-states/2025/05/29/why-would-texas-republicans-object-to-conservative-pro-family-developers

The Americas

- ## The king “loves” Canada. Many Albertans want out
  Cowboys in Canada :: The push for a referendum on Albertan independence is speeding up
- ## Why Latin American Surrealism is surging in a down art market
  Otherworldly success :: Works by women in particular offer collectors a sure thing at a better price
- ## Venezuela’s sound of silence
  The eloquently silent voice :: The people abstain from voting in parliamentary elections as the United States turns oil sanctions back on

Cowboys in Canada

The king “loves” Canada. Many Albertans want out

The push for a referendum on Albertan independence is speeding up

May 29, 2025 12:49 PM | Red Deer, Alberta

“THE TRUE NORTH is indeed strong and free.” If King Charles’s remarks on Canada’s sovereignty sounded familiar, that is because officials in Mark Carney’s new government wrote them. On May 27th the king delivered the throne speech in his capacity as head of state, opening Parliament—a task usually performed by Canada’s governor-general. The last monarch to do it was his mother, Queen Elizabeth, in 1977. The king was drafted in to rally Canadians to Mr Carney’s banner (his brother runs the household of Prince William, the king’s son and heir), as Canada’s prime minister settles into his stand-off with the pugnacious president of the United States, Donald Trump.

But for about a third of the 5m residents of the oil-rich province of Alberta, the royal rhetoric will have rung hollow. These Albertans feel neither strong nor free but constrained, in particular by the environmental predilections of their rulers in Ottawa which stop

Albertan crude from flowing as freely as it might. Their dormant independence movement has been reinvigorated by fury across Conservative-voting Alberta at the Liberal Party's recent turnaround election win.

Within hours of Mr Carney's victory on April 28th, Alberta's right-wing premier, Danielle Smith, announced that she planned to lower the number of petition signatures needed to trigger referendums, including a vote on Alberta's secession. Separatist groups like the Republican Party of Alberta and the Alberta Prosperity Project began scrambling for the 177,000 names needed, down from 600,000.

Ms Smith insists she is making an earnest attempt to allay Albertan anger, not to guide her province out of the federation. She admits to thinking a referendum might help her politically by putting the question of independence to rest while fending off the re-energised right-wing of her United Conservative Party. "I can read polls just as well as anybody and see that 37% of people [in Alberta] have given up on Canada," she says. "I take that very seriously and so should the decision-maker in Ottawa."

Mr Carney has seen this coming. He is familiar with the results of high-stakes referendums, having guided the Bank of England through Brexit as its governor. He has already offered to approve energy projects in two years rather than five, and said he will use national-interest rules to speed up development even further. Mere words, according to Ms Smith. She wants guarantees that oil and gas pipelines will be built immediately, particularly to the Pacific and the Asian market beyond.

The path to independence is technically fraught. Federal laws passed after Quebec came within 60,000 votes of seceding 30 years ago dictate that any bid for provincial separation can proceed only when a "clear question" leads to a "clear majority". Were such a question asked and answered in the affirmative, complicated negotiations on divisions of assets would follow.

Nancy Southern, the boss of ATCO, a large Canadian energy conglomerate, says the mere possibility of Alberta's separation is already driving away investment. Potential partners in Japan and South Korea are asking pointed questions, she told shareholders on May 14th: "What are the rules going to be? What's the currency going to be? Is there security around this? Who's going to trade with this? How do we get to tidewater? How do we get our product to our country?"

The province's 45 indigenous groups don't much like the idea either. Their relationship with the government is based on treaties with the British Crown, and they insist they would remain sovereign nations within an independent Alberta. "You would have a Swiss cheese of a province, at best, if they did pull away," says Chief Ouray Crowfoot of the Siksika First Nation.

None of that is stopping anti-Ottawa sentiment that has existed for decades from curdling into anti-Canada convictions. "We don't have anything in common with anybody east of Saskatchewan," says Alton Wood, referring to the prairie province to Alberta’s immediate east.

Mr Wood was one of about 500 avowed separatists who gathered at a casino banquet hall in Red Deer on May 24th, about 140km (90 miles) north of Calgary, for a town-hall meeting held by the Republican Party of Alberta. Jonathan White, who runs a construction company in the central Albertan town of Springbrook, says taxes—particularly Canada’s industrial carbon tax—are smothering his business and nudging him towards supporting secession. “If the rest of Canada is stomping on us, what else do we have left to do?”

Naheed Nenshi, who leads Alberta’s left-wing New Democratic Party, sees parallels with Brexit. Ms Smith’s attempt to hold her conservative coalition together by gambling that a referendum will go her way looks to him like David Cameron’s doomed attempt to secure his Conservative Party’s future by doing the same in Britain. “She is exactly following the David Cameron script, but I don’t know if she’s read to the end of the play.”

Indeed, there are hints that Ms Smith may be repeating the mistake of thinking she can control a rising populist movement. Data released on May 23rd by Léger, a pollster, found that 47% of Albertans support independence, with 48% saying they would vote against it. Those are Brexitesque margins.

Ms Smith says she aims to avoid a referendum entirely by compelling the Carney government to stick to its word and make it easier to get Alberta’s resources out of the ground and into pipelines. “If I’m successful, then that will mean there may not be a question.” If she’s not, she will have to live with the consequences. King Charles and Mr Carney have seen this all before. ■

---

https://www.economist.com/the-americas/2025/05/28/the-king-loves-canada-many-albertans-want-out

Otherwerldly success

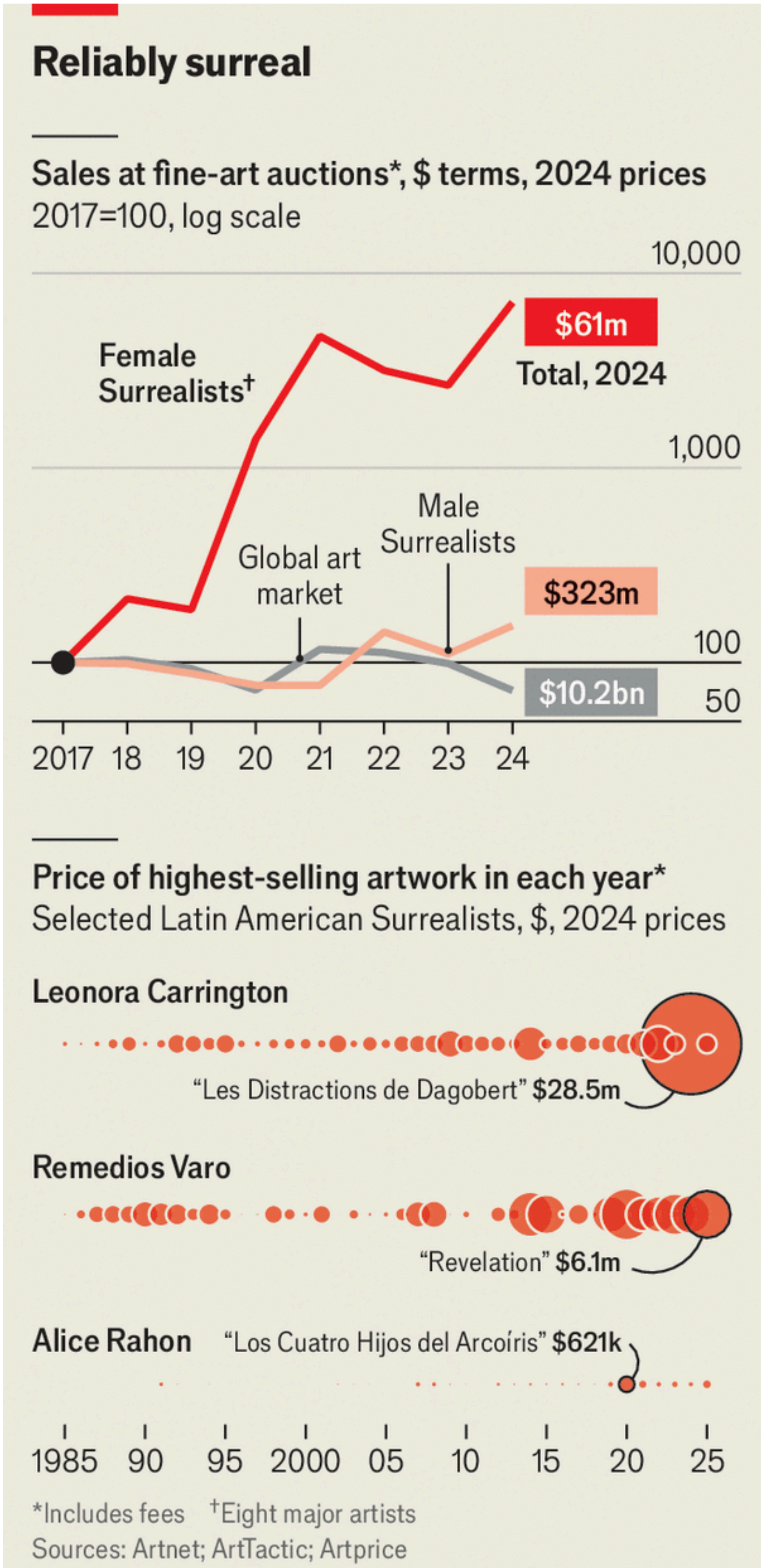
Why Latin American Surrealism is surging in a down art market

Works by women in particular offer collectors a sure thing at a better price

May 29, 2025 12:48 PM

IN 1956 THE painter Diego Rivera stated that three of the world's most important female artists lived in Mexico. (His wife, Frida Kahlo, had just died.) He was talking about European émigrée Surrealists: Remedios Varo of Spain, Leonora Carrington of England and Alice Rahon of France.

Unlike Kahlo, whose face appears on cushions and in baby books, Varo, Carrington and Rahon are little known outside the art world. But demand for their work has driven surging prices that collectors are willing to pay for works by female Surrealists, particularly those from Latin America.



Between 2017 and 2023 total sales of works by the eight major female Surrealists increased in value by an average of 150% every year, according to ArtTactic, an arts consultancy based in London (see chart). In 2024 sales jumped by 159%, mainly thanks to Carrington and Varo, together up 490%. Argentine collector Eduardo Costantini paid $28.5m for a Carrington, “Les Distractions de Dagobert”, coming close to Salvador Dali’s top price. All this amid a slumping global art market. Overall sales were down by 27% last year.

The boom has its roots in the 1940s, when many European artists fled to Mexico to escape fascism. André Breton, a French founder of Surrealism, hailed the country as “the Surrealist place par excellence”. A magical mentality has long been embedded in indigenous Mexican culture, according to Janet Kaplan, an art historian, exemplified by the sugar-coated confectionery skulls given to children for the Day of the Dead. Where they had been peripheral in Paris, perhaps crowded out by male peers, once in Mexico Varo, Carrington and Rahon rose to become major artists.

Remedios Varo, Revelación (also titled El relojero)

As the value of everything from the dollar to tech stocks shifts, collectors have focused on established work. “Ultra-contemporary” art was hot in 2022, but prices dipped by 38% in 2024, falling more than the overall market. In contrast, a painting by René Magritte was sold in New York for $121m in 2024, a record both for the artist and Surrealist work. For collectors who want a sure thing, but who cannot afford the most famous pieces, the female Surrealists offer a discounted way to hedge risk, says Lindsay Dewar of ArtTactic.

Nationalist-billionaire ambition also pushes up prices. Mr Costantini founded the Museum of Latin American Art in Buenos Aires and wants pieces to fill it. His bidding wars can send prices sky-high. After paying a record price for a Varo in 2020, he said: “It can take 50 years to see [such superlative works] again.”

Institutional recognition has also played a role. In 2021 the Metropolitan Museum of Art in New York put on an exhibition which expanded Surrealism’s canon beyond western Europe. It included pieces by Carrington, Varo and Rahon.

Major works are rarely sold, but on May 12th Christie’s in New York auctioned Varo’s “Revelation” for $6.22m, a new record for the artist. The painting depicts gears of a clock scattered amid a glowing disc, representing Einstein’s relativity. Born from geopolitical tumult, Surrealism focused on the subconscious and otherworldliness. “It’s 100 years later,” says Ms Dewar, “and things kind of feel the same”. ■

---

https://www.economist.com/the-americas/2025/05/29/why-latin-american-surrealism-is-surging-in-a-down-art-market

The eloquently silent voice

Venezuela’s sound of silence

The people abstain from voting in parliamentary elections as the United States turns oil sanctions back on

May 29, 2025 01:17 PM | Caracas

VENEZUELANS ARE calling it the “ghost election”. On May 25th the regime of President Nicolás Maduro staged a vote to elect governors, mayors and National Assembly representatives. Turnout appeared pitiful. Polling stations were deserted. “Nothing will change with this farce,” says an octogenarian voter in the working-class district of Petare in the capital, Caracas, who cast a ballot only “out of habit”.

The government triumphantly claimed a turnout of 43%. Meganálisis, a pollster, puts the real figure at 14%. Most Venezuelans have little desire to vote after what happened in last July’s presidential contest. The opposition candidate, Edmundo González, backed by a popular former congresswoman, María Corina Machado, won in a landslide, getting 67% of the vote. But that result, confirmed by official voting-machine printouts, was not declared. The national electoral authority, an arm of the regime, concocted a victory for Mr Maduro. Hundreds of government critics have since been imprisoned. Mr González is in exile, Ms Machado in hiding. This time she called for Venezuelans to abstain.

Her supporters see the low turnout as a victory. But the electoral map is now the solid red of a one-party state, without the regime even needing to cheat. The opposition is down to its last governorship; the ruling United Socialist Party of Venezuela (PSUV) has 23. That tally includes, absurdly, the "state" of Guayana Esequiba, an area bigger than Greece which makes up two-thirds of neighbouring Guyana and has long been claimed by Venezuela. The regime decreed it be added to official election maps in 2023. No votes were cast within the territory. Instead its "governor" was chosen by a few voters in Venezuela's Bolívar state, across the border.

When the new legislative term starts, on January 25th next year, the PSUV will control 253 of the 285 seats. The 29 others will be filled by a mixed opposition, phoney and genuine. The latter includes Henrique Capriles, an ex-governor and two-time former presidential candidate, who broke with Ms Machado before the latest election and told voters to turn out, saying that voting is a rare opportunity for resistance against the regime.

A different kind of vote

Despite already being the beneficiary of a version of democracy whereby his victory seems guaranteed, Mr Maduro hopes to make it even more certain. As he cast his vote he said he intended to change the constitution so that Venezuela would move towards a "communal" electoral system. He has not divulged details, but it could mark the end of the country's current, albeit abused, model of the representative vote. Elected offices, including the presidency, might instead be chosen by "communes", whose loyalty is pre-vetted.

Still, economic headwinds are gathering. On May 27th the exemptions from sanctions that the United States had granted to Western oil companies in Venezuela, including Chevron, an American giant, expired. The regime will have to resume selling its oil on the black market at a discount, as it did between 2019 and 2023.

Chevron alone exported around 240,000 barrels per day of crude from its Venezuelan operations, about a quarter of the country's total oil output. Now its joint-venture partner, the lumbering state oil company PDVSA, will have to take over 100% of the operation. Logistical complications such as the import of diluents will probably slow production. Francisco Monaldi at Rice University in Houston forecasts "an overall drop of 80,000-150,000 b/d in the next 12 months". The accompanying financial hit, he predicts, will be about $5bn a year, around 30% of the petrostate's current oil revenue. The ensuing shortage of dollars will probably increase inflation and push the economy, which has recently stabilised, back into recession.

Donald Trump's government lacks consensus on the best way to deal with Venezuela. The secretary of state, Marco Rubio, has consistently supported a "maximum pressure" strategy. Mr Trump's envoy for special missions, Richard Grenell, had talked of "building trust" with the regime in exchange for the release of American prisoners if Venezuela accepts migrants deported from the United States.

For now, Mr Rubio's view prevails. His State Department has confirmed that all oil licences "which benefited the regime of Nicolás Maduro" will expire. It also repeated its warning that all Americans in Venezuela "should leave the country immediately". Mr Trump's decision to adopt a hard line was apparently finally swayed by congressional Republicans from Florida who warned that they would not support his spending-bill vote on May 22nd if Chevron's licence was renewed.

From her hiding place Ms Machado sends messages to cheer her supporters. One fillip for her movement, revealed on May 5th, was the apparent escape of five senior members of her electoral-campaign team from the residence of the Argentine ambassador in Caracas. They had been holed up there, with state security forces patrolling outside, since March 2024. Mr Rubio said they had got out thanks to a “precise operation”. Venezuela’s government insists it was through “negotiation”.

Ms Machado says the regime is weak. In a message released on May 26th to the people of Venezuela, she congratulated the millions who had followed her advice not to vote. “You have the power,” she said. The majority made its voice heard in Venezuela’s last two elections: first by voting, then by abstaining. It plainly wants to see the end of Mr Maduro’s rule. But how? ■

---

https://www.economist.com/the-americas/2025/05/29/venezuelas-sound-of-silence

Asia

- ## If India chokes less, it will fry more
  Climate change :: Pollution may have shielded it from the worst of global warming. That will change
- ## Can India be cool?
  Be more chill :: India must both promote and prepare for a surge in air-conditioners
- ## Myanmar’s scam empire gets worse, not better
  Compounding misery :: Fewer Chinese are forced to come, but more workers are coming by choice
- ## Australia’s conservatives bicker in the political wilderness
  The unwilling of the coalition :: The Liberal-National coalition will be resurrected, but its prospects look grim
- ## Narendra Modi has kept his vow to make India like Gujarat
  Banyan :: Better infrastructure and higher incomes, but also greater segregation and discrimination

Article not available.

This article is supposed to be read in a browser.

https://www.economist.com/interactive/asia/2025/05/28/if-india-chokes-less-it-will-fry-more

Be more chill

Can India be cool?

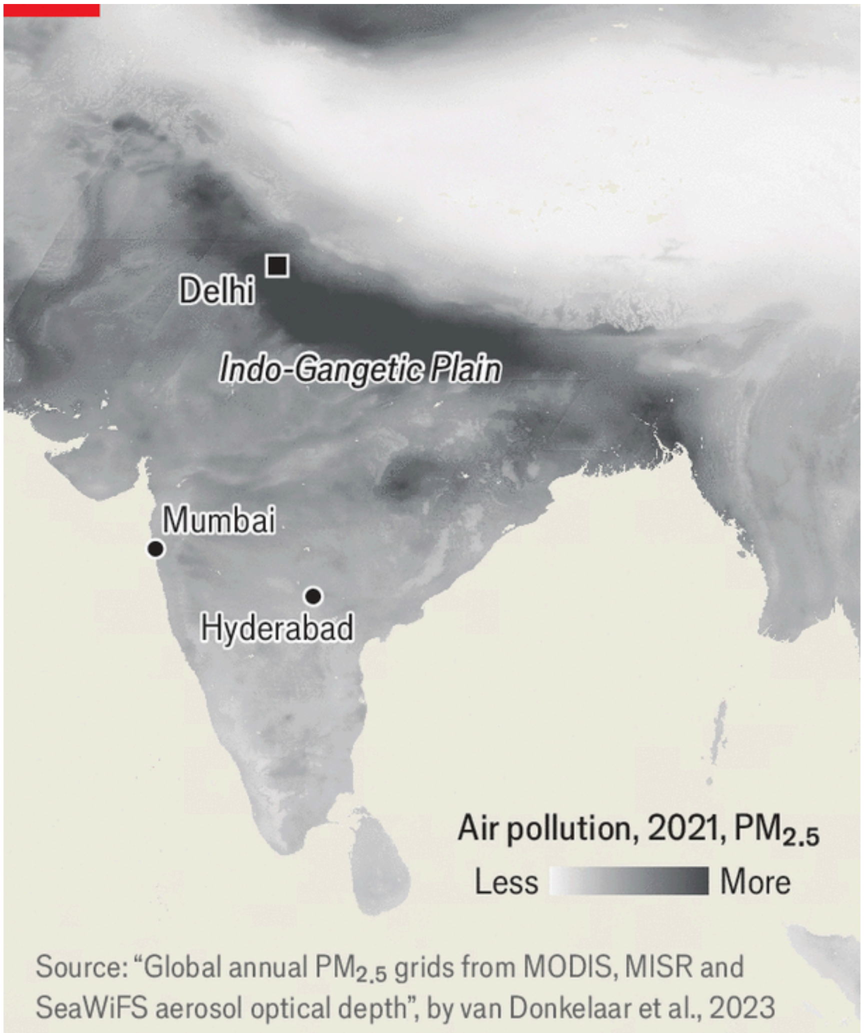
India must both promote and prepare for a surge in air-conditioners

May 29, 2025 02:47 PM | MUMBAI

MORE EXTREME, less liveable heat is inevitable for India. Last year was the hottest ever recorded there, with some places seeing temperatures in excess of 50°C. Ten of the country's 15 warmest years on record have occurred in the past decade and a half. Extreme heat will sap productivity, slow economic growth, lower wages and raise health-care costs. An India that cannot stay cool cannot get rich.

Air-conditioning, a century-old technology, offers a solution. Indians who can afford it are buying it in droves. Annual sales more than doubled in the five years to 2024, to 14m units. Angshuman Bhattacharya of EY Parthenon, a consultancy, says 2024 was "one of the most blockbuster years, and most companies ran out of stocks". Samsung, a manufacturer, expects sales to rise by another 20-25% this year.

India is treading a well-worn path. As hot countries get richer, air-conditioners, once luxuries, become necessities. But in India extreme heat and high levels of humidity that make fans less effective have made them essential long before average incomes have risen to a level where they are widely affordable. Just 10% of households boasted an air-conditioner in 2023.



There are various ways to make them cheaper. Manufacturers want the government to lower sales tax, now at the highest rate, 28%. The Indian government has put in place incentives for makers of white goods in the hope that it will both lower prices and create jobs.

Inevitably, air-conditioner penetration in India will soar. That will cause problems of its own. The biggest is a tremendous surge in energy demand. During a heatwave last May peak demand in the afternoon crossed 250 gigawatts, with about a fifth of that accounted for by air-conditioners. The energy they consume could lead to power shortages. Moreover, air-conditioners themselves cause their immediate environment to get hotter, and the hydrofluorocarbons (HFCs) they use as coolants exacerbate climate change.

What to do? One answer is to encourage simple tweaks to homes and buildings, such as painting roofs white to better reflect heat. Changing building codes to promote insulation, cross-ventilation and vents and ensuring shade from trees, would also help. But such policies' effects will take decades. Much more urgent is to raise minimum energy-efficiency standards for air-conditioners.

Most appliances sold in India come with labels that rate their efficiency from one to five stars. Three-star air-conditioners account for over 60% of sales. Largely because of the high up-front cost, five-stars make up under a quarter. Yet India's standards are so low that the vast majority of units bought would not be eligible for sale in China, says Nikit Abhyankar of the India Energy and Climate Centre at the University of California in Berkeley. New standards coming into effect next year are only somewhat higher. He proposes setting minimum standards at the level of the most efficient models available in India today, with similar ratchets in 2030 and 2033. This could lower peak energy demand from air-conditioners by a third.

This need not cause prices to spike. Mr Abhyankar points out that other countries' experience shows that "efficiency revisions have always been accompanied by price reductions". In Japan efficiency nearly doubled in the 25 years to 2015 while inflation-adjusted prices dropped by four-fifths.

India has already ratified a global treaty to phase out 85% of HFCs by 2047. Radhika Khosla of the Oxford India Centre for

Sustainable Development calculates that, by setting higher efficiency standards, promoting "passive" cooling in building codes and retrofitting, and speeding up the reduction of HFCs, global emissions from cooling could fall by 66%, with India playing a big part.

The government is weighing its options. One is to offer buybacks for older units to encourage the switch to higher-rated ones. Another is to try to replicate its success in bulk-buying and selling energy-effiicent LED tubelights and bulbs at low cost. Subsidies and higher standards are not off the table either. It has a tricky task: ensuring more Indians have access to cooling without the surging emissions that hundreds of millions of new air-conditioners would produce. Yet it must do both. ■

Correction (May 29th 2025): *This article has been amended to clarify that Radhika Khosla's estimate of a possible 66% reduction in emissions from cooling referred to the world, not just India. Sorry for the error.*

---

https://www.economist.com/asia/2025/05/29/can-india-be-cool

Compounding misery

Myanmar’s scam empire gets worse, not better

Fewer Chinese are forced to come, but more workers are coming by choice

Jul 14, 2025 01:16 PM | Bangkok

Myawaddy blues

FOR SAMUEL, a sports teacher in Sierra Leone, a Facebook message promising a similar job in Thailand at ten times his salary was irresistible. Yet his dream curdled when he landed in Bangkok. Spirited across the border into Myanmar, he was tortured and coerced into the online-scam industry, and confined for ten months in a vast compound secured by barbed wire, high walls and armed guards. His job was to pose as an affluent Singaporean woman to defraud victims on eBay.

Deliverance, of a sort, arrived in February. He was one of some 7,000 people released from scam compounds in Myawaddy, a town on Myanmar’s border with Thailand that is among the world’s largest online-fraud hubs. According to some estimates, this industry dwarfs the global illicit-drug trade in value. The raid was a mere dent; the United Nations reckons that at least 120,000 people remain captive in such facilities in Myanmar. Globally, this illegal business may have as many as 1.5m coerced and voluntary workers, according to the United States Institute of Peace, a think-tank in Washington.

After more than two grim months in a camp in Myanmar, on May 8th Samuel was able to fly to Freetown, Sierra Leone's capital. Around 400 people, mostly from Ethiopia, remain stranded in Myawaddy. Repatriation gets tied up in red tape involving embassies in Thailand or Myanmar, when for many Africans the nearest diplomatic mission might be in Beijing or Tokyo. And many African governments are unable or unwilling to pay for a flight home. Those left behind are held in military camps or repurposed scam compounds, mostly run by the Kayin Border Guard Force, a powerful militia. Access to food and water is limited. Several people are reported to have died since February for want of medical care.

Scam operations continue to grow. Judah Tana of Global Advance Projects, an NGO on the Thai-Myanmar border, says people from around the world, including India and the Philippines, are "flocking" to the fraud compound. Many now arrive voluntarily, aware that their role will involve conning others online. Previously, most scammers' journeys to Myanmar involved a flight to Bangkok airport, a seven-hour car ride to Mae Sot, a Thai town on the Myanmar border, and being smuggled across. Thailand has made this journey harder. Mr Tana says people have to take a circuitous route from Bangkok to Mae Sot, swapping cars around ten times.

He says fewer Chinese nationals are appearing at the border. This is perhaps unsurprising—China's government was behind the release of Samuel and the others from scam compounds in February. In January the trafficking of Wang Xing, a Chinese actor, into a Myanmar scam compound ignited outrage in China, prompting the government to press the Thai and Myanmar authorities to act. This pressure, applied to local militias, prompted them to shed what Jacob Sims, an expert on transnational organised crime in South-

East Asia, terms the “low-performing, bottom 5-10% of their workforce”. Samuel and his fellow detainees owe their freedom less to a crackdown than to a calculated pruning of the workforce. Dismantling this vast, criminal enterprise will require a much broader, sustained effort. ■

---

https://www.economist.com/asia/2025/05/29/myanmars-scam-empire-gets-worse-not-better

The unwilling of the coalition

Australia’s conservatives bicker in the political wilderness

The Liberal-National coalition will be resurrected, but its prospects look grim

May 29, 2025 12:49 PM | Melbourne

THE COALITION, a partnership of the right-wing Liberal and National parties, is so established in Australia that it has acquired a capital “C” and has ruled the country for around two-thirds of the past century. Earlier this year opinion polls suggested it would win the election held on May 3rd quite comfortably. Instead, the incumbent social-democratic Labor Party won by a landslide; the Liberals lost most of their seats in Australian cities; and the Coalition broke up on May 21st. They reunited a week later. But the conservatives’ path back to power looks long and narrow.

At the polls, the Coalition’s flirtation with Trumpism proved disastrous. Voters saw Peter Dutton, who led the Liberals into the election, as negative and out of touch with modern, multicultural Australia. He even lost his own seat. His successor as party leader is Sussan Ley, the first woman in that role, who has to take on the task of rebuilding a shell-shocked political movement. Members of the Liberals' moderate faction argue that, to attract women, young people, aspirational immigrants and business-owners, it should re-embrace the core principles of liberalism. Charlotte Mortlock, who leads an initiative to boost the representation of women in Liberal ranks, notes that while the "average" Australian is a 37-year-old woman, she estimates the average Liberal member is a man in his 70s. Many argue part of the solution is a gender quota, which the party old guard has long resisted.

Ms Ley will have to ignore calls from the party's right wing and media outlets owned by Rupert Murdoch to intensify culture wars over immigration and climate change. During the election campaign Ted O'Brien, the Liberals' new deputy leader, floated the idea that Australia could consider following Donald Trump and America in quitting the Paris climate-change agreement. Some National MPs would go further, and ditch altogether the Coalition's agreed goal of reaching net-zero emissions by 2050.

The break-up of the coalition has exposed the two parties' fundamental ideological differences. Whereas the Liberals are more consistently pro-market, the Nationals want government to invest in phone and internet reception for their rural constituents. One of the policies over which the Coalition split was the Nationals wanting government power to break up Australia's big supermarkets (the Coles and Woolworths chains together have around 65% market share), a level of intervention that troubles Liberals.

That David Littleproud, the Nationals' leader, insisted that a Coalition agreement be urgently negotiated, even as Ms Ley was nursing her mother on her deathbed, further dented the conservatives' image. Yet the Liberals swallowed their discomfort and agreed to back powers to force retailers seen to be abusing market power to divest. They also agreed not to drop a call for lifting a national moratorium on nuclear power, though a proposal to build seven nuclear power plants across Australia was partly blamed for the Liberals' catastrophic electoral performance.

The infighting adds to a sense that the Coalition is chaotic and divided. Malcolm Turnbull, a former Liberal prime minister, said the Nationals were "holding a gun to the Liberal Party's head". He said this was "stupid politically", because it would feed a perception that the tail was wagging the dog. (The Liberals hold 28 lower-house seats to the Nationals' 15.)

Australians, who have lost several prime ministers to backroom party tussles over the past 15 years, value stability in politics. Having lost so many seats this year, the Coalition may face years out of government. Healthy democracy requires a competent opposition. It is not just conservatives who have an interest in the Coalition's getting its house in order. ■

---

https://www.economist.com/asia/2025/05/29/australias-conservatives-bicker-in-the-political-wilderness

| Section menu | Main menu |

Banyan

Narendra Modi has kept his vow to make India like Gujarat

Better infrastructure and higher incomes, but also greater segregation and discrimination

May 29, 2025 12:49 PM

THE TWO most consequential South Asians of the 20th century were Gujarati: Mohandas Gandhi and Muhammad Ali Jinnah, respectively the "father of the nation" of India and of Pakistan. So was Sardar Vallabhbhai Patel, who as India's first home minister cajoled (or bullied) 565 "princely states" into joining the union.

The four most powerful men in India today are Gujarati. At the top of politics sit Narendra Modi, the prime minister, and his right-hand man, Amit Shah, the home minister and chief strategist of the ruling Bharatiya Janata Party (BJP). The titans of Indian industry are Mukesh Ambani and Gautam Adani, whose conglomerates run everything from ports to telecoms. When Mr Modi became prime minister in 2014, he flew to Delhi in Mr Adani's private jet.

Yet for all their influence in making the country, Gujaratis were laggards when it came to shaping its culture. Until Mr Modi's reign, India’s idea of itself was built by an Anglophone elite and a Bengali-heavy intellectual class. Gujaratis, in keeping with the stereotype attached to them, focused on business. They play a big role in the financial markets of Mumbai, own conglomerates in east Africa and run diamond-trading houses in Europe and America. Britain is a nation of Gujarati shopkeepers.

If an Indian thinks about Gujaratis beyond their role in business, it is for their vegetarianism or the state’s prohibition of alcohol. Some recall the pogrom of 2002 in the state, in which about 1,000 people, mostly Muslims, were killed. Older ones will point out that Gujarat has a history of communal violence dating back to the late 19th century. Yet there is more to Gujarat than business, delicious food and rioting. With some 70m people crammed onto a rugged landscape on India’s west coast, Gujarat is as dazzling in its diversity as India taken whole. This diversity is what Salil Tripathi, a writer based in New York, sets out to explore in his new book, “The Gujaratis”.

Books about a particular community are usually of interest only to the community in question. But Gujaratis have outsize importance in today’s India. Mr Modi campaigned in 2014 on a promise to turn all of India into Gujarat. As its chief minister for almost 13 years, he made it synonymous with efficient governance, ease of doing business, high economic growth and first-class infrastructure. As for that unfortunate affair with the pogrom? Many voters were willing to move on. For others it was part of the appeal. At a convention in Ahmedabad last month Rahul Gandhi, the leader of the opposition, told members of his Congress party that to regain power, “the path goes through Gujarat.”

Who, then, are the Gujaratis? Mr Tripathi takes an expansive view: anyone who speaks the language, lives in Gujarat, or comes from the state. That includes not just Hindus but Jains, Parsis, Dalits, tribal groups and several types of Muslims: “Gujarati is a language. It is not a diet, nor a religion, and it is certainly not a caste.” The language itself is rich in loan words from Hindi, Urdu, English, Persian and Arabic, a reflection of Gujarat's ancient trade links.

Gujarat's cosmopolitanism was both a cause and an effect of its mercantile instincts. The state's harsh climate encouraged rulers to promote trade, attracting entrepreneurs of all persuasions. Doing business, in turn, required pragmatism and accommodation. Even the state's famed vegetarianism and teetotalism are a bit of a myth. A government survey in 2021 found that 40% of Gujaratis consume meat, almost certainly an understatement since many may not admit it. Bootlegging of alcohol is both rife and tolerated. Business is business.

Yet Gujarat has lost its cosmopolitan vibrancy in recent decades, laments Mr Tripathi. Ahmedabad is India's most religiously segregated city. Vegetarians enforce their diet on entire neighbourhoods, even chasing away delivery riders. Despite making up a tenth of the population, no Muslim has been elected to Parliament since 1989. The BJP has held power uninterrupted since 1998.

Mr Modi has now led India for nearly as long as he did Gujarat. He has raised incomes and overhauled infrastructure, even if India remains a hard place to do business and reforms to governance have been neglected. But where India today most closely resembles Gujarat is in its growing communal segregation, increasing religious tensions, the mounting assertiveness of vegetarians, and attacks on its cosmopolitan instincts. In that sense, at least, Mr Modi has more than fulfilled his promise. ■

---

https://www.economist.com/asia/2025/05/29/narendra-modi-has-kept-his-vow-to-make-india-like-gujarat

China

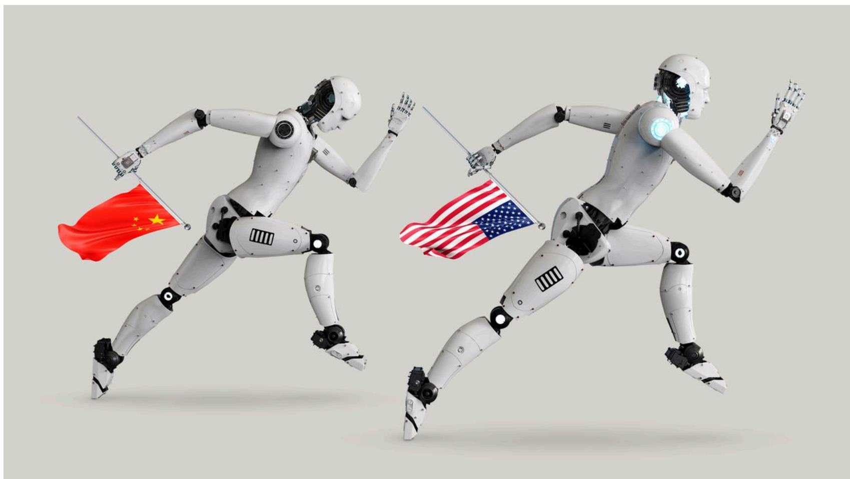
- ## Xi Jinping’s plan to overtake America in AI
  The superpower technology race :: China’s leaders believe they can outwit American cash and utopianism
- ## China’s carbon emissions may have peaked
  All that hot air :: If so, it is a significant, symbolic moment
- ## China’s crazy reverse-credit cards
  Chinese consumers :: In the People’s Republic you “pay now, buy later”

The superpower technology race

Xi Jinping’s plan to overtake America in AI

China’s leaders believe they can outwit American cash and utopianism

May 29, 2025 04:24 PM



On May 21st J.D. Vance, America’s vice-president, described the development of artificial intelligence as an “arms race” with China. If America paused because of concerns over AI safety, he said, it might find itself “enslaved to PRC-mediated AI”. The idea of a superpower showdown that will culminate in a moment of triumph or defeat circulates relentlessly in Washington and beyond.

This month the bosses of OpenAI, AMD, CoreWeave and Microsoft lobbied for lighter regulation, casting AI as central to America remaining the global hegemon. On May 15th President Donald Trump brokered an AI deal with the United Arab Emirates that he said would ensure American “dominance in AI”. America plans to spend over $1trn by 2030 on data centres for AI models.

The “DeepSeek moment” in January, when the Chinese company unveiled a large language model (LLM) almost matching the capabilities of an OpenAI model, confirmed that China is snapping at the heels of America. Yet a recent meeting of the Communist Party's leadership suggests it is preparing for a different kind of strategic race. "American firms focus on the model, but Chinese players emphasise practically applying AI," says Zhang Yaqin, a former boss of Baidu, a tech giant, now at Tsinghua University.

This focus on practical applications—in factories and for consumers—is how China stole a lead in e-commerce and e-payments. On May 19th Jensen Huang, the boss of Nvidia, a chip firm, warned that America is in danger of being left behind again. If American firms do not compete in China as it builds a "rich ecosystem", Chinese technology and leadership "will diffuse all around the world", he told Stratechery, a newsletter.

America's view of AI is often abstract and hyperbolic. LLMS are expected to match humans' cognitive abilities. Boosters believe this Rubicon of artificial general intelligence (AGI) will be crossed quite soon. Sam Altman, the boss of OpenAI, reckons the next step could be superintelligent systems that actually surpass human abilities in cognitive tasks.

Being the first to develop a model that can recursively improve itself (some call this "take-off") may create a decisive advantage comparable to a nuclear bomb. Barath Harithas of CSIS, a think-tank, notes that American planners believe "the first country to secure the AGI laurel will usher in the 100-year dynasty." America's export controls on semiconductors are there to ensure China comes second.

It is true some Chinese entrepreneurs are also believers in the arms race. Liang Wenfeng, DeepSeek's founder, has made developing AGI his firm's mission and reckons it may arrive in as little as two years' time. Less noticed is that the government is betting on a different approach.

Mr Liang's exploits won him a meeting with Li Qiang, the prime minister, in January. But days later a vice-premier in charge of the party's science effort seemed to rebuke the American approach, stating: "China will not blindly follow trends or engage in unrestrained international competition." Last month *Qiushi*, an authoritative party journal, described AGI as a tool "to promote human understanding and transformation of the world". In China the term for AGI, *tongyong rengong zhineng*, typically refers to a "general-purpose AI" that is applied and has multiple uses, rather than to the Western concept of a superhuman, or self-improving, system.

In April the party's Politburo met for its second-ever study session on AI (the first was in 2018). At the meeting, President Xi Jinping told his lieutenants they should focus on how it can be applied to everyday uses: more like electricity than nuclear weapons. At least a dozen prominent researchers and government officials have aired scepticism over the reasoning ability of LLMS. Wu Zhaohui, a former minister of science and the current vice-president of a state think-tank, suggests China needs to explore different paths to AGI. Chinese experts generally expect AGI to take longer to arrive than do their American counterparts, notes Mr Zhang of Tsinghua.

"While American tech leaders often frame AI with Utopian aspirations, China's government appears more focused on using it to solve concrete problems like economic growth and industrial upgrading," says Karson Elmgren of RAND, an American think-tank. The government's annual work report in March mentions a new campaign called "AI+", which prioritises firms adopting AI, including in physical facilities using automated robots.

A protracted war

This application-oriented approach reflects a shortage of AI talent and chips, or "basic theory and key core technologies", Mr Xi said in April. "We must face up to the gap." Liu Zhiyuan of Tsinghua

University compared China's approach to an argument in "On Protracted War", a series of lectures by Mao Zedong in 1938: a weak opponent can tire, and outlast, a strong one. On May 8th *Qiushi* published an article by Tang Jie, also of Tsinghua, urging China to follow American innovation and create applications cheaper and faster.

China's emerging AI strategy seems to have two parts. One is to undercut the monopoly America has over advanced AI, by replicating Western innovations and making the model weights freely available, or "open source", as DeepSeek has done. The idea is that the value AI generates will accrue to those who apply it, not to the model-makers. By the time AGI arrives, China will be better placed than America, with "robust social applications, search engines, agents and hardware in place," notes Kai-Fu Lee, a prominent Beijing-based entrepreneur. He argues that by amassing users and data early, Chinese applications can build a moat· that Western competitors will struggle to cross, just as TikTok, a video app, has done.

Alongside the push to deploy AI faster and more cheaply, there is an effort to create moonshots that bypass America's trillion-dollar bet on LLMS. "If we merely follow the well-worn American path—computing power, algorithms, deployment—we will always remain followers," said Zhu Songchun, boss of the Beijing Institute for General Artificial Intelligence, a state-run laboratory dedicated to advanced AI, in a speech last month. In April the Shanghai government offered funding for researchers advancing towards AGI using new kinds of architectures, such as models that interact with the real world through imagery, others that can control computers with the mind, or algorithms to emulate the human brain.

Will China's approach work? A new IMF study concludes AI could boost America's economy by 5.6% in ten years' time, compared with 3.5% for China, largely because China's relatively small services sector means that, even if AI diffuses fast in manufacturing, the productivity gains are capped. Yet what is clear is that China is accelerating down a different track. One sign of this is Apple: in order to reverse a decline in its revenue in China, it desperately needs a local partner to provide AI services which customers now expect. But reports suggest America may block it from doing so. Without local AI applications, American tech products, such as the iPhone, risk becoming also-rans in China, and perhaps, in time, elsewhere. ■

---

https://www.economist.com/china/2025/05/25/xi-jinpings-plan-to-overtake-america-in-ai

| Section menu | Main menu |

All that hot air

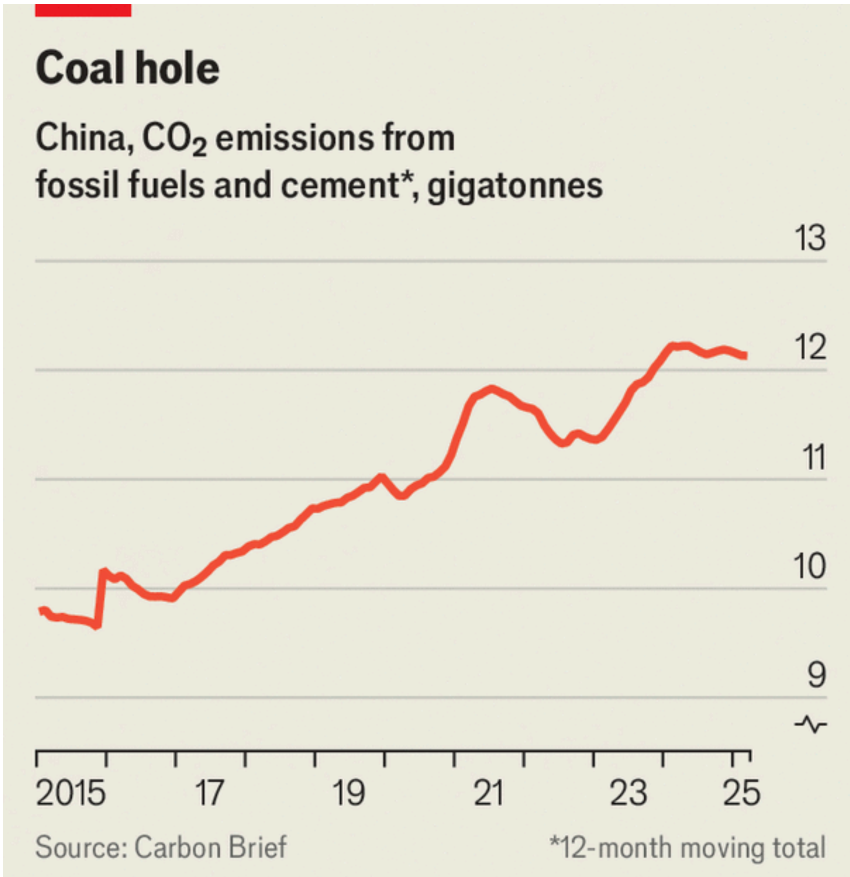
China’s carbon emissions may have peaked

If so, it is a significant, symbolic moment

May 29, 2025 12:49 PM | BEIJING

THE RAPID growth of China’s economy over the past few decades has come at a high environmental cost to the planet. Mountains of coal have been burned to power factories, releasing tens of billions of tonnes of carbon dioxide into the atmosphere. Still more has been belched out in the production of vast quantities of steel and cement to feed construction. Last year China released over 12bn tonnes of the gas, accounting for over 30% of the world’s total emissions.

But there are signs that China’s carbon-dioxide emissions are now decreasing. Over the 12-month period which ended in March, emissions were 1% lower than the preceding 12 months, according to analysis published on May 15th by the Centre for Research on Energy and Clean Air (CREA), a think-tank in Finland. The news has prompted some cautious celebration among environmentalists. China’s carbon-dioxide emissions are so huge that, if the trend continues and they are shown to have actually peaked, that could alter the trajectory of global emissions. (America's peaked in 2007, Britain's in the 1970s.)



China's emissions have fallen before. In 2022 they dipped after the country's strict covid-19 controls strangled economic activity. But when factories restarted production, they shot back up again. This time, China's factories are humming away even as emissions are falling.

That is because they are becoming less reliant on burning fossil fuels for power. Coal is still the mainstay of China's grid. But the country has also been installing more clean energy than the rest of the world put together. About half of the nuclear power stations under construction worldwide are in China. Last year the country installed 79 gigawatts (GW) of wind power on top of an existing 440GW (for comparison, the entire power capacity of Britain, from all forms of generation, is about 100GW).

Solar power is being installed at a particularly blistering pace. A record 277GW of capacity was plugged into the grid during 2024 alone, on top of an existing 600GW. (America's total solar capacity is around 240GW.) The speed of additions has only accelerated in 2025. Deserts and hillsides across the country are being blanketed with dark silicon panels. All this has allowed clean-power production to outpace growth in demand.

A few things could still push China's emissions up again. One is the weather. If it gets too hot and dry, then reservoirs will run low and hydropower, which supplies about a tenth of China's power, could falter. At the same time, demand for electricity would spike as people turn up their air conditioners to full blast.

To make up the difference, officials would probably end up burning more coal. They will want to avoid a repeat of 2022, which saw power cuts in southern China. And this summer is shaping up to be another hot one. Crops across northern China are already wilting. The National Energy Administration has warned that peak electricity demand could be about 100GW higher than in 2024.

Stalling renewables

Another risk is that the renewable roll-out could start to slow down, even as power demand continues to increase, says Lauri Myllyvirta of CREA. China's power grid was set up around coal. It will require big upgrades to allow all the renewable energy coming online to be transferred over long distances or stored (since it can be generated only when nature co-operates). China also needs reforms to its power market to make sure clean power is efficiently dispatched to regions where it is needed. The coal lobby, a powerful political force, is trying to delay the reforms.

After years of breakneck expansion, China's renewables industry is also now facing some new uncertainties. At the moment, when companies build a wind or solar farm, they can sell the power it generates to the grid at a guaranteed rate. But, starting on June 1st, newly built farms will be forced to sell their power at market rates, which will probably be lower. Some solar-panel manufacturers, meanwhile, are struggling to make ends meet amid a glut of production.

Still, the question is no longer about whether China's emissions will peak. If it has not already happened, it is likely to do so in the next couple of years. Analysts are more concerned about what happens next. China's emissions do not just have to fall but must do so quickly to avoid undercutting global efforts to combat climate change. China has promised to bring its net emissions to zero, ie, become "carbon neutral", by 2060. To do that they will have to fall a lot faster than 1% a year. ■

---

https://www.economist.com/china/2025/05/29/chinas-carbon-emissions-may-have-peaked

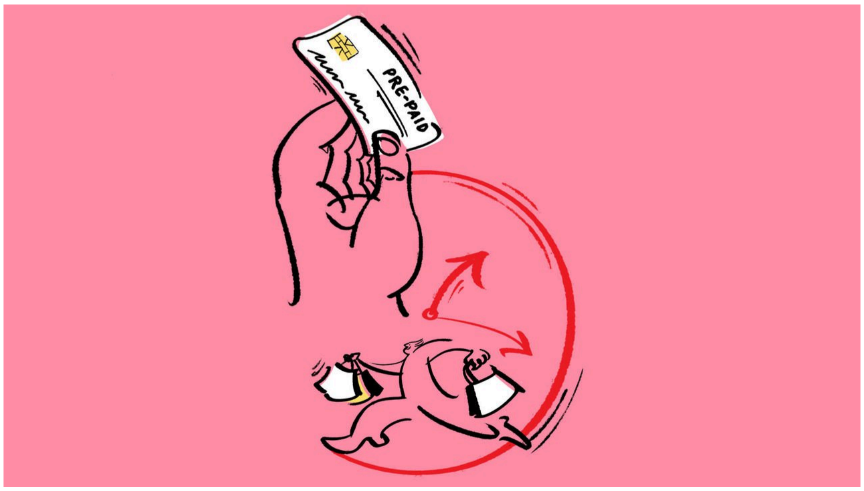
| Section menu | Main menu |

Chinese consumers

China’s crazy reverse-credit cards

In the People’s Republic you “pay now, buy later”

May 29, 2025 02:28 PM | BEIJING



TO HELP ITS economy weather the trade war, China wants its consumers to splash out. The government has plans to subsidise consumer loans, and banks have been permitted to raise borrowing limits for creditworthy customers. But the question of who lends to whom on China’s high street is not straightforward. In the West, retailers extend credit to their customers. In China it is often the other way round.

It works like this. When you get a haircut or eat at a restaurant, the seller encourages you to pay in advance for multiple transactions. You might pay upfront for ten haircuts, or put 1,000 yuan ($140) on a pre-paid card, and the business will, in return, give you extra credit to spend. Western credit culture encourages consumers to “buy now, pay later”. In China, it is “pay now, buy later”.

Such schemes are not unique to China, but they are unusually common. A report last year calculated that over 1.5bn pre-paid cards were issued in 2023, worth almost 740bn yuan. The firms lock in future sales and obtain money up front for their business (for a typical issuer, the cards account for over 10% of their revenue). In a reversal of normal vendor financing, the customer is, in effect, lending to the enterprise.

The bonus the firm adds to the customer's deposit rises with the size of the initial outlay, and can be large. Customers putting down 10,000 yuan can receive an extra 2,000 yuan to spend in the store. If they use the money within a year, that amounts to an annual "interest" rate of 20%, paid in kind.

Loyalty schemes are popular in most countries. Customers might get their tenth coffee or loaf of bread free after paying as they go for the first nine. The pre-payment model is familiar to patrons of gyms and yoga studios. But those payments are usually for a fixed schedule of sessions, not a fixed number of them. China's pre-paid cards are similar to gift cards. But such cards often go unredeemed. In China, most pre-paid cards do not expire.

The risk is that the business itself might expire, and you lose any unspent portion of your stake. That now seems to be happening a lot. A survey in 2021 by *China Youth Daily*, a newspaper, found that over 80% of respondents had bought into pre-paid schemes, and over 45% of them had been burned when merchants folded. Many bankruptcies are genuine, but now some scammers are setting up pre-paid schemes, too.

Anything that causes public anger will always draw attention from the Communist Party. In March the supreme court announced new guidance on the regulation of pre-paid deals. From May 1st the court's interpretation of existing law means that firms may not dodge their obligations by changing their name or ownership structure. Commercial landlords are also now responsible for vetting the reliability of their tenants. The owner of a shopping mall can be liable for a tenant that leaves its customers in the lurch. A commentary in *Legal Daily*, a prominent official newspaper, noted that the new protections around pre-paid schemes will “let the people dare to consume…thereby injecting lasting impetus into economic growth”.

Some merchants are making their offers even more attractive. On May 1st a reflexology spa in Beijing pitched a new plan. A deposit of 10,000 yuan will earn a bonus of 7,200 yuan to be spent on stress-relieving treatments. It is a long-established, upstanding place. Your stressed-out correspondent almost dared to consume. ■

---

https://www.economist.com/china/2025/05/29/chinas-crazy-reverse-credit-cards

| Section menu | Main menu |

Middle East & Africa

- ## Israel fuels three emergencies as its furious allies bail out
  The war in Gaza :: Binyamin Netanyahu has a lethal addiction to crises
- ## The losers of the new Middle East
  On the sidelines :: The tables have been turned on once-powerful countries
- ## What a massacre reveals about Abiy Ahmed’s Ethiopia
  Murder in Birakat :: The killing of civilians is part of a disturbing pattern
- ## Africans are building Putin’s suicide drones
  The Alabuga connection :: Russia is luring young African women to make weapons to attack Ukraine
- ## Afrobeats’ new groove
  Cultural globalisation :: Africa’s growing diaspora is transforming the continent’s musical exports

The war in Gaza

Israel fuels three emergencies as its furious allies bail out

Binyamin Netanyahu has a lethal addiction to crises

May 29, 2025 02:18 PM | JERUSALEM

YOU MIGHT think it would be impossible for the inferno in Israel and Gaza to burn hotter. Yet Binyamin Netanyahu is fuelling three simultaneous emergencies: a humanitarian one in Gaza; a torching of support among European allies; and a constitutional crisis over who controls the security services, army and courts. The pressure on Israel and its institutions is almost unbearable for the country. A culminating moment is probably imminent. Whether that comes in the form of a reinvasion of Gaza that finally ruptures Israel's alliances and fractures its armed forces and society, or through a U-turn or ceasefire that triggers the prime minister's political demise, remains dangerously unclear.

Look first at Gaza, where the Israel Defence Forces (IDF) are poised to launch the main phase of a devastating new campaign. The IDF controls around a third of the strip (see map). Its strikes are killing dozens of Palestinians daily. Under its plan the IDF would retake 75% of it, pushing 2m people into zones with 25% of the land. The government says that its goal is to eradicate Hamas once and for all. But as they prepare for attack, some officers quietly concede they do not have enough soldiers for such an endeavour. They know, too, that Hamas will be able to recruit more teenagers and hand out more Kalashnikov rifles almost indefinitely.

The probable outcome is a further humanitarian catastrophe. To counter that charge, Israel's government claims it can get aid to Gazans without giving Hamas tacit control of it. On May 26th Israel launched a distribution network, using "hubs" to hand out weekly rations. The next day thousands of hungry people overran the area and work was suspended. Aid groups say the plan is woefully insufficient. The EU's top diplomat says the union does not back the venture and that aid must not be weaponised. Jake Wood, the head of the Gaza Humanitarian Foundation which runs the network, has just resigned, saying it was impossible to carry out the plan while adhering to the principles of "humanity, neutrality, impartiality, and independence”. If the proposal succeeds, which looks extremely unlikely, Israel plans to use the hubs to corral Gazans around them, while destroying what little is left of the strip.

The strikes and the apparent futility of any reinvasion are rupturing Israel’s backing in Europe, which has broadly supported the war against Hamas following the atrocities of October 7th 2023. Britain has suspended talks on a new trade deal and 17 members of the EU, Israel’s largest trade partner, want to re-examine their association agreement. On May 27th Ursula von der Leyen, the European Commission president, called the civilian deaths “abhorrent”. On the same day Friedrich Merz, the German chancellor and a staunch supporter of Israel, said that “the current level of attacks on Gaza can no longer be justified.” Germany may limit military exports or restrict their use: it sold a third of the arms Israel imported during 2020-24. That would mark a huge shift for Israel’s indispensable European ally.

Even the White House is queasy. On May 25th Donald Trump said he would like “to stop that whole situation as quickly as possible”. He is keen to strike a deal between America and Iran; Israel is more interested in attacking Iran’s nuclear sites. Meanwhile, Mr Trump’s personal envoy, Steve Witkoff, is also trying to broker a new ceasefire in Gaza between Israel and Hamas. So far, Mr Netanyahu has refused to accept it, but some Israeli officials are increasingly confident that he will cave.

Only ever making things worse

As Gaza starves and Israel’s allies desert him, Mr Netanyahu is stoking a third crisis: a constitutional crunch with the security services, army and courts. He says he will appoint a messianic general as chief of the Shin Bet, the domestic-security service. Mr Netanyahu has tried to blame the agency, as well as the IDF, for being caught unawares by Hamas. Ronen Bar, the outgoing Shin Bet boss, has accused Mr Netanyahu of dodging his own responsibility for coddling Hamas before the war, trying to get the service to do his political dirty work and firing him to cover up allegations of corruption within the prime minister's office. After a battle in the supreme court, which ruled in his favour, Mr Bar will step down from his position of his own accord on June 15th.

His replacement is Major General David Zini, an infantry commander with no background in intelligence or domestic security. But the appointment will thrill the prime minister's hard-right base. Even his IDF comrades see him, a scion of a nationalist-rabbinical family, as messianic. Recently he warned of "the intention of bad Muslims to kill good Jews ever since Ishmael was born and until further notice". (Some Jewish traditions name Ishmael, the eldest son of the biblical patriarch, Abraham, as forefather of the Arabs.) In a meeting of the IDF general command, he is reported to have opposed any prisoner exchange with Hamas since "this is an eternal war". As Shin Bet chief he would have a role in authorising which Palestinians Israel would release in any potential deal. His position on the war runs counter to most Israelis, who want an end to the conflict with a ceasefire and the release of the remaining 20-odd living hostages.

The attorney-general, Gali Baharav-Miara, had told the prime minister that before replacing Mr Bar he must wait for legal guidelines, but Mr Netanyahu has ploughed ahead. The Shin Bet is tasked with protecting Israel's leaders. Mr Netanyahu is on trial for charges of bribery and fraud (which he denies), and is set to be cross-examined for the first time in a few weeks. He has in the past tried to get the Shin Bet to limit his court appearances for "security reasons". A new chief may be amenable to such requests.

The Shin Bet's mandate also includes protecting Israel's democratic institutions. Mr Bar accused the prime minister of telling him to use the service to monitor anti-government protesters. He says he refused to obey that order. He has also said he believes he was fired for investigating the allegations against Mr Netanyahu's staff.

The episode is sowing discord between Israel's security chiefs. The prime minister did not inform the IDF chief of staff, Lieutenant General Eyal Zamir, of the appointment of General Zini, a serving officer. On May 25th General Zamir put out a pointed statement that "this is not an endless war". He has clashed with the government, arguing that the survival of the hostages and the supply of food should take priority over clobbering Hamas. Even if legal obstacles force Mr Netanyahu to back down over the Shin Bet, he is eager to have this fight in order to distract Israelis, exhausted by the war, and to rally his base with another showdown between his hardline government and the legal establishment.

The prime minister knows his unpopular expansion of the war in Gaza is likely to fail to achieve its objectives and prompt a schism with Europe and probably America, too. He knows, too, that the alternative, a ceasefire, is likely to end his partnership with the far right, which demands the perpetual occupation of Gaza, and to trigger elections. With no way out, Mr Netanyahu's solution is familiar and devastating: to ignite ever more crises. ■

---

https://www.economist.com/middle-east-and-africa/2025/05/27/israel-fuels-three-emergencies-as-its-furious-allies-bail-out

On the sidelines

The losers of the new Middle East

The tables have been turned on once-powerful countries

May 29, 2025 12:48 PM | DUBAI

EIGHT YEARS ago Abdel-Fattah al-Sisi was on centre stage. Donald Trump gave the Egyptian dictator a warm welcome at the White House in April 2017. A few weeks later, when Mr Trump visited Riyadh, the Saudis invited Mr Sisi to join. The former general, who seized power in a coup in 2013, took pride of place alongside the American president and the Saudi king at the launch of a counter-terrorism centre.

Yet no one bothered to summon him when Mr Trump returned to Riyadh this May. Gulf rulers were keen to talk to the American president about their vision for the Middle East, and Mr Sisi did not fit into those plans. Instead he flew to Baghdad for a desultory Arab League summit, where he was one of only five heads of state to attend (most members of the 22-country club sent mere ministers).

Read all our coverage of the war in the Middle East

This is a moment of transition in the Middle East. Iran is weakened. New governments in Syria and Lebanon want to keep it that way. Gulf monarchs are keen on detente with both Iran and Turkey, their regional rivals. Mr Trump talks hopefully of a “bright new day”, a Middle East focused on commerce rather than conflict.

The region is a rough place for optimists: this moment may not last. Whether or not it does, it shows how the Middle East has already changed. Rich and seemingly stable, the Gulf states are at the hub of things, while some countries that were once influential are now just onlookers.

At the top of that list is Egypt, and Mr Sisi has himself to blame. He has wrecked the Egyptian economy, running up unsustainable public debts (around 90% of GDP) to pay for vanity projects and refusing the common-sense reforms that might boost a stagnant private sector.

That has left Egypt reliant on bail-outs. It has received at least $45bn in aid from Gulf states since 2013, according to data from the International Institute for Strategic Studies, a think-tank. It is also the IMF’s third-biggest debtor. But now it has competition. Lebanon will need at least $7bn to rebuild after last year’s war with Israel. Syria will need many times more.

At least for now, both countries seem a better investment than Egypt. Their governments are promising serious economic and political reform. Syria’s interim government wants to privatise state-run firms and woo foreign investors. Joseph Aoun, the Lebanese president, wants to disarm Hizbullah, a powerful Iranian-backed militia. Aid to those countries might help them achieve those goals; aid to Egypt merely buys time until its next financial crisis.

Iraq finds itself sidelined too. Iran has lost its closest state ally (the Assad regime in Syria) and its strongest proxy militia (Hizbullah).

That leaves it desperate to preserve its influence in Iraq, where it supports an array of armed groups. Some officials in the Gulf describe Iraq as a lost cause: the militias are too strong and too interwoven with the state to be uprooted. Ahmed al-Sharaa, Syria's new president, could not even attend the Arab League summit in Baghdad because of threats from pro-Iranian militias.

No matter: he flew to Riyadh instead, where he met Mr Trump and secured a promise that America would lift its sanctions. The Saudis are keen to support Mr Sharaa in part because a strong Syria would be a bulwark against Iranian influence. "Syria used to help balance Iraq," muses one Saudi official, referring to a time when the Assad regime was a rival of Saddam Hussein's dictatorship in Iraq. "Maybe it can play that role again," this time with Iran.

The stateless Palestinians have been at the heart of Arab affairs since 1948. But there is reason to think that they too are losing their centrality. Mahmoud Abbas, the eternal Palestinian president, has done nothing to clean up his corrupt administration in the occupied West Bank. Hamas offers an even bleaker model in Gaza: it has let Israel destroy the enclave rather than cede power.

Arab leaders still pay lip service to the Palestinian cause. In practice, though, they are trying to diminish its influence. Mr Aoun wants to disarm the Palestinian militias in Lebanon's refugee camps (and some members of Hizbullah have signalled their assent). The new Syrian government has pledged to do the same. There is serious talk in both countries about peace with Israel: not full normalisation, but at least an end to decades of conflict.

All of this makes for a remarkable turnabout. A year ago Lebanon and Syria seemed like lost causes as well. The former was dominated by Hizbullah and at war with Israel; its economy was still reeling from a financial crisis that shrank its GDP by 40%. The latter was a narco-state still in the grips of a resilient-looking Assad regime. Now Gulf states and America see them as the heart of a more prosperous Middle East. To stay that way, their governments will have to deliver results.

After all, many of Mr Sisi’s Arab allies had high hopes for him too a decade ago. Those hopes were dashed. For decades, the Middle East was divided along ideological lines. Perhaps now the split is between governments that can meet their promises and those that cannot. ■

---

https://www.economist.com/middle-east-and-africa/2025/05/29/the-losers-of-the-new-middle-east

Murder in Birakat

What a massacre reveals about Abiy Ahmed’s Ethiopia

The killing of civilians is part of a disturbing pattern

Jul 16, 2025 12:24 PM | Nairobi

TWO MONTHS ago, in the early afternoon of March 31st, gunfire erupted in Birakat, a town in the Amhara region of northern Ethiopia (see map). Panicked residents ran for cover as the Ethiopian army battled local militias. Five hours later the guns fell silent, briefly. But after the army had taken control of the town, according to three eyewitnesses, a massacre began.

In teams of four to six men, the soldiers combed through the town, dragging people from their homes and rounding them up in the streets. One man saw four women made to kneel outside the bus station, with their hands behind their heads. Four soldiers then shot them from behind. The same man later watched a different group of soldiers kill a priest outside his church. Another witness, returning to Birakat the following morning, saw piles of corpses in the streets. He counted 56 bodies, his brother among them. The Ethiopian army did not respond to multiple requests for comment on this story.

The events in Birakat add to mounting evidence that what is unfolding in Amhara resembles the abuses committed by the army and other armed groups during the war in Tigray, the region next door, where hundreds of thousands of people were probably killed between 2020 and 2022. They also shed light on the increasingly reckless approach to security taken by Abiy Ahmed, Ethiopia's prime minister since 2018.

Since 2023 Ethiopia's government has been in conflict with the Fano, a loose coalition of rebel groups that claim to be fighting for the interests of the Amhara, Ethiopia's second-largest ethnic group. The government has trained and equipped local militias to help its soldiers fight them. Yet the anti-Fano fighters are also Amhara, and there is little trust between them and the regular army. Asres Mare Damte, a Fano commander, claims plenty have defected to join the Fano.

The forces with which the government clashed in Birakat on the day of the massacre were anti-Fano militias, some of whom, Mr Asres claims, have since joined the rebels. It is plausible that Ethiopian soldiers, suspecting local militias of collaborating with their enemies, sought revenge by killing anyone they could find.

That fits a disturbing pattern of reprisal attacks against civilians. In January 2024 government troops summarily executed dozens of civilians in the town of Merawi, some 20km west of Birakat, according to an investigation by Human Rights Watch (HRW), an international monitor. Those killings followed an attack by the Fano on government forces.

During the war in Tigray the Ethiopian army killed at least 70 civilian men and boys in the town of Bora, according to a UN investigation, after an attack on their camp by Tigrayan rebels in December 2020. The following month Ethiopian troops frogmarched dozens of unarmed Tigrayan men to the edge of a cliff near the town of Mahbere Dego, where they filmed themselves shooting their captives and flinging their corpses over the precipice. On May 14th of this year the African Union's human-rights body held a hearing in a case accusing the army of extrajudicial killings, torture and sexual violence in Tigray.

Mr Abiy's spokesperson declined to comment on this story. The government has previously denied that its soldiers committed atrocities in Tigray and promised to investigate individual instances of alleged abuses. It says it is preparing to launch a transitional-justice programme to prosecute all war crimes committed in Ethiopia since 1995. But independent observers say the process is a charade. "Ethiopia has stalled and hampered any hope that those most responsible will be held to account," says Laetitia Bader, HRW's Horn of Africa director.

In part, civilians are suffering the consequences of Mr Abiy's approach to holding the country together. Since 2019 his army has been bogged down fighting various ethnic insurgencies. Some of his generals have publicly complained that their troops are exhausted.

Mr Abiy has repeatedly tried to solve the problem by drafting in poorly trained militias. This has tended to backfire. The Fano, for instance, were Mr Abiy's allies during the war in Tigray before becoming his enemies. In Oromia, which borders Amhara, his government relies on a dizzying array of Oromo militias to fight the Oromo Liberation Army, another ethno-nationalist rebel group. Rebels and militiamen have been known to swap sides. Many are bandits more than fighters. Murder, theft and kidnapping are rampant.

The anarchy allows Mr Abiy to divide and discredit his enemies, which arguably strengthens his hand. But it also erodes the authority of the Ethiopian state, potentially threatening his grip on power. Mr Abiy may see method in the madness. Ethiopians are paying the price. ■

---

https://www.economist.com/middle-east-and-africa/2025/05/29/what-a-massacre-reveals-about-abiy-ahmeds-ethiopia

The Alabuga connection

Africans are building Putin’s suicide drones

Russia is luring young African women to make weapons to attack Ukraine

May 29, 2025 07:01 PM | Nairobi

Not the job they were expecting

ASSEMBLING IRANIAN drones in a Russian factory is an unusual option for a work-study programme. Few students or migrant workers, however desperate or foolhardy, would willingly sign up to become a military target. Yet that is the situation in which hundreds of young African women, some of them younger than 18, have unwittingly found themselves.

On April 23rd Ukrainian drones attacked the Alabuga Special Economic Zone in Russia’s Tatarstan region, where Iranian-designed suicide drones are made. On this occasion there were no reported casualties. But several African women were wounded when their dormitory was struck in a similar attack last year. The repeated strikes underscore the military significance of Alabuga, which has been under Western sanctions since 2024. But by drawing attention to the unusual presence of African workers on Russian assembly lines, they also raise troubling questions for

African governments. Why are their citizens toiling at the heart of Vladimir Putin's arms empire? And what, if anything, will they do to help them?

Read more of our recent coverage of the Ukraine war

Alabuga began producing drones shortly after Russia invaded Ukraine in 2022. At first, the bulk of the workers it recruited—some allegedly forcibly—were local students. But soon war-induced labour shortages prompted the factory's owners to look for cheap foreign labour to plug the gap. They established "Alabuga Start", which they advertised as an exciting work-study programme for fields such as catering and hospitality. Though ostensibly open to "talented people from all over the world", in reality most of those targeted by the scheme were in Africa. (Recently, South America has become an additional focus.) Most troublingly, the recruiters had one specific demographic in mind: women between the ages of 18 and 22.

There is no obvious reason why this should be the case. The vast majority of those recruited from overseas are involved in manufacturing drones, according to a report by the Global Initiative Against Transnational Organised Crime, a non-profit organisation. That hardly supports the scheme's claim that "many of the professions available require a certain level of feminine attention to detail." A more plausible explanation is that the preference for young women is about control. Timur Shagivaleev, the boss of Alabuga, has reportedly said that African men are "too aggressive and dangerous" to be pliant workers.

Many recruits seem to have been oblivious to what the job really entails, possibly because employees are banned from talking to outsiders about their work. "I don't think many know about the firm's bad labour practices," says an Ethiopian woman who cancelled her application after reading about the factory online. Adverts distributed on social media and Telegram, a popular messaging app, are so deceptive that the UN says the scheme could constitute human trafficking.

Ukrainian officials have pressed their African counterparts to put a stop to recruitment in their countries—to little effect. Some African countries have signed formal agreements with Alabuga itself. African diplomats have toured the factory; adverts for Alabuga Start have been shared by African government institutions. After a handful of critical articles in the Kenyan press, the Russian embassy in the country insisted that its Kenyan counterparts see “a clear benefit from the participation of young Kenyans in the programme, and propose to expand the enrolment”. For its part, Kenya’s labour ministry said only 12 Kenyans were taking part in the scheme, and none had been involved in making drones. So far only Burkina Faso has seriously tried to halt recruitment.

It is unlikely that many more will follow suit. Most African governments need jobs, however distasteful, for unemployed youngsters. Many also back Russia over Ukraine. Russia continues to expand weapons production. The probable—and tragic—consequence, says a Ukrainian diplomat, is that “at some stage an African woman will be a legitimate target for a Ukrainian missile.”■

---

https://www.economist.com/middle-east-and-africa/2025/05/29/africans-are-building-putins-suicide-drones

Cultural globalisation

Afrobeats’ new groove

Africa’s growing diaspora is transforming the continent’s musical exports

May 29, 2025 12:48 PM | Lagos

From Abuja to the world

IN 2023 ODUMODUBLVCK, a Nigerian rapper and singer, put out his first single. Called “Declan Rice” after an English footballer, the track saw a fresh surge in streams in April when Mr Rice scored two free kicks for Arsenal in a tense match against Real Madrid. On the record the artist, brought up in Abuja as Tochukwu Ojugwu, layers Pidgin English on a drill track to liken Mr Rice’s game-changing star power to his own. Since its release he has signed with Native Records, a Nigerian label based in Britain, and has put out a mixtape featuring an Italian rapper that has proved popular from Britain to Qatar.

Living and working across the world, Odumodublvck typifies a new generation of African musicians who in recent years have won global awards, topped international charts and rocked stages from India to Brazil. Spotify, a streaming platform, found that streams of what is referred to as Afrobeats increased more than six-fold between 2017 and 2022, and by 33% in 2024 alone. As African music has spread around the world, it has also acquired more varied influences and a more diverse sound, partly thanks to its changing audience. Afrobeats now refers to a range of styles that is hard to capture in a single word, changing the business.

The popularity of African music is not new. African acts from King Sunny Ade, a Nigerian juju singer, to Amadou & Mariam, a Malian blues duo, have played on festival stages in America and Britain since the 1970s. But as diasporas have grown, some African artists now perform abroad more often than at home. Yoruba slang and Zulu call-and-response loops echo from London's O2 arena to New York's Madison Square Garden. This summer Rema, one of the world's most streamed African artists, will headline Japan's first-ever Afrobeats festival, performing alongside Ghanaian, South African and Jamaican acts.

As audiences have expanded, the music has changed. Songs are a fraction of the length of Fela Kuti's 15-minute ensembles from the 1980s, made more digestible for a generation of TikTok dancers who often discover new sounds on social media. The tracks are sped up to sound more poppy or slowed down to marry better with R&B. Lyrical rap and underground music lean heavily on American hip-hop. Cross-genre collaborations, samples and interpolations have become the norm.

Rema featured Selena Gomez, an American pop singer, on a remix for his 2023 hit "Calm Down". It became the first song led by an African artist to exceed 1bn streams on Spotify. Within the continent, artists in Nigeria have lifted from, and collaborated with, Amapiano hitmakers in South Africa, who slow down European drum-and-bass beats and fuse them with log drums and local languages. "Pop borrows from other genres. Afropop is nothing different," says Seni Saraki, who runs Native Records (and prefers the moniker Afropop to Afrobeats).

A more global sound has brought a more global ownership. Spotify paid 58bn naira ($36.5m) to rights-holders of Nigerian music in 2024. Because many artists and their labels have links with global firms, little of that stayed in Nigeria. And while global reach has brought commercial success for some, it has also meant less creative control. “We need the money and we need the connections, so it’s a bit of a sacrifice,” says Joey Akan, a podcaster.

Change your tune

Artists earn more from streams in richer countries than in poorer ones. Spotify says this is because royalties are proportional to subscription prices which, based on the currencies’ purchasing powers, vary widely across countries. A premium subscription costs around $2 a month in Ghana, but $17 in Switzerland. The financial benefits of producing music that does well in the West can sway artistic choices made in the studios, sometimes to the detriment of an artist’s identity. “The songs were not picked by me, I wasn’t in the right place,” Davido, a Nigerian-American singer, later recalled of a collaboration with Sony.

The diversification of African music reflects its success in shaping global pop culture. Yet for now, African countries are benefiting less than they could. By investing in concert infrastructure, improving protection of intellectual property and developing the skills of young musicians, they could help ensure that Africa’s musical appeal is as good for the continent as it is for the rest of the world. ■

---

https://www.economist.com/middle-east-and-africa/2025/05/29/afrobeats-new-groove

Europe

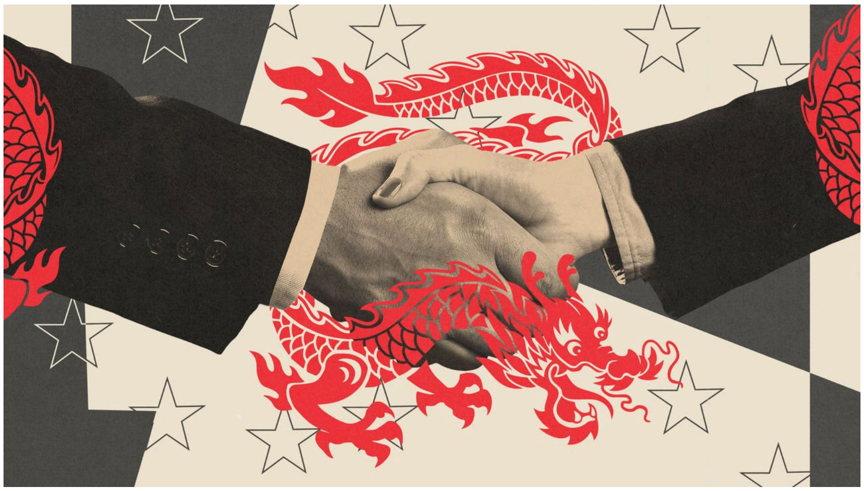
- ## Europe’s tricky trade threesome
  Here be dragons :: Negotiating with two superpowers is hard
- ## France’s improbable adult baptism boom
  Catholics in France :: A secular country returns to the church
- ## A new threat to Erdogan: Gen Z
  Young Turks :: Young people are fed up with President Recep Tayyip Erdogan
- ## Russia is raining hellfire on Ukraine
  The war in the air :: New attacks push its air defences to saturation point
- ## Europe fantasises about an “Airbus of everything!” Can it fly?
  Charlemagne :: From chips to satellites Euro-champions are back. Expect turbulence.

Here be dragons

Europe’s tricky trade threesome

Negotiating with two superpowers is hard

May 29, 2025 08:32 PM



EUROPE IS NOW locked in intense trade negotiations with both the world’s superpowers. It faces a threat of 50% tariffs from America to be imposed on July 9th, though these have been thrown into chaos by a court ruling blocking them which the Trump administration is appealing against. At the same time, it is trying to reset its relationship with China, with a summit also due in July.

The result is a tricky triangular dynamic. Europe has to be increasingly mindful of how America’s dealings with China affect its own economy and security. “In this triangle, each side is watching the other two suspiciously,” says Steven Everts of the EU Institute for Security Studies, the bloc’s internal think-tank. And Europe is doubly vulnerable. When it comes to Russia’s ongoing war against Ukraine, Donald Trump’s America and Xi Jinping’s China both have positions at odds with Europe’s security interests. Europe’s economy, which was already flatlining, is now under renewed threat from both American tariffs and Chinese competition.

China senses an opportunity to play one side off against the other, and is engaged in something of a charm offensive with the Europeans. On April 30th it lifted sanctions on a number of members of the European Parliament and its institutions that it had imposed back in 2021. True, it was a painless concession for Xi Jinping, the Chinese leader, to make. But there are signs that China is also intensifying its subnational diplomacy. For example, the partnership between the Chinese region of Sichuan and the most populous German state, North Rhine-Westphalia, had been dormant for years. It is now being reinvigorated from the Chinese side with plans for a high-level visit.

New green giant

2

Trade in low-carbon technology*, annual, $bn

*Includes wind turbines, solar panels and carbon-capture equipment

Source: Centre for European Reform

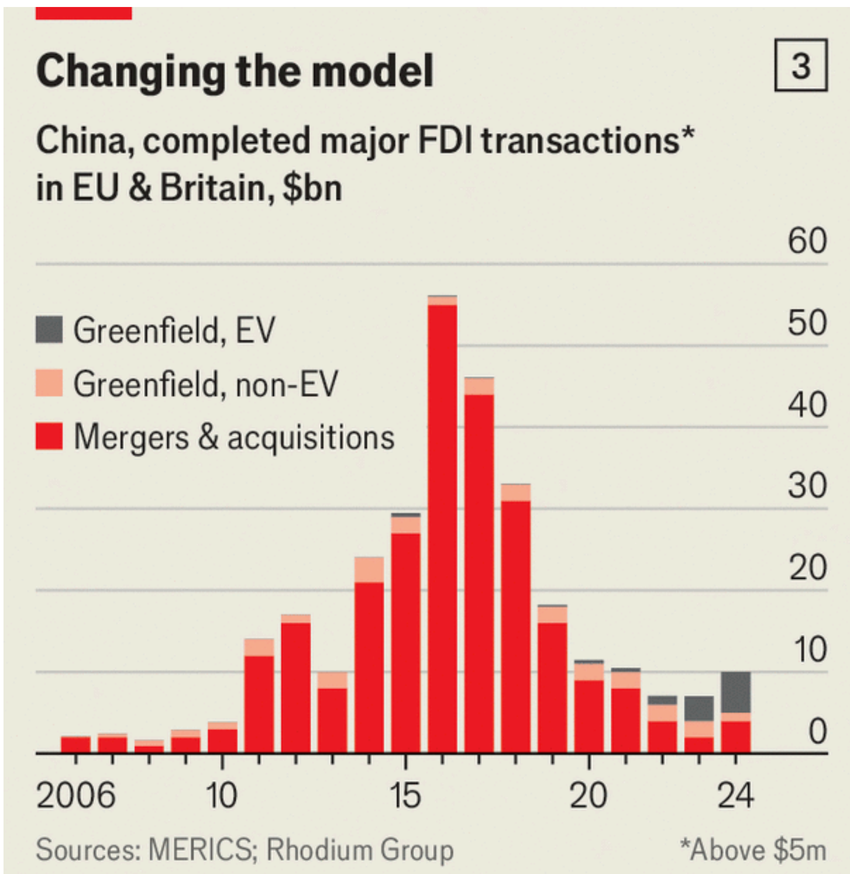
The EU is mulling how to respond. Some see a chance for it to hedge Europe's bets, and show Mr Trump that the EU has other options, too. "The Spanish government's position is that the BRICS are a key piece of the new global order, and it's essential that we learn how to work with them," says Toni Roldan of EsadeEcPol, a Madrid-based think-tank. Germany's new government, by contrast, still sounds distinctly hawkish. The European Commission has been given the tricky task of forging a common European position ahead of a summit between the EU and China which is due to take place in Beijing in July (it was moved to China because Mr Xi had declined to visit Brussels).

The first concern that Europe will want to raise at the summit is trade diversion. As a result of Mr Trump's trade wars, goods that were meant for the American market seem likely to wash up on Europe's shores. An EU task-force is monitoring customs and shipping data, the first batch of which does indeed show surging exports to Europe (see chart 1). This comes on top of Europe's existing concerns about overcapacity in Chinese manufacturing leading to subsidised goods entering the EU market. Especially in low-carbon goods such as wind turbines, solar panels and energy-efficient equipment, China is making inroads into European domains, and importing less and less (see chart 2).

A tricky quid pro quo?

Though this will benefit European consumers, it hurts European producers. So the EU wants to add safeguards. It has just put countervailing duties on certain types of industrial equipment on top of anti-dumping duties imposed in January. On electric vehicles, it wants China to agree to price undertakings in lieu of the current tariffs, setting a minimum price on imported cars. The Europeans will argue that China needs the only market still relatively open to Chinese goods. China, however, may feel more bullish and push back, pointing to its resilient economy. Mr Xi will also have noticed that Europe's major countries are fighting surging right-wing populists, and would struggle with the economic escalation that China can withstand.

The second European demand is for more economic upside. European firms see their market shares in China shrivelling. Meanwhile Chinese direct investment in Europe has changed from buying up European firms and technology to investing in new, Chinese factories (see chart 3). In doing so, China tries to avoid technology transfer to European firms, to prevent Europe from doing to China what China did to Europe: learning from advanced foreign tech in order to develop competitive industries of its own.



The Chinese side has floated the idea of resurrecting the comprehensive agreement on investment (CAI), a plan that was proposed back in 2013, finalised in 2020 but never ratified by the Europeans, in large part because of China's sanctions on Euro-MPS. It would have given some European firms better access to the Chinese market, and protected Chinese investments abroad, in part by consolidating 27 bilateral investment agreements with China into one. "But this is an agreement from another era," says Janka Oertel, of the European Council on Foreign Relations, a think-tank. "A lot has changed." EU officials consider the CAI to be dead.

The EU is more concerned to avoid a race to the bottom. Its member countries are competing to secure Chinese investment, with Hungary in the lead. That makes it hard to attach the same kind of stringent conditions on it that China has been able to impose on European FDI in China, for instance on technology transfer, local staff or integration into local supply chains. Inward investment is governed by national rather than EU rules, so the bloc is most likely to be able to agree on principles for screening incoming investment for security risks. The hope is that a political agreement with China can at least lay down some ground rules.

The third European demand concerns Ukraine. The visit of Mr Xi to Moscow for a military parade commemorating the end of the second world war on May 9th displayed solidarity with Russia. But China-watchers reckon that Mr Xi is keen for the war to end. "The EU can legitimately ask that China tackle the re-exports of EU dual-use goods from China to Russia, which are still rising," reckons Mr Everts. And the EU hopes to convince China to become economically engaged in Ukraine.

China's strategy for Europe remains unchanged. It would like to peel the continent away from America, weakening and dividing the West, ideally at low cost to itself. Mr Trump made that easier by undermining Europe's security and economy. He has also made sure that the EU and its members now have to think about de-risking from both sides, which limits the ambition on de-risking from China. None of this helps the EU's chances of getting much of what it wants when it sits down to negotiate with the dragon. ■

---

https://www.economist.com/europe/2025/05/29/europes-tricky-trade-threesome

Catholics in France

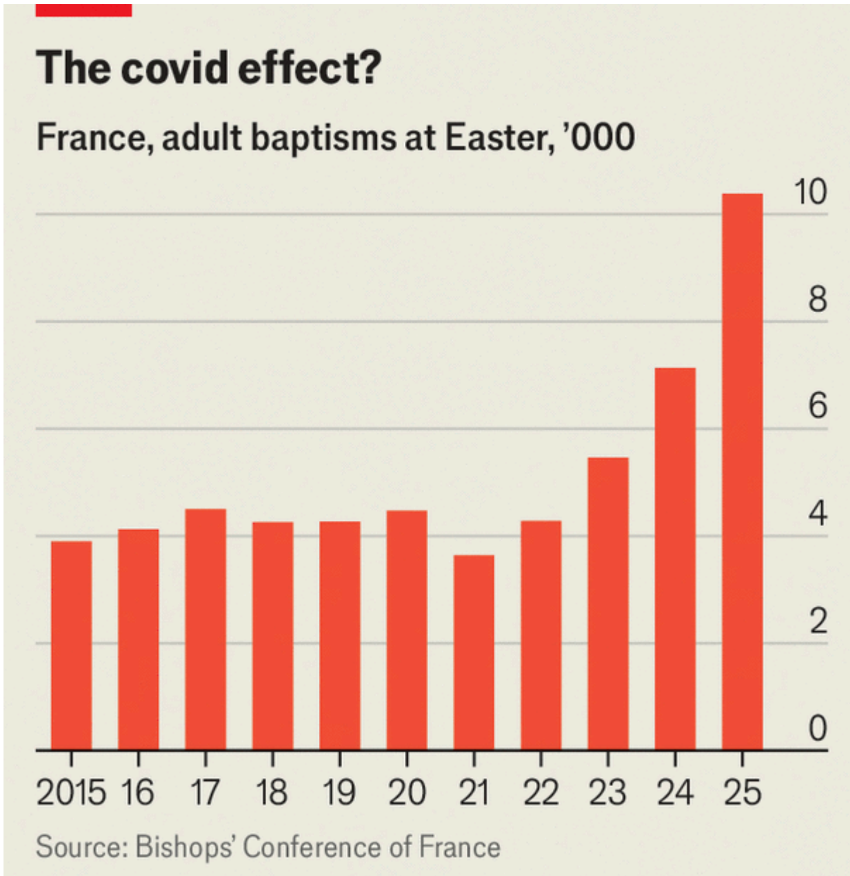
France’s improbable adult baptism boom

A secular country returns to the church

May 29, 2025 12:49 PM | PARIS

AMONG EUROPEAN countries with Catholic roots, France wears its religion lightly. A secular state by law since 1905, the country bans conspicuous religious symbols in state schools, town halls and other official buildings. Less than 5% of its people attend a religious service every week, compared with 20% in Italy and 36% in devout Poland. Yet France, of all places, is witnessing an unexpected surge in Catholic fervour.

At Easter 10,384 adults were baptised, a jump of 46% on last year and nearly double the number in 2023. This was the highest since France’s Conference of Bishops began such records 20 years ago. At 7,404, the number of teenagers baptised this Easter was more than double the figure in 2023, and ten times the one in 2019. France is not the only European country to report an upsurge in adult baptisms. Austria and Belgium this year also reported a big rise, but to a tiny total of 240 and 536 respectively. It is the scale and context that make the trend in France so arresting.



One broad explanation may be the lasting effect of covid-19, imposed solitude and the quest for purpose that confinement generated. Some people took up yoga; others, God. The surge in baptisms in France began in 2023, two years after the end of the lockdown, which happens to be exactly the prescribed length of preparation for adult baptism. Sonia Danizet Bechet, who grew up in an atheist family in France, says that covid was the spark that moved her to begin the *catéchuménat* (the path to baptism).

Excessive time spent on screens (and working from home) could be another factor. People may now be seeking a non-virtual community. Nearly a quarter of adults baptised at Easter in France in 2024 were students (the rest were a mix of both white-collar and blue-collar); 36% were aged 18-25; three-fifths were women. Strikingly, nearly a quarter came from a non-religious background. “We work with a lot of people who grew up with no experience of faith and feel something is missing,” says a lay Catholic who accompanies those preparing for baptism in Paris.

But why France? After all, its Catholic church has been damaged by home-grown sexual-abuse scandals. Many churches struggle to put bottoms on pews, or priests in the pulpit. Some point to the spiritual effect of the fire that gutted Notre-Dame Cathedral in Paris in 2019, and the painstaking and transcendently successful project to rebuild it—a form of resurrection and an invitation to faith, according to its chaplain. Others suggest a link to the prominence of Catholic-nationalist politicians; a pushback against France's strict secular culture; or even an unspoken rivalry with Islam in a country with a big Muslim population.

France does not share America's starry, big-teeth televangelist culture. Yet even here some younger priests have become mini online stars, helping to spread the word—and prompting the odd clash with the church's staid hierarchy. Frère Paul-Adrien, a bearded Dominican monk with half a million YouTube followers and an acoustic guitar, is one such *influenceur*. At Easter he says he received an average of five baptism requests a day: "We are overwhelmed by what is taking place." ■

---

https://www.economist.com/europe/2025/05/26/frances-improbable-adult-baptism-boom

Young Turks

A new threat to Erdogan: Gen Z

Young people are fed up with President Recep Tayyip Erdogan

May 29, 2025 12:48 PM

Not what Erdogan hoped for

TURKISH HIGH-SCHOOLERS and university students are too young to remember Turkey before Recep Tayyip Erdogan, in power since 2003. But when police came for the Turkish president's top opponent, Ekrem Imamoglu, on March 19th, hundreds of thousands of them took to the streets. Now many of them are in prison too. Though down from an initial 301, an estimated 30 students and recent graduates are still awaiting trial in various Turkish prisons, with another 12 under house arrest.

A heavy police presence and prosecutors in waiting have curtailed big public demonstrations. But city streets and university campuses bubble with a different sit-in, boycott or small-scale protest every day. On May 13th, for instance, six students were arrested for protesting against the visit of a controversial Islamist preacher. Mr Erdogan has always hoped to raise a new generation of pious youth. But Turkey's Gen Z is not only less religious than the country's strongman expected. It may also pose the greatest threat to his rule.

Those aged 18-29, the current adult portion of Gen Z, make up almost a quarter of the electorate. Opinion polls now say that only 11% or so of them are willing to vote for Mr Erdogan's AK party. The disaffected among Gen Z tend to blame the government's grip on Turkey's institutions for limiting their chances of getting a good education, making ends meet or seeing their votes count. They simply walk away en masse from political rallies, or loudly shush the speakers. "Gen Z finds this kind of speech cringe when so many of us need to budget even to buy cardboard for protest banners," says a student activist.

Gen Z's presence on the streets and its social-media campaigns also encourage the main opposition People's Republican Party (CHP) to be bold. Government critics say they "crossed a threshold of fear" after a video showing young protesters forcing their way through police barricades went viral after Mr Imamoglu's arrest. Hundreds of thousands of people joined the biggest protests Turkey had seen for more than a decade, defying a week-long ban on public gatherings. The scale of those protests probably stopped the government from charging Mr Imamoglu with terrorism and putting in a government stooge to run Istanbul. "Young people provide energy for the CHP to resist government pressure," says Berk Esen of Sabanci University. The opposition reckons it can mobilise huge crowds when required.

But they have not been able to prevent the crackdown from spreading. The most recent wave of arrests saw some 25 people, including CHP municipal officials and businesspeople, rounded up on May 26th for alleged corruption. Around 400 people were detained during May Day protests. X has blocked Mr Imamoglu's account, which has nearly 10m followers, after a government request. The opposition is ready to turn up the heat. "We will be on the streets," said the CHP's leader, Ozgur Ozel, after being slapped in the face on May 4th at the funeral of a pro-Kurdish politician, a move he interpreted as a message to stay indoors. “I dare those who sent that message. Bring it on.” ■

---

https://www.economist.com/europe/2025/05/29/a-new-threat-to-erdogan-gen-z

| Section menu | Main menu |

The war in the air

Russia is raining hellfire on Ukraine

New attacks push its air defences to saturation point

May 29, 2025 12:48 PM | KYIV

Vladimir Putin’s commitment to peace

A YEAR AGO, for 30 drones to hit Ukraine in a single night was considered exceptional. Now Russia is saturating Ukraine’s air defences with hundreds of them. On the night of May 25th the Kremlin pummelled the country with what Ukraine called a “massive strike” against Ukrainian cities, featuring 355 drones, a record. It is firing more missiles, too—at least nine that night. Donald Trump called Vladimir Putin “crazy”, but has still done nothing about it. So Ukraine is again stepping into the unknown. If the current ceasefire talks fail, which seems highly probable, air-defence units will need to start rationing their interceptors. More Russian missiles and drones will get through, to hit towns, cities and critical industry.

Russia's air war stepped up at the start of the year (see chart), with a marked shift in the hardware it uses. Ballistic missiles, many supplied by North Korea, are now centre-stage, alongside a new and more lethal generation of Shahed attack drones. The ballistic missiles are hard to stop because of their speed; only Ukraine's dwindling stock of Patriot PAC-3 missiles offers a good chance of interception. Meanwhile, the Shaheds, now in their sixth modification since the first were shipped to Russia by Iran in 2023, are using machine-learning to strike well-protected targets like Kyiv. The newest models, according to a team of engineers who pull apart the wreckage of drones that land on the capital, are unfazed by Ukraine's electronic warfare. This is because they no longer rely on jammable GPS, are driven by artificial intelligence, and piggy-back on Ukraine's own internet and mobile networks.

The main challenge facing Ukraine's air-defence crews is the sheer number flying at them. Last year Russia was producing around 300 Shahed drones a month; that many now roll out in under three days.

Ukrainian military intelligence says it has documents that suggest that Russia plans to increase its drone production to 500 a day, suggesting that Ukraine could face attack swarms 1,000-strong. That is probably an exaggeration, cautions Kostiantyn Kryvolap, a Ukrainian aviation expert. Russia's arms industry runs on bluster and false reporting, he says. "But it's clear the numbers are going to increase significantly." Even if Ukraine manages to stabilise the front lines in the east, the difficulties of protecting the skies will only grow.

Not long ago, most of the drone-hunting was done by crews driving around on 4x4s with cheap machine-guns, shoulder-fired missiles and short-range artillery. Now, says Colonel Denys Smazhny, an officer in the air-defence forces, the drones routinely manoeuvre around these groups. They initially fly low to avoid detection, then climb sharply to 2,000-2,500 metres as they near cities, getting out of range of small-calibre guns. So Ukraine is turning to helicopters, F-16 fighter jets and interceptor drones, which have begun to show good results. A senior official says the air defences around Kyiv are knocking out around 95% of the drones that Russia throws at it. But the 5% that slip through cause serious damage.

Patriots, please

Ukraine still has a fighting chance against drones and cruise missiles. But the outlook against ballistic threats is bleaker. Only a handful of countries have systems that can counter such fast and destructive weapons. In the Western world, the American Patriot system has an effective monopoly on the ballistic air-defence business. Ukraine now has at least eight Patriot batteries, though at any given time some are damaged and under repair.

Their crews operate them with impressive skill. Since spring 2023, they have knocked out more than 150 ballistic and air-launched ballistic missiles. But the systems have been largely concentrated around Kyiv. Volodymyr Zelensky, Ukraine's president, says

Ukraine needs at least ten more, with corresponding stockpiles of the PAC-3 interceptors the system uses, to start to make its cities feel secure. He insists the country is ready to pay whatever it takes, presumably using European money. The White House response has been non-committal.

The problem is that Ukraine has slipped from being a priority for the Biden administration to just one of only many potential customers competing for limited production under Donald Trump. Lockheed Martin, which builds the Patriot systems and their PAC-3s, is increasing its output to 650 missiles per year. But this is about 100 fewer than Russia's projected production of ballistic missiles; a Ukrainian government source reckons Russia has a stockpile of 500 missiles. It usually takes two PAC-3 interceptor missiles to intercept one Russian ballistic missile.

For China hawks in the Trump administration, a Patriot sent to Ukraine is one fewer for the Pacific theatre. Even the most Ukraine-friendly administration—which this one is not—would find it hard to keep pace with Russia's relentless threat. Ukraine has asked for the right to produce its own version of the PAC-3 under licence, but knows that is unlikely. There are joint-production projects in the pipeline elsewhere in Europe, but none will be ready for at least a year.

Ukraine may therefore have to develop a survival strategy that pairs air defence with offence and deterrence. "We will have to destroy Russian launch complexes, the factories and the stores," says Mr Kryvolap, the aviation expert. "We should be under no illusions." ■

---

https://www.economist.com/europe/2025/05/25/russia-is-raining-hellfire-on-ukraine

Charlemagne

Europe fantasises about an “Airbus of everything!” Can it fly?

From chips to satellites Euro-champions are back. Expect turbulence.

Jun 03, 2025 09:25 AM

WHAT DO FERTILISERS, artificial intelligence, small cars, microchips, vaccines, nuclear plants, streaming platforms, cloud computing, satellites and green technology all have in common? Trick question, to which the answer is *not* that the European Union would like to regulate them to oblivion (though there may be that, too). What links them together is that they are all sectors some in Europe think could be transformed by One Neat Trick: to create an “Airbus of”. Merging lots of subscale European companies so they stopped competing against each other and took on Boeing instead worked wonders in the 1970s; from a standing start Airbus went on to outsell its jetmaking American rival. Could the same strategy be used to help Europe in the 2020s take on the likes of Google, Nvidia, SpaceX and Chinese carmakers? Politicians in Brussels and beyond want to believe. As the pilot of a wayward Airbus might exclaim: “Brace for impact!”

No European industry confab is complete these days without someone invoking the "Airbus of" trope. To many the age of such European champions feels overdue. Even as the EU's economies have come together in theory, it is notable how often their corporate leading lights have not. Europe's bigger countries (and many smaller ones) all have their own energy majors, telecoms firms, banks, carmakers and so on. Some blame this enduring fragmentation on the bloc's incomplete single market, which means that doing business across EU borders is still hard. Others focus on regulation, notably the club's antitrust rules that stymie mergers dreamed up by industrialists. Siemens and Alstom, two big engineering firms from Germany and France respectively, pitched the "Airbus of rail", only for it to be kiboshed by Brussels officialdom in 2019. Either way Europe is now a corporate also-ran. The EU makes up one-sixth of the global economy, yet it does not have a single firm among the world's most valuable 20.

A few cross-border tie-ups have taken place: Peugeot of France and Fiat of Italy became Stellantis in 2021 (its biggest shareholder also owns a stake in the parent group of *The Economist*). Fighter jets and missiles are made through consortia of firms dotted across Europe. But politicians have more than mere mergers in mind. For Airbus is not just big, it is the apotheosis of corporations fulfilling a vision dreamed up by politicians (the firm is partly owned by the French, German and Spanish governments, though run mostly free of interference these days). Forget the jet age: Europe now needs gigafactories making microchips, green tech firms to help decarbonisation and so on. The bigger the business in Europe, the more politicians can lean on it to do their bidding. If a few new factories can serve as a backdrop for their ribbon-cutting photo-ops, so much the better. *Le business, c'est moi!*

Such industrial policy was once all but *verboten* in the EU, at least since its heyday in the age of disco music and stagflation five decades ago. Germans, abetted by Britain, imposed on the EU its largely hands-off approach to letting firms compete in the market;

the French shelved their meddling instincts in exchange for farm subsidies. But *dirigisme* has been threatening a return for some years. The rise of Chinese industry—once a customer of German firms, now their rival—is evidence (to some) that state capitalism works. Brexit deprived the EU of a liberal voice. Covid-19, the war in Ukraine and two bouts of Trumpism have given credence to the French idea Europe needs to bolster its "strategic autonomy" by being less reliant on globe-spanning supply chains. Who wants to rely on today's America for cloud computing, or jet fighters?

The effects of this statist turn can already be seen. Brussels once worked to deter governments from funding favoured enterprises. Now it allows giant exemptions for industries it deems "strategic", such as batteries, microchips or hydrogen, which receive billions in cash from the EU and governments. Airbus and Thales of France and Leonardo of Italy, all partly state-owned, are lobbying for approval to merge their satellite-launch offerings ("the Airbus of satellites", featuring Airbus). The antitrust commissioner for a decade until November, Margrethe Vestager, argued that reducing competition in Europe would make it less likely its firms could successfully compete outside it. The views of her replacement, Teresa Ribera, are thus far hard to fathom.

The boss of Airbus itself, Guillaume Faury, says that "When we work together, not against each other in Europe, we can achieve the scale needed to become global leaders." But what worked for Airbus in the age of vinyl may not be the right recipe for tech in the age of ChatGPT: making jets is unique in that fixed costs (to design planes that actually fly) are sky high and demand for products is stable for decades. That applies to relatively few other industries. Already a bunch of *grands projets* have gone awry. Northvolt, a battery maker backed in part by EU and German money ("the Airbus of batteries", inevitably), has gone bust despite raising $15bn. Gaia-X, an "Airbus of cloud computing" has failed to offer a credible European alternative to Amazon and Microsoft.

Please fasten your seat belts

In an ideal world, European pols would love to shower companies with money, Chinese-style. Alas state coffers are empty. Bar Germany, big EU countries have massive debt piles and need to find cash to spend on defence, not industrial policy. The next best thing, to those of a *dirigiste* persuasion, is to discreetly provide a dollop of protection to a few state-favoured industries. The EU has imposed tariffs on Chinese electric vehicles, for example; a carbon tax will soon be levied on some goods imported into the EU. Building up European champions worthy of Europe-wide protection is the next logical step. Industry would cheer, its profits soaring as competition falls away. Consumers pay for this in the end—but long after today's batch of politicians have disembarked. ■

---

https://www.economist.com/europe/2025/05/29/europe-fantasises-about-an-airbus-of-everything-can-it-fly

Britain

- ## Where next for Britain’s broken National Health Service?
  Labour and the NHS :: To save itself, the party that founded Britain’s health service must rescue it
- ## Harley Street resists a facelift
  TikTok, fillers and fraud :: The world-famous medical district wants science, not salmon-sperm facials
- ## What on earth is what3words?
  Alternative navigation :: It sounds odd but it is changing how people find their way
- ## Should cheese rolling be protected as British heritage?
  Grate Britain :: The government mulls making England’s daftest sport official
- ## Sir Keir Starmer’s Scottish reset is under strain
  Frenemies :: The relationship is friendlier, but more rivalrous
- ## Doctors, teachers and junior bankers of the world, unite!
  Bagehot :: The rise of middle-class consciousness

Labour and the NHS

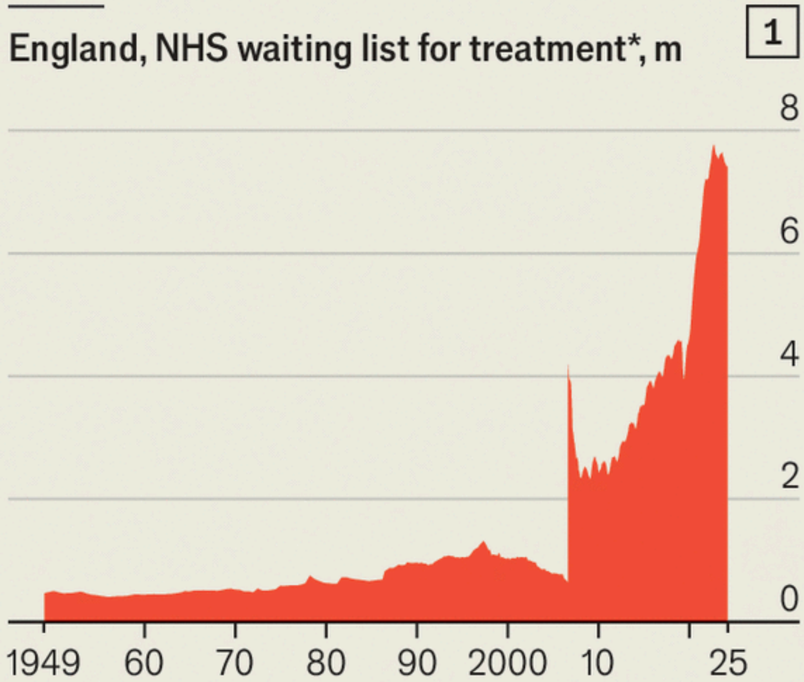
Where next for Britain's broken National Health Service?

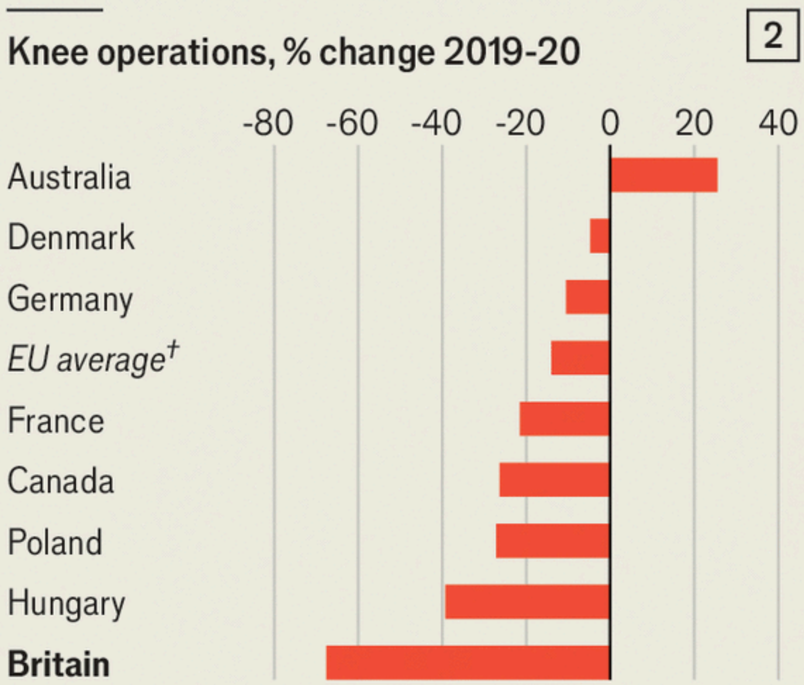
To save itself, the party that founded Britain's health service must rescue it

May 29, 2025 12:48 PM

MONTHS AFTER Labour won a landslide election in 1945, the party's new health secretary predicted that its National Health Service (NHS) would be the "envy" of the world. Initially, Aneurin Bevan was right. Foreigners were in awe of the idea that a state could provide universal health care free at the point of use. Brazil, Italy and Malta all copied the system. At home, it became a national religion from the moment people first queued for free prescription glasses and false teeth.

Just you wait





*Waiting list for inpatients. Includes day treatments from 1987 and outpatients from 2004. Measured against 18-week referral-to-treatment target from 2007 †23 countries with data available

Sources: National Archives; NHS; OECD

Today it is a national embarrassment. Hospital waiting lists in England, at 7.4m, are almost double what they were in 2007 (see chart 1). In emergency departments, 12-hour waits have become routine. Seasonal flu outbreaks frequently trigger hospital "critical incidents". Some staff are "desensitised" to poor care, the NHS's chief executive, Sir Jim Mackey, recently admitted. Failures are so common that in 2023-24 the health department set aside £58bn ($77bn), almost a third of its annual budget, to cover the potential cost of past clinical negligence.

Public satisfaction with the NHS, which peaked at 70% in 2010, slumped to just 21% in 2024—a striking collapse of faith in an institution once more cherished than the monarchy. "I don't mind being poorly abroad," says Sandra Cragie, who suffers from a painful inflammatory condition. "I dread being poorly here." The country's health is similarly dire. Among 17 rich countries, only Americans die more from preventable causes. Britons have the lowest life expectancy in western Europe. The day after another Labour landslide last July, Wes Streeting, Bevan's modern-day successor, declared the service "broken".

Turning things around is a moral imperative for Sir Keir Starmer's government; to many the NHS is Labour's greatest achievement. An upcoming ten-year plan for health, expected in June, is also an opportunity for a government struggling in the polls. After the cost of living, no issue matters more to Brits, according to the Office for National Statistics. And while immigration and economic issues divide voters, the NHS unites them. Fixing it is Labour's best chance of rebuilding trust in the state.

It won't be easy. Britain already spends 11% of GDP on health—less than France and Germany; more than Italy and Spain. Yet it is only just beginning to feel the demographic pressures common in other rich countries. In his first week on the job, Mr Streeting was shown a sobering chart—a steeply rising curve of demand. On the current trajectory, he told Parliament, in 50 years' time 100% of the public would work for the NHS. Rebuilding it for the 21st century, he argues, requires the "same revolutionary approach" as Bevan's.

Mr Streeting appears up for the challenge. He brings personal experience as both a patient (a cancer survivor) and a policymaker. He is young (42), charismatic and—as his Bevan analogy suggests—fiercely ambitious. He immediately asked Ara Darzi, a Labour peer and surgeon, to provide a diagnosis. The ten-year plan is to be the prescription.

Dr Darzi's diagnosis

The patient is in a dismal state, Lord Darzi swiftly reported back. He traced the source of the malaise back to the 2010s, when Conservative governments oversaw a de facto spending freeze of the service (after adjusting for inflation and demographic change). This restricted the number of available nurses, hospital beds and scanners. Worsening broader socioeconomic factors such as poor housing and low incomes, all of which deteriorated during the austerity years, meant Britain meanwhile grew poorer, fatter and sicker.

To make matters worse, money is spent in the wrong places. The share of the NHS budget going to hospitals increased from 47% to 58% between 2006 and 2022, squeezing funding elsewhere. Britain has far fewer community nurses and 16% fewer GPs per person than its rich-world peers (one reason Ms Cragie, despite calling her GP "hundreds of times", can never get through). People turn up at hospital instead: Britons visit emergency departments at twice the rate of the Dutch.

During the pandemic the NHS became a covid-only service, with other services all but shut down (see chart 2). Recovery has been slow. Productivity remains below pre-pandemic levels, not least because cuts to capital budgets have left buildings crumbling. Staff morale is abysmal.

What, then, of the prescription? The ten-year plan will propose three big shifts. It will promise to deliver more care outside hospitals—the most expensive part of the system—and closer to people's homes. Paper records, pagers and slow computers will be replaced by new technology. And investment will shift to prevention; adding a healthy year of life through public-health measures costs around a quarter as much as doing so through clinical treatment.

The promises are sensible, if hardly new. Variations have appeared in most of the eight long-term NHS plans drawn up over the past 25 years. What would be radical is if they were implemented. There are some signs this could happen. The plan is expected to include financial incentives to shift funding from hospitals into community services. And anticipated steps towards shared digital records are a hopeful sign that this government may be willing to do the unsexy, but necessary, stuff needed to enable a tech revolution.

Complications or cure?

Three familiar risks could yet scupper it. The first is short-termism. Labour's main manifesto pledge on health—that by 2029 patients should expect to wait no more than 18 weeks for planned hospital treatment—is understandable in the face of public pressure. "It's the thing the prime minister holds my feet to the fire on the most," Mr Streeting admits. The temptation will be to reach for quick fixes. There are signs that this is already happening, such as the nationwide policy in England to pay hospitals for removing "pointless appointments" from waiting lists, which could help identify people who no longer need treatment but can also encourage bumping those who (still) do.

Heavy reliance on outsourcing, another quick fix scaled up by Labour, could also backfire. A government memo leaked to the *Sunday Times* concluded that a scheme to outsource cataract operations to private providers had drained the NHS of doctors and money (by removing simple, high-volume procedures that help subsidise more complex eye care). The private cataract market has grown by 400% since 2019.

A second risk is that power may be wielded poorly. In March the government said it would abolish NHS England, the micromanaging quango responsible for the day-to-day running of the health service. Instead Mr Streeting wants to copy a former Labour health secretary, Alan Milburn, by giving greater autonomy to local services, using a smaller centre to set strategy and standards, and reintroducing hospital league tables. But he will have to learn the lessons from the 2000s; when Stafford Hospital prioritised rankings over care, it led to hundreds of patients suffering neglect and unnecessary deaths.

The third challenge is reform without new money. Little is expected from the forthcoming spending review (an eventual 4% boost to annual spending in real terms, doled out in the budget last October, has gone mostly on pay). Yet moving from analogue to digital in England alone is expected to cost £15bn over five years, estimates the Health Foundation. Reforms to social care—crucial for keeping patients out of hospital—have been delayed until 2036, in large part because they are deemed unaffordable. With many NHS trusts' finances in dire shape, attempts to force through savings can look counterproductive. Hospital trusts with the longest maintenance backlogs are being penalised by government with cuts to their capital budgets. It all feels rather “penny wise, pound foolish”, says one frustrated government adviser.

Much about the NHS remains wonderful. It has an excellent science base and is a world leader in genomics. It has lower administrative overheads than other systems and its centralisation could make it a dream for the big-data collection needed to fulfil the potential of AI. But to fully leverage these strengths, Labour must avoid the mistakes of the past. Mr Streeting knows how much is at stake. “If we get this right, it’s the game-changing moment for the NHS in the 21st century—and how we deliver health care,” he says. “The alternative…doesn’t bear thinking about.”■

---

https://www.economist.com/britain/2025/05/29/where-next-for-britains-broken-national-health-service

| Section menu | Main menu |

TikTok, fillers and fraud

Harley Street resists a facelift

The world-famous medical district wants science, not salmon-sperm facials

May 29, 2025 03:34 PM | Harley Street

HARLEY STREET, a famous medical district in London, is an unusual place. It is highly successful, accounting for 40% of the capital's private-health-care market by revenue—and 10% of Britain's. It is almost entirely owned by aristocrats: the Howard de Walden Estate controls around 850 properties in Marylebone, one of the poshest parts of the capital. Go for a consultation and you may find yourself entering a Georgian town house with a plaque outside honouring a former occupant. "Florence Nightingale left her hospital on this site for the Crimea" is carved into the brickwork of one dental clinic. Leave with a swollen mouth and a sense of history.

Its stock-in-trade is excellence. Foreigners fly in for surgery at the London Clinic and King Edward VII's, private hospitals which treat kings and queens. In April the de Walden Estate opened Hale House, an innovation hub for health-tech startups and life-sciences pioneers. Yet Harley Street has also long pulled in quacks. In 1830 an early practitioner tried to cure tuberculosis with a mix of egg yolk, vinegar and turpentine, only to kill two patients (he does not have a plaque). Today's bad boys are rogue plastic surgeons.

Last year a doctor was suspended from treating patients after performing a "penis-filler" operation and offering "Barbie-tip" rhinoplasty and lip filler as prizes during lockdown. An influencer is suing a physician over breast implants she claims are too large. For many potential clients, TikTok spreads the word: "Come get a nose job with me," chirps one video from a patient. Laser facelifts and salmon-sperm facials (yes, involving injections of fish semen) are popular.

This is not the image the de Walden Estate wishes to cultivate. "People overuse the Harley Street name," sighs Mark Kildea, the estate's chief executive, pointing to Harley Street clinics in Birmingham and Singapore. For the past decade the estate has tried to reduce its cosmetic practitioners, courting hospital groups and research institutes instead (the Cleveland Clinic, the Mayo Clinic and Fortius, Europe's largest orthopaedics group, are among the tenants). In 2023-24 plastic surgery made up only 7% of private stays in the district. Cancer treatment accounted for 27%, digestive health 25% and orthopaedics 9%.

The area wants to excel at tackling "ageing diseases". Mr Kildea points to Re:Cognition Health, a clinic leading trials for lecanemab, an Alzheimer's drug. At the office where Lionel Logue helped King George VI overcome his stutter—featured in an Oscar-winning film, "The King's Speech"—patients can now get same-day scans. Harley Street is changing its image in other ways. A decade ago number 29 was a hub of international fraud, housing more than 2,000 companies. Today? The estate bought the property back, says Mr Kildea. It is now a women's health centre. ■

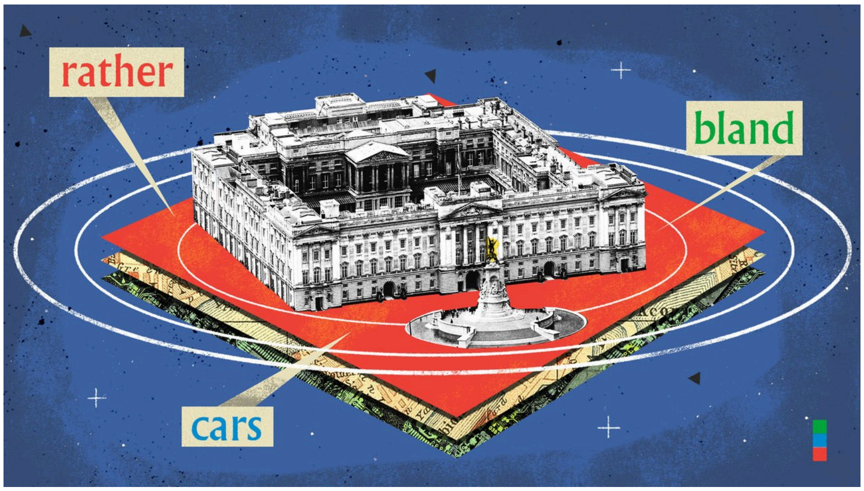
---

https://www.economist.com/britain/2025/05/29/harley-street-resists-a-facelift

What on earth is what3words?

It sounds odd but it is changing how people find their way

Jun 02, 2025 01:39 PM



NUMBER 10 DOWNING STREET is “indoor.myself.rather”. The front gate of Buckingham Palace is, unflashily, “rather. cars.bland”. The North Pole is glummer: “asking.mistreated.printmakers”. And the South Pole is the similarly hostile “mercilessly.accusation.nipper”.

Welcome to the world of what3words. If you have driven somewhere rural and remote recently you will probably need no explanation of what on earth what3words might be. If you have not: it is a global location tool that uses words rather than numbers to pinpoint places. The way it works is simple. It divides the world into trillions of squares of three-by-three metres, then assigns three words to each square to identify it. The result is somewhere between a mapping app and a poetry one, as if Edward Lear were to have offered you directions: a part of the Louvre, for example, is “hush.touched.silver”.

The London-based app follows in a long tradition. Britain is famous, perhaps infamous, for the lines that it has drawn on maps (time zones, partitions). But it has helped to cover maps in less controversial shapes, too. The habit of adding concentric squiggly lines to maps to show mountain elevation began in Britain in 1778, when a mathematician called Charles Hutton invented the contour line. The practice of covering cities in imaginary postal patchworks, meanwhile, began in 1857 when a Victorian reformer divided London into ten districts, naming each after the points of the compass—NE, SW—to make letter delivery intuitively easier.

That intuition matters. Conveying location is generally regarded as a geographical problem. In truth it is also a psychological one, since to give someone directions requires two things: the direction and also the someone. The latter is very important since people are fallible and forgetful, says Alan Baddeley, an emeritus professor of psychology at the University of York who helped redesign Britain's postcode system. What matters is not just the mapping capacity of a system but its "memorability".

Chris Sheldrick, the co-founder of what3words, found this to his cost in 2013. At the time, he was running a business providing the music for events such as weddings in venues such as pretty, rural villas. But the problem with pretty, rural villas is that they tend to be quite hard to find. Street numbers work only if there are streets. Postcodes cover vast areas of the countryside. And in much of the world there is no formal address system at all.

Mr Sheldrick took to giving directions in latitude and longitude. Then at an event in Italy, a lorry drove to N 42.804509, E 12.683829 rather than N 41.804509, E 12.683829. The difference in numbers was tiny: a single digit. The difference to Mr Sheldrick was vast: his sound system was two hours north, rather than somewhere east of Rome. He realised that any good location system must be "really simple".

What3words is the result. Mr Sheldrick chose to divide the world into those squares, to give the precision that would help find not merely a venue but a particular entrance. A mathematician friend suggested using simple, dictionary words like “table, chair, spoons” to identify each one.

If the idea is simple, choosing the 40,000 words needed is not. What3words employs linguists who manually go through each country’s dictionary, removing rude words lest they offend (“bottom” appears in the English version but not “bum”) and homophones lest they confuse (English loses “sun” and “son”). Complicated words are not removed entirely but do tend to be exiled to less populous places (“dodecahedron”, says Mr Sheldrick, often ends up in the ocean).

The app is now as ubiquitous as its coverage. It exists in 61 languages, and is used by satnavs of various swishy cars and by emergency services across the world. (Mr Sheldrick’s firm gets paid licence fees and now has a global team of over 100 people.) If you are ill in the Australian outback or sinking in the English Channel you will, if you ring the emergency services, probably be asked for your what3words location. It is, says Shannon Koesterer, a field paramedic in Austin, Texas, a “game-changer”. Mishearings can still happen. Homophones lurk (accents make them hard to eliminate). Consecutive consonants can cause confusion: “rivers.sing.tree” sounds very like “river.sing.tree”.

The tool has also proved unexpectedly popular in Mongolia, where many people are nomadic. Ordering an Amazon delivery to your yurt used to be “virtually impossible”, says Gan Chuluun Hutagt, a Mongolian businessman, as directions used to be offered in the form of phrases like “go three miles from this well; turn [around at] that mountain”. What3words, he says, has helped Mongolia “leapfrog into the 21st century”.

This quirky British app then, has saved an enormous amount of time. It also offers a strong temptation to waste it. It is ineffably pleasing to find that there is a spot in the Houses of Parliament that bears the code “reform.speech.debate”; or that a spot on the White House portico is “leaves.desk.much”. ■

Correction (June 2nd 2025): A previous version of this article incorrectly stated Professor Baddeley’s institutional affiliation. Sorry.

---

https://www.economist.com/britain/2025/05/29/what-on-earth-is-what3words

Grate Britain

Should cheese rolling be protected as British heritage?

The government mulls making England’s daftest sport official

May 29, 2025 12:49 PM | COOPER’S HILL

Heritage on a roll

PRESSED AGAINST a hill in Gloucestershire, in south-west England, on Bank Holiday Monday, the crowd knows exactly what it wants. “Cheese! Cheese! Cheese!” they chant. Soon they get their wish. A seven-pound Double Gloucester is flung downhill. Two dozen men throw themselves after it. They bounce, slide and tumble down a slope as steep as a ski run. The winner gets the cheese, and only a mild concussion.

Cheese rolling is, for now, not officially recognised. That may soon change. This summer, the government will invite public submissions for a national inventory of living culture. Cheese rolling, along with other delights such as Morris dancing, pantomime and sea shanties, is likely to feature. Compiling such a list is a requirement from joining a 2003 UN convention on safeguarding “intangible cultural heritage”, which Britain ratified only last year. Once on the national register, traditions can then be listed by UNESCO, the UN's culture agency.

For enthusiasts, this is long overdue. France uses the UNESCO label to show off its perfume-making and "know how" of the baguette. China's 44 entries include shadow puppetry, medicinal bathing and the *Muqam* traditions of Uyghurs, an oppressed group. UNESCO lists the intangible heritage of some 150 countries, including Afghanistan, which (jointly with Iran and others) has added four entries since the Taliban's return in 2021. Embarrassing, then, that Britain—often obsessed with its past—has none.

Or not. The origin stories of many national traditions are, after all, exaggerated. Most folk customs do not, despite the claims of Victorian historians, have ancient roots, notes Liz Williams in her book about British folklore, "Rough Music". There is no evidence that Morris dancing stems from fertility rites, or that cheese rolling is a pagan ritual, or else linked to Phoenician sun worship. The earliest recorded mention of cheese rolling dates to the 1820s.

Heritage also evolves. The cheese festival once featured wrestling, gurning and shin-kicking; if some activists have their way, the cheese will one day be vegan. Some customs are revived after decades—maypoles were banned by the Long Parliament in 1644. Others, like bull-baiting, are best left behind. Survival depends less on official lists than on local enthusiasm. “Things survive if communities want them to,” says Mike Robinson, a professor of cultural heritage at Nottingham Trent University.

In recent years, priorities have shifted. Ministers began to praise British customs as much as castles. Key was a compromise with the governments of Scotland, Wales and Northern Ireland that each nation could compile its own separate list. Yet fearing “few winners and many losers”, the government says it has no plans to try for UNESCO listings soon. The fear is unspoken, yet tangible: choosing Notting Hill Carnival over Hogmanay could strain the union.

Dr Williams is ambivalent about formal recognition. Classifying traditions can help preserve them, but “you don’t want to sanitise things out of existence,” she warns. Official status for cheese rolling would sit uneasily with occasional local attempts to ban it. The safety concerns are not so much about broken bones (though 15 people were seriously injured in 1993), but overcrowding, which a UNESCO label would worsen. Thousands cram onto the hill from all over the world; BBC drones broadcast the chaos from above. A German is one of this year’s winners. Cheese rolling gets quite enough attention as it is.■

---

https://www.economist.com/britain/2025/05/27/should-cheese-rolling-be-protected-as-british-heritage

Frenemies

Sir Keir Starmer’s Scottish reset is under strain

The relationship is friendlier, but more rivalrous

May 29, 2025 02:18 PM | Hamilton

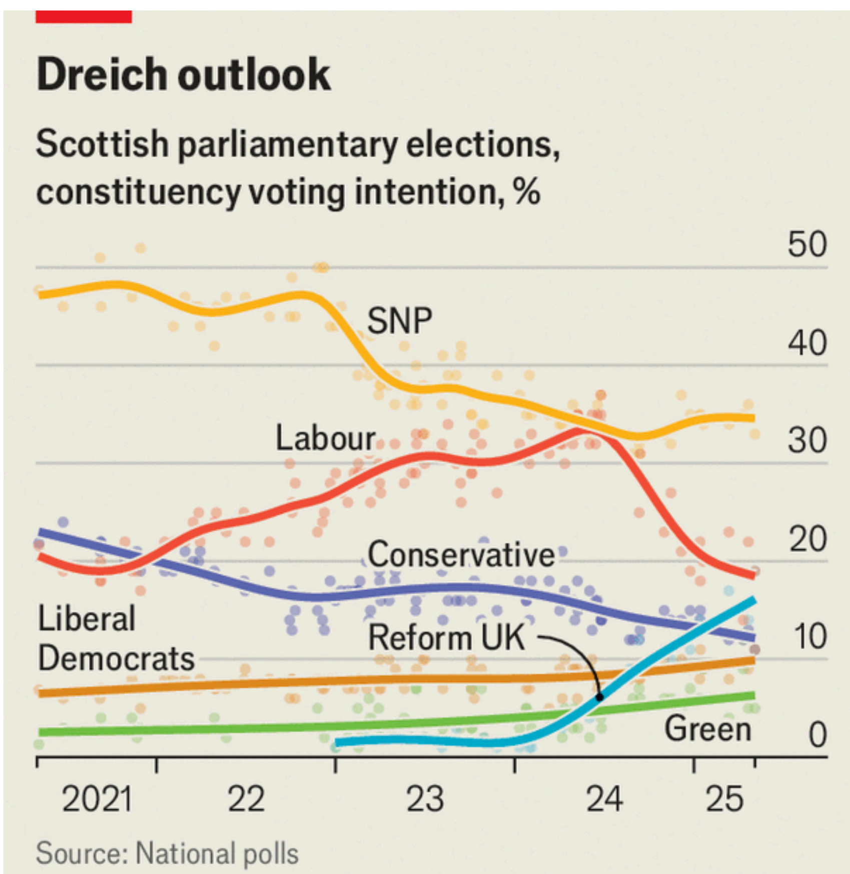
Bromance or brivalry?

SINCE THE independence referendum of 2014, Scotland’s politicians have bombarded its people with constitutional blueprints. The Scottish National Party (SNP), which runs the devolved government in Edinburgh, sought a second vote on separation. The Conservative Party, ruling in Westminster, responded with a doctrine of “muscular unionism”. Thinkers in the Labour Party sought to split the difference with ideas for “devo-max”, or a federal Britain. Politics became paralysed.

Sir Keir Starmer, entering Downing Street in July 2024, had a Starmeresque solution. He offered no grand thinking on the constitution; instead, his promise was simply to make the devolution settlement of 1998 run better. Polls suggested Scots of all camps wanted their “two governments” in London and Edinburgh to co-operate on practical problems, such as child poverty. Tempers would cool. Sensibilism would heal the union.

In practice this is a partial success. A noisily dysfunctional relationship has become businesslike. Things are getting done. Talk of independence, a nagging headache for any inhabitant of Downing Street, has been pushed down the agenda. But the rivalry is intense, and the harmony may not last.

The “reset” began with a cheery meeting between Sir Keir and John Swinney, the Scottish first minister, in Edinburgh days after the general election. Ministers in the Scotland Office (a British government department) talk to Kate Forbes, the deputy first minister, and her colleagues continually. The Scottish government has been uncharacteristically relaxed about Westminster passing laws in areas that encroach on its domain, such as tobacco control. Renewable energy is a bright spot: both governments want lots of it, but regulation is the preserve of Westminster, while planning permission and skills are Edinburgh’s. Officials rave about “extremely dynamic” collaboration.



But the relationship has become more fractious as political fundamentals reassert themselves. The SNP and Labour are in direct electoral competition in a way that was never true of the Tories. Both claim the mantle of the natural party of industrial Scotland. The first test will be a by-election to the devolved parliament at Holyrood in the towns of Hamilton, Larkhall and Stonehouse, south-east of Glasgow, on June 5th. It is a foretaste of the long campaign for the elections to Holyrood in May 2026, where Labour will try to oust the SNP from a government it has run since 2007. The SNP's record is sketchy and its popularity has fallen—yet, since Sir Keir came to power, Labour's has fallen faster.

There is a gulf between the two parties in worldview. The reset was widely misunderstood, some in the British government say today: it did not mean giving the SNP what it wanted for the sake of peace, but working with it out of necessity to deliver public goods. Nor did it mean the end of conflict—only the end to the pursuit of conflict as an electoral strategy of grievance-stoking. Labour has a mandate to make policy in Scotland, they argue, since it won 37 of 57 seats there in the general election. Ministers have cajoled Whitehall to end a culture of "devolve and forget", and to think more about Scotland when carving up budgets and setting policies.

By working with the SNP, the logic runs, Labour can highlight its rival's shortcomings more effectively than by criticising from a distance. In Hamilton Jackie Baillie, Labour's deputy leader in Scotland, points to funds set aside by the Labour-run council to rebuild the town centre, which is dominated by the derelict hulk of Bairds, a concrete 1960s-era department store that closed in 2014. "It then invites the Scottish government to do likewise," she says. "We drag the SNP along in our wake."

For the SNP, the reset is a pretext to rehearse an old nationalist argument: that Scotland will always be sidelined in the union. The reset is cosmetic, the party argues, since it means no greater say for Scotland over areas that are the preserve of Westminster, such as budgets and immigration. It complains that the Scottish government had no oversight of Sir Keir's negotiations with the EU and America. "It's the mushroom treatment," says one party figure: kept in the dark and fed manure.

In Labour, this tension is sometimes characterised as one between "nation-builders" and "place-shapers". Whereas the SNP seeks the powers and rights befitting a proto-state, Labour's focus is on the towns where Scots actually live.

But if not a cure for the union, the reset has at least coincided with a pause in the independence debate. Voters are still split down the middle on the case for separation, but it has all but dropped off the agenda. That is due less to Sir Keir's strategy than to Mr Swinney's: he has quietened talk of a referendum as he seeks to rebuild the SNP's reputation for competent management of public services, which polls suggest most Scots regard as a much higher priority. However, if the SNP triumphs next May, Labour MPs fear, the demands for a new vote will surely return.

There is a risk of Sir Keir fighting the last war. The bigger problem for the British government is not Scots' dissatisfaction with the union, but a disdain for their political class at large. A project premised on the notion that Scots want their "two governments" to co-operate presupposes that they have faith in either. Reform UK, Nigel Farage's party, which has few roots in Scotland, may do well in Hamilton. If so, says Scott Finlay, a 46-year-old social worker waiting for a train, the established parties will have only themselves to blame. He regards them as distant and deaf. Once a Labour voter, now he is undecided. "I'm pretty angry with my country." He adds, by way of clarification: "Scotland, and the UK." ■

---

https://www.economist.com/britain/2025/05/29/sir-keir-starmers-scottish-reset-is-under-strain

Bagehot

Doctors, teachers and junior bankers of the world, unite!

The rise of middle-class consciousness

May 30, 2025 03:13 PM

THE BEST place to consider class consciousness in Britain today is beneath the canvas of a £283-per-night ($381) yurt at Hay Festival, a literary jamboree in Wales. Revolutionary fervour is building among those who “glamp”, as if someone had given Colonel Qaddafi a subscription to the *London Review of Books*.

Here in Hay-on-Wye, the men behind Led By Donkeys, an unapologetically middle-class campaign group that emerged via anti-Brexit gimmicks, can pack out an arena. Alastair Campbell, a once-disgraced spinner turned centrist-lodestar, speaks to sell-out crowds, imploring an audience in expensive walking shoes to channel their anger into a force for change. The middle classes are mad as hell and they are not going to take it any more.

Class consciousness is a simple concept. Before an oppressed class can throw off their shackles, they must know how hard they have it. Karl Marx had workers in mind when he devised it. Increasingly those who are most aggrieved in British society are not those at the bottom but those stuck in the middle. Overtaxed by the state, underpaid by their employers and overlooked by politicians, middle-class consciousness is growing.

It started with Brexit. For many in the middle class—the relatively well-off, well-educated band of voters who make up about a third of the country—this was a radicalising moment. Comfortable lives were rudely interrupted by politics. Marches against Britain's departure from the EU represented the "id of the liberal middle classes", argues Morgan Jones in "No Second Chances", a forthcoming book about the campaign to undo Brexit.

What began with "the longest Waitrose queue in history", as one joker unkindly but not unfairly dubbed the first Brexit march, did not end there. That life is tough in the middle is a feeling that goes beyond people who pay £16 to watch the lads from Led By Donkeys. Traditionally right-wing professions in Britain—such as those in the law and finance—are increasingly unhappy with their lot. The HENRYS (high-earners, not rich yet) are already revolting. Those on six-figure salaries, a small but growing part of the economy given hefty inflation and healthy wage growth, discuss ways of avoiding the grotesque cliff-edges and disincentives that kick in the second someone's salary trips over £100,000. If no one looks out for a class, it looks after itself.

Britain's middle class is less disparate than it seems. The banker and the bookseller have much in common. Even those in normal jobs now face high marginal-tax rates. Strangely, the Conservatives bequeathed an overly progressive tax system to Labour. Direct taxes on median earners have never been lower; those who earn even slightly above are hammered. What ails a junior banker today will haunt a teacher tomorrow. If teachers accept a proposed 4% pay rise, the salary of the median teacher will hit £51,000—shunting them into the 40% tax bracket. A tax bracket designed for the richest will soon hit a put-upon English teacher watching “The Verb”, Radio 4’s poetry show, in a tent near the Welsh border.

It should be no surprise that middle-class unions are now the most militant. Resident doctors—formerly called “junior”—were offered 5.4% by the government, but the British Medical Association has called a strike ballot. It wants almost 30%. This would be its 12th strike since 2023. Labour had tried to buy goodwill by agreeing a pay rise worth 22% in 2024. It did not work. “Bank and build” is the mantra of the middle-class Mensheviks.

Before their stonking pay rise, doctors liked to point out that some young doctors earned less than a barista in Pret A Manger. It was a delicate point. Everyone likes doctors; no one likes snobs. Yet it is a grievance that afflicts an increasing number of middle-class workers. Graduate salaries are often squished in real terms while the minimum wage cranks ever higher. Cleaners and barmen enjoy better pay thanks to the state; middle-class jobs are left at the mercy of the market. The gap between a publisher on a jolly in the Welsh countryside and the person serving them gourmet macaroni cheese is shrinking. Some do not like this. The history of class in Britain is the history of status anxiety.

Partly, middle-class consciousness is a defensive move. When Labour looks to raise money, broad-based tax rises are ruled out. That means niche attacks on the middle classes are in. Pension pots are a tempting target. The Treasury gazes longingly at ISAs, the tax-free saving accounts that are a tremendous bung to middle-class people. Middle England feels about ISAs the same way rural America feels about guns.

Being ignored and, at times, abused by politicians is a new sensation for the middle classes. For decades, their wants and needs drove political debate. As recently as 2017, entire books were written about the exclusion of the working class from British politics, arguing that the middle classes had a monopoly on political attention. Brexit inverted this deal. Now every major party (except the Liberal Democrats, who speak for England's most prosperous corners) falls over itself to offer something to an imagined working-class voter. If Brexit taught anything, it was that voters in want of attention eventually throw a tantrum.

Aux barricades, doc

It is easy to mock the middle class. Perhaps the well-off whingeing about their tax burden, or taking to the streets because a holiday in Europe is now less convenient, is inherently ridiculous (much like spending £283 on a night in a yurt). Politicians can overlook such voters only for so long. It is hard to rule without them; they are simply too numerous to ignore. From the grumpy Remainer to the junior banker scouring Reddit for ways to cut his tax bill to the doctor on the picket line, middle-class consciousness is spreading. Few are content—least of all those in a luxury tent. ■

---

https://www.economist.com/britain/2025/05/28/doctors-teachers-and-junior-bankers-of-the-world-unite

International

- ## The Uber of the underworld
  The gig economy of crime :: Amateur crooks are using plug-and-play hacking kits
- ## Donald Trump steals Xi Jinping’s favourite foreign policy
  The Telegram :: China blames US interventions for Middle East turmoil. “Snap!” says Mr Trump

The gig economy of crime

The Uber of the underworld

Amateur crooks are using plug-and-play hacking kits

May 29, 2025 01:21 PM | SINGAPORE

EVERYTHING'S POSSIBLE at Harrods, proclaims the website of Britain's glitziest department store. Alas, on May 1st this universe of possibilities included an attempted cyber-attack that forced the company to restrict internet access at its sites, it said. The attempted intrusion came just days after hackers took down computer systems at Marks & Spencer (M&S), a supermarket and clothing retailer which says the disruptions will cost it some £300m ($405m). These breaches, which also hit the Co-op supermarket chain, were more than just costly cyber-attacks. They are worrying examples of how crime is evolving beyond simple street thuggery, or even the work of small groups of clever hackers, into a global service economy where anyone with cryptocurrency can buy the tools to paralyse a multinational corporation.

One of the chief suspects in the attacks on Britain's high street is the hacker collective Scattered Spider, according to Britain's National Crime Agency, which investigates serious and organised crime. Scattered Spider is not a traditional, hierarchical mafia.

Instead it is a fluid network of young hackers who may never meet in person, yet can co-ordinate devastating attacks across continents. They are thought to have used DragonForce, a ransomware-as-a-service platform that gives criminals the software to carry out attacks in which they encrypt the victim's data or otherwise block their access to computer systems until a ransom is paid.

Just as Uber upended the taxi industry and Airbnb reshaped the hotel business, the criminal underworld is undergoing its own digital revolution. Criminals who might once have committed crimes themselves are now becoming service providers in a vast underground marketplace. This new service model "is evolving at a rate that we've never previously seen", says John Wojcik of the United Nations Office on Drugs and Crime (UNODC).

The exact cost of cybercrime cannot be known, since much of it happens in the shadows and victims of ransomware attacks may be reluctant to report the crimes. Sometimes this is out of fear that doing so will harm their reputation among customers or that it could result in them being fined under data-protection laws.

Nevertheless, it is clear that the scale is staggering, with billions, possibly trillions, of dollars in economic costs each year. The low end of the range comes from tallies of reported crimes by law-enforcement agencies. The FBI said it received reports of direct losses of $16.6bn in 2024, a 33% increase over 2023. Adding in unreported losses and wider economic costs leads to bigger numbers. Britain puts its current annual losses at more than £27bn (based on old data). The European Commission reckons that the worldwide costs of cybercrime were €5.5trn ($6.5trn) in 2021.

Though estimates of the full cost differ, almost all studies suggest that cybercrime is booming. One reason is the emergence of DragonForce and other similar providers of plug-and-play hacking kits, which give even unskilled criminals the ability to launch ransomware attacks. This dramatically lowers the barriers for newcomers, who no longer have to write their own malicious malware. Moreover, a wider ecosystem of criminal services is developing. This allows hackers to buy, rather than steal, the personal data they need to identify potential victims or to work out how to launder ransom payments. Many of these services are accessed through online forums or messaging apps, such as Telegram, and are often paid for with cryptocurrency.

Hackers who develop ransomware use a variety of business models from selling the basic code, which sometimes costs as little as $2,000, to ransomware-as-a-service. Under the service model a client (or affiliate) gets access to a web portal that lets them customise the ransomware. Some groups also provide a communications portal, through which their clients can negotiate anonymously with their victims. In exchange for these services they take a share of the profits. Market forces and competition have pushed these down to around 10-20% from around 30-40% a few years ago.

Keeping secrets

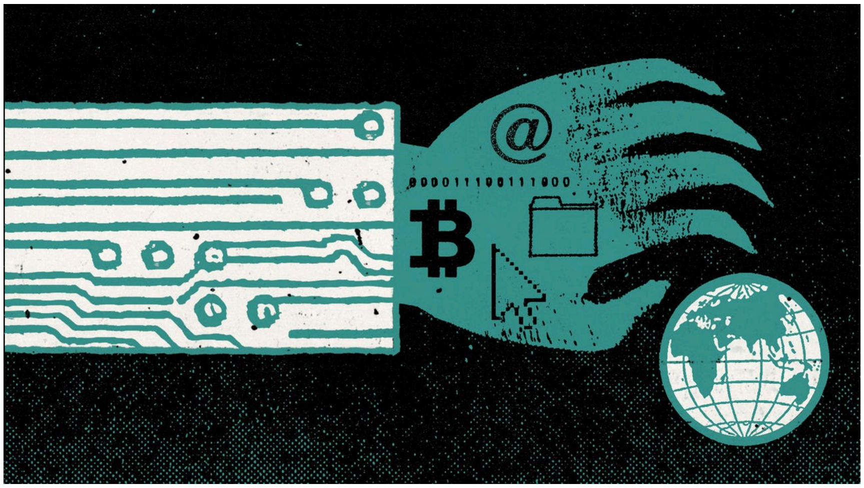
This new modular model is not easily thwarted by law-enforcement officials. When cybercrime operates through countless providers, shutting down one node barely dents the system. In 2023 Scattered Spider attacked Caesars Entertainment and MGM Resorts International, two American casino operators, yet the FBI struggled to dismantle the network.

Criminal business models are also evolving. DragonForce uses a double extortion method. The service both steals a copy of its victim’s data and also encrypts it on the victim’s computer system. Thus it can demand two separate ransoms: one to unscramble the data and another to delete the stolen copy. Firms that refuse to pay face the threat that their data will be leaked to other cyber-criminals.

The targeting of large retailers such as M&S, Co-op and Harrods is not random: these sorts of firms house troves of customer data. After Scattered Spider's attacks on the British retailers, Google warned on May 21st that the group is turning its attention to American retailers.

The sorts of personal information big retailers hold—names, email addresses, credit-card details, shopping habits, even browsing histories that reveal personal interests—are the backbone of modern retailing. These data are among cybercrime's most valuable commodities. With this information criminals can craft more convincing phishing attacks (emails that impersonate legitimate companies in order to trick people into divulging passwords or financial information), launch targeted malware attacks and commit fraud. Underground markets, hosted on messaging apps or on the dark web, now serve as trading hubs where vendors sell stolen credit-card details, bank records and other confidential data. Beyond hacking large retailers, criminals who specialise in stealing and selling data also target banks, investment firms and other financial companies for information about wealthy clients and other profitable targets.

Increasingly, criminals use information-stealing malware, often distributed through phishing emails or malicious ads, that infects computers and smartphones. This malware harvests browsing history, saved passwords (including from internet banking), chat logs, cryptocurrency-wallet details and other personal content. Among these password-stealers are RedLine Infostealer, which has been used to infiltrate major corporations, and META Infostealer (not to be confused with the company that runs Facebook). They are distributed through a decentralised malware-as-a-service model in which cybercriminals either buy a lifetime licence for $900 or subscribe to use it at a cost of $150 a month, according to a criminal complaint filed by America's Department of Justice before a court in Texas in 2022. One cyber-security expert now reckons that the cost of a lifetime licence has increased to $10,000.



Adding fuel to the fire is artificial intelligence (AI), which has already transformed two common types of cybercrime: producing malware and conducting phishing attacks. In the past, gangs would have needed experts with advanced coding skills to write malware or to tailor it to specific targets, tasks that are easily done by generative AI. "What might have previously taken an advanced criminal group weeks to figure out is now available to any criminal in minutes," says Jeff Sims of Infoblox, a security firm.

AI also allows criminals to produce convincing, well-written phishing messages (often in languages that are not their own). These are more likely to succeed in deceiving victims, especially when combined with stolen data. Crime syndicates, for example Chinese groups operating out of South-East Asia, are using AI to translate scripts for romance scams, fake job offers or fraudulent investments, letting them target victims around the world.

Paying the bounty

Law-enforcement agencies have tended to focus on trying to shut down or disrupt the providers of ransomware. In late May an operation by European and North American agencies dismantled an extensive network and issued arrest warrants for 20 people. Yet the continued growth in this sort of crime suggests that enforcement is failing, leading to more draconian proposals. Britain plans to outlaw payment of ransoms by public-sector bodies and operators of critical infrastructure, hoping this will make them less attractive as targets. Those not subject to this ban would still have to report ransomware attacks to the authorities, which would allow law-enforcement officials to block ransom payments. Yet legal experts fret this will not stop cyberattacks (since hackers may still get customer data that they can sell) nor protect companies, which could collapse if they cannot regain control of their data.

If nothing else, the dilemma over how to deter the new breed of cybercriminals highlights how one of the world’s fastest-growing criminal threats come not from armed gangsters, but from geeks writing and selling code in the burgeoning underworld of the criminal gig economy. ■

---

https://www.economist.com/international/2025/05/29/the-uber-of-the-underworld

The Telegram

Donald Trump steals Xi Jinping's favourite foreign policy

China blames US interventions for Middle East turmoil. "Snap!" says Mr Trump

May 29, 2025 12:49 PM

FOR AN ECONOMIC and military giant, China is strangely drawn to pint-size diplomacy. Though it is a bully in its backyard, China is cautious farther from home. In such hotspots as the Middle East, it is transactional, self-interested and focused on business deals. Bluntly, China acts like a middle power, as if competing in the same league as Turkey or the United Arab Emirates.

This approach has survived the rise of Xi Jinping, the most powerful Communist Party chief in decades. At home Mr Xi talks of returning China to global pre-eminence and of building world-class armies to smash any foe. To foreigners Mr Xi frames his country as a peace-loving giant. When Chinese trade missions set off down the ancient Silk Road, they did not seek to conquer new lands, Mr Xi declared in 2023. He was addressing trade partners gathered to mark the first decade of the Belt and Road Initiative (BRI), a big Chinese lending and infrastructure scheme. Chinese travellers “are remembered as friendly emissaries leading camel caravans and sailing ships loaded with goods”, said Mr Xi.

Even in regions stalked by sectarian violence, ethnic hatred and religious extremism, Chinese leaders propose prosperity as a cure-all. In 2016 Mr Xi told the Arab League: “Turmoil in the Middle East stems from the lack of development, and the ultimate solution will depend on development.” The use of force has brought disaster to the region, Mr Xi went on. Happily, he said, China could offer trade, technology and infrastructure to help Arab governments pursue reforms without jeopardising stability.

Scholars in China praise this as “Chinese wisdom” and a source of diplomatic strength. Because China is all about business, they aver, their country can sign energy and construction contracts with opposing sides in a civil war, as happened some years ago in Libya. Pragmatic China can play mediator between such foes as Iran and Saudi Arabia, which restored diplomatic relations after a few days of China-hosted meetings in 2023.

A new book, “China’s Changing Role in the Middle East. Filling a Power Vacuum?” by Chuchu Zhang of Fudan University, offers a useful survey. At times it is boosterish. It glosses over the many months that Iraq and Oman spent preparing that Saudi-Iranian rapprochement in Beijing. But it is commendably frank about narrow interests that sometimes guide Chinese diplomacy. In the book a former Chinese ambassador explains why, just over a decade ago, his country vetoed several UN Security Council resolutions to impose sanctions on Bashar al-Assad’s regime in Syria for the alleged use of chemical weapons against its people and other acts. In the ambassador’s telling, China vetoed Western-drafted resolutions so it would be taken seriously in the region, arguing: “If we hadn’t, China would have been excluded from any negotiations concerning Syria or other Middle Eastern issues.”

Ms Zhang reports that "as an inward-looking power" China's "biggest interest" in Syria's civil war was the presence of hundreds, possibly thousands, of Uyghur militants from China's far-western region of Xinjiang, fighting alongside Islamist rebels. Praising Mr Assad for combating terrorism, Chinese officials called on outside powers to "abandon the fantasy of regime change" in Syria.

China's default response to hard problems is to call for mediation, and to suggest that meddling by an arrogant, hegemonic West is the root cause. Chinese envoys blame American sanctions for the death of civilians, for instance in Iran during the covid-19 pandemic. Time and again they condemn outside powers for trying to impose Western-style democracy. Officials boast that Chinese investments and deals come without political conditions.

Sceptics add that China favours opaque contracts that allow local elites to enrich themselves. It is a stingy aid donor, pledging $2m in 2023 to UNRWA, the UN agency that assists Palestinians—less than the contribution from Iceland (population 400,000).

Now, though, Chinese leaders face an American president as transactional as they are, and just as scornful of overseas aid. If anything, Donald Trump sounds more contemptuous of predecessors who toppled dictators in freedom's name. In Saudi Arabia on May 13th Mr Trump praised Gulf Arab rulers for "forging a future where the Middle East is defined by commerce, not chaos; where it exports technology, not terrorism". This progress was achieved without lectures from Westerners, he said. "In the end the so-called nation-builders wrecked far more nations than they built, and the interventionalists were intervening in complex societies that they did not even understand themselves," he said.

Transactional China meets its match

In February Mr Trump halted graft investigations under the Foreign Corrupt Practices Act, blaming the law for erecting “excessive barriers to American commerce”. Though Mr Trump loves economic coercion, his special envoy, Ric Grenell, has claimed that his boss frets that “sanctions penalise American companies.”

Mr Trump’s challenge comes at a painful time for China. Its economy is slowing, leaving less money to invest overseas. BRI lending peaked a decade ago and debts are now coming due across the developing world. As a security provider, China is an also-ran in the Middle East. America makes advanced weapons and world-beating semiconductors and airliners, and duly sold many billions of dollars-worth during Mr Trump’s visit.

China is not out of the game. It remains a huge energy buyer. It has green technologies to sell. It offers an alternative for leaders eager to hedge their bets. But to be brutal, its values-free foreign policy has been swiped by a richer rival. Its response will be revealing. If China’s commitment to peace through development is sincere then it can stick with pragmatism and deal-cutting. If China’s real aim is to shove America aside, then watch out. Mr Trump has given China cause to amp up the ideology, and push harder.■

---

https://www.economist.com/international/2025/05/27/donald-trump-steals-xi-jinpings-favourite-foreign-policy

Special report

- ## Financial giants are transforming Wall Street
  The new masters of the universe :: Thomas Bennett hails their innovation and dynamism, but warns against hubris
- ## Clash of the titans
  Convergence :: The new giants of Wall Street are breaking down old boundaries
- ## What it means to be illiquid
  Trapped capital :: Investors are learning how hard it is to get money out of private equity and venture capital
- ## The debt barons who are taking on the banks
  Private lending :: Private-credit funds are courting borrowers of all sorts. Regulators are sceptical
- ## The latest investment fad is made for gamblers
  Speculation :: Leveraged ETFs are exploding. They seem designed to incinerate your money
- ## Can anything stop America’s superstar hedge funds?
  Titans of finance :: Citadel and other giant funds have remade public markets
- ## How the next financial crisis might happen
  Future shock :: The new titans of Wall Street present the world with new risks

The new masters of the universe

Financial giants are transforming Wall Street

Thomas Bennett hails their innovation and dynamism, but warns against hubris

Jun 05, 2025 05:09 PM

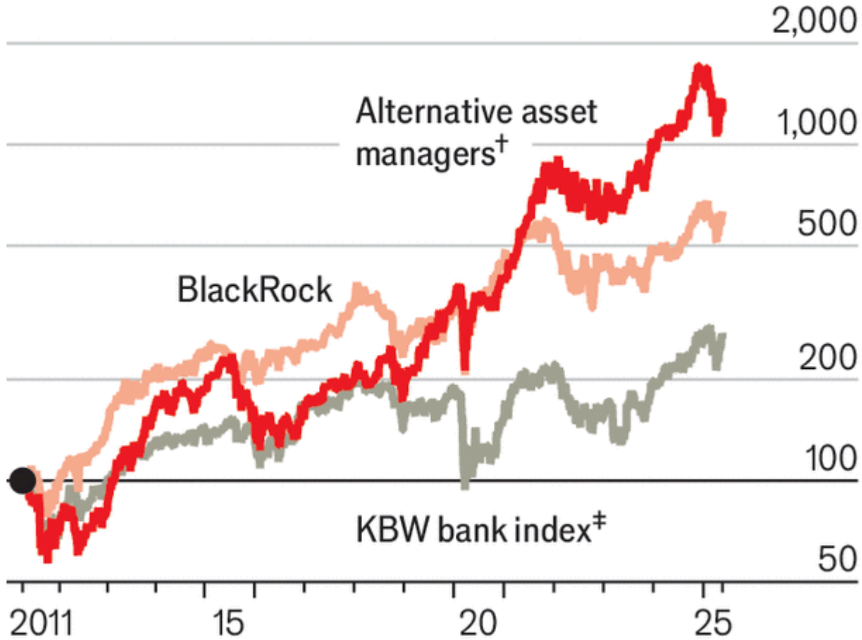
FINANCE IS AN industry moulded by disaster. It took a civil war to bring America's banks under federal supervision, a banking panic to create the Federal Reserve and a Great Depression for the government to insure deposits. Yet the reformist urge that burns hot in the moment of catastrophe has a tendency to fade. Lessons are forgotten, innovations happen and regulations become regarded as a nuisance. New risks emerge—as do new titans, who defend their successor system vigorously and convincingly. The conclusion of one crisis begins the countdown to the next.

Wall Street has never failed as spectacularly as it did in 2008. Its executives fuelled a dramatic increase in borrowing which helped inflate a housing bubble. The complexity of its financial instruments had made the system's fragility invisible even to insiders. After the subprime-mortgage market faltered, liquidity vanished across the financial system. Lehman Brothers was one of hundreds of banks to fail. Had the state not bailed out the biggest lenders, things would have got much worse. Reform crystallised in measures such as the Dodd-Frank Act of 2010, which subjected banks to a vast compliance bureaucracy. Lenders have been forced to hold more capital and to rein in their traders.

Regulators can choose whom to target but have less control over the firms that succeed in their place. In 2008 Charles Goodhart, an economist, described the “boundary problem” in finance. Setting and policing the boundary between regulated and unregulated institutions is hard, he argued, partly because risk-takers inevitably respond to regulation by shifting their activities into areas that are watched less closely.

They might be giants

Market capitalisation, March 29th 2011=100*
Log scale



Selected asset managers, May 2025

Private-market firms§	Assets, $bn	Employees, '000
Blackstone	1,167	4.9
Apollo	785 Credit	5.1
KKR	664	4.8

Hedge funds**	Assets, $bn	Employees, '000
Millennium	571	6.1
Citadel	446	3.2
Balyasny	265	2.1

*Apollo IPO †Apollo, Blackstone, KKR ‡24 large US banks
§Assets under management (AUM) **Regulatory AUM
Sources: Bloomberg; company reports

That is exactly what happened. Since the crisis, and especially in the past few years, a handful of American asset managers have thrived, often in areas that were the province of banks. Their lending activities, often called private credit, have grown rapidly, in part because banks are hemmed in by regulators. Hedge funds dominate trading activities where banks once held sway. Loose monetary policy helped. So did voracious global demand for American assets—these firms are beneficiaries of American exceptionalism.

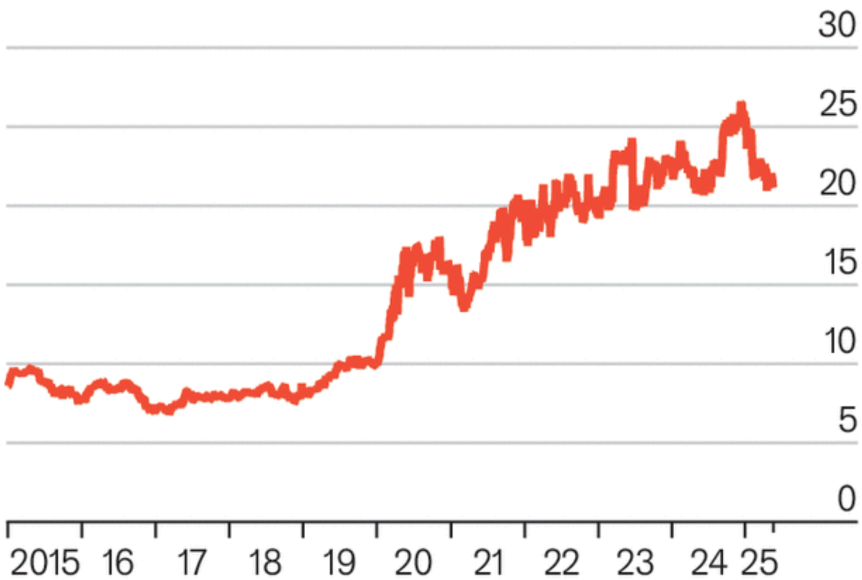
Executives at these firms believe their success confirms the wisdom of the new financial order (see chart). The collapse of Silicon Valley Bank, which recklessly borrowed from uninsured depositors who then ran for the exit in 2023, confirmed their view of banks as poorly run and intrinsically vulnerable.

But is a reckoning coming? How would loans made by private-credit funds perform in a recession? How risky is the growth in borrowing by hedge funds? Versions of these questions are being asked in every major financial institution and central bank.

Donald Trump's chaotic presidency is making these questions more urgent. On April 2nd Mr Trump "liberated" America's economy by announcing massive and arbitrary tariffs. Financial markets promptly went on a vertiginous ride, their volatility reaching levels surpassed only in 2008, at the height of the financial crisis, and in March 2020, at the beginning of the pandemic. Stocks had their fifth-worst two-day decline since the second world war. Companies' cost of capital soared. Confidence among consumers and executives has been badly shaken.

Worth a fortune

Market capitalisation, selected asset managers as % of KBW bank index*



*Apollo, BlackRock, Blackstone & KKR as a share of 24 large US banks
Source: Bloomberg

The self-inflicted trade crisis at times looked like it might precipitate a full-on financial crisis. Yields on America's government debt surged while the value of the dollar plummeted, suggesting investors were fleeing American assets despite higher returns—a troubling dynamic typically reserved for emerging markets in turmoil, not the global financial hegemon.

Calm, or its semblance, has returned. Some executives see a real-world "stress test" completed—or even defeated, given how quickly Mr Trump bent to markets and paused the full implementation of his tariffs. Share prices in the big private-markets asset managers are still down a quarter of their value since their post-election peak in November, but markets have stabilised. Some contend only the pride of the Wall Street bosses who supported Mr Trump has been damaged.

Pride goeth before a fall

But to be sanguine is to be naive. Even if Mr Trump manages to refrain from smashing up global trade, the contrast between America's fine-tuned financial system and the chaotic condition of its politics is too stark to ignore. Wall Street thrives on the rule of law and globalisation, both things which Mr Trump spurns. Many of the conditions of a financial meltdown are in place. The national debt sits at $36trn, close to a record relative to the size of the economy. Asset prices are inflated—and could easily be deflated if foreign investors decided to sell.

As this special report shows, financial innovation has transformed Wall Street. As in eras past, surging asset values have concealed cracks in the new financial order. Whatever dangers are lurking, Mr Trump's presidency will make them more dangerous still. ■

More from this Special Report

---

https://www.economist.com/special-report/2025/05/23/financial-giants-are-transforming-wall-street

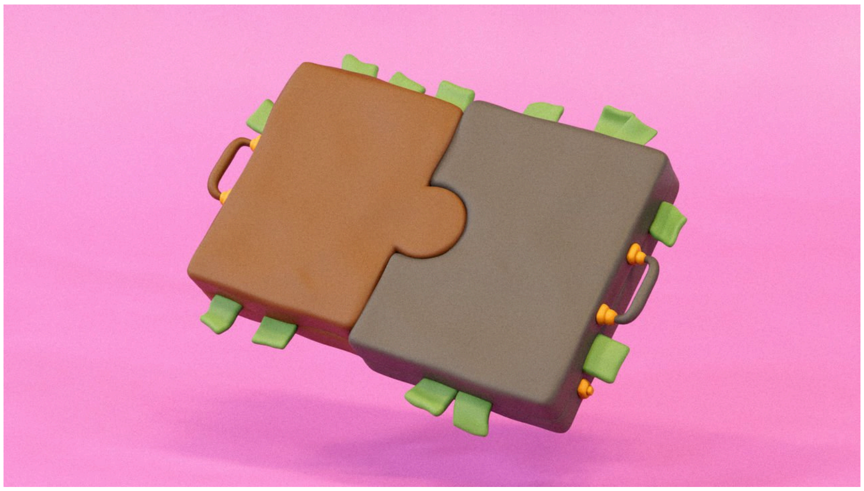
| Section menu | Main menu |

Convergence

Clash of the titans

The new giants of Wall Street are breaking down old boundaries

May 29, 2025 10:43 AM

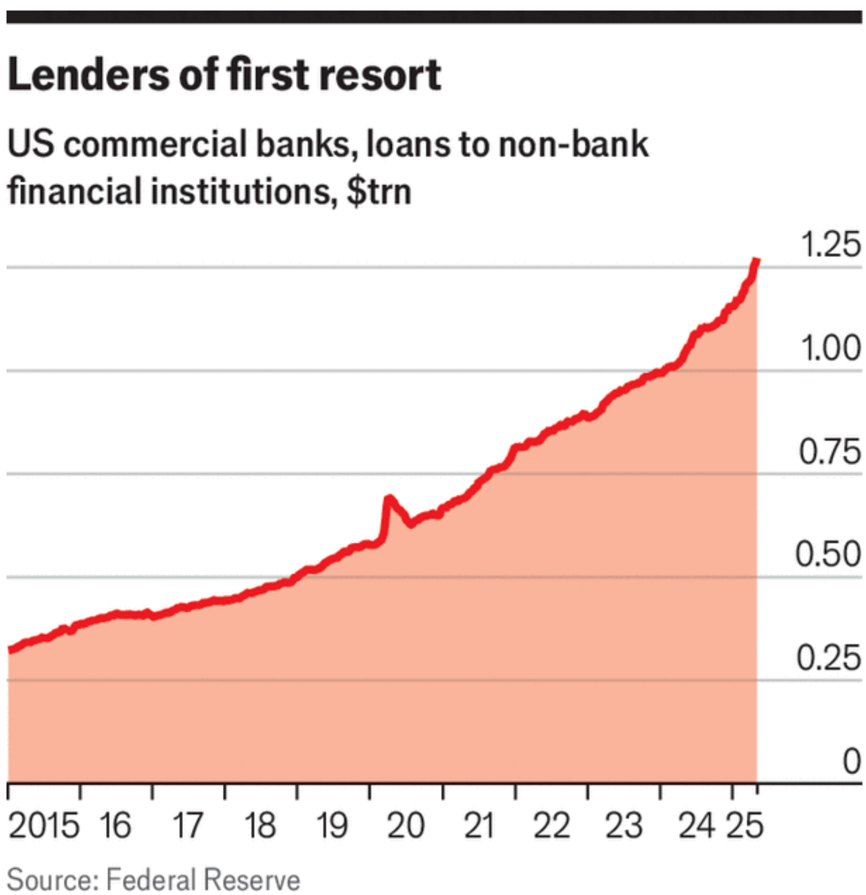


"THE MARKED increase in the popular participation in securities transactions has definitely placed under the control of financiers the wealth of the Nation." Thus concluded the Senate's report into the causes of the stockmarket crash of 1929. The world is again in an age of truly powerful financiers. Some giants of today simply reflect the size of America's economy. JPMorgan Chase, the largest bank, is big because America is. But others owe their heft to how the structure of markets has changed.

Index-based funds and other forms of passive investing in public markets have risen inexorably. That has been to the advantage of BlackRock and Vanguard, the asset managers which dominate low-cost investment products. Non-bank players in private markets—markets which trade in privately held companies and extend illiquid loans—have also grown massively. Apollo, Blackstone and KKR together have $2.6trn of assets under their control, up from $570bn a decade ago, largely due to expanding their lending activities. The combined market capitalisation of these firms and

BlackRock has increased over the same period from $125bn to $500bn—that is from 10% of the value of America's banks then to 21% now. Some huge hedge funds, like Citadel and Millennium, have absorbed capital and brainpower from the rest of their industry. Last year Jane Street, a hedge fund, earned as much trading revenue as Morgan Stanley, a bank.

These giants' proportionally sized spheres of influence overlap. Apollo resembles a life insurer more than it does the private-equity fund it used to be (and is still treated as). The largest venture-capital firms have grown from small partnerships to look like their bigger cousins in private equity (General Catalyst, one such firm, has even set up a wealth-management division). Some big hedge funds provide liquidity as market-makers, a role historically dominated by banks, in addition to trading on their own account. And banks are fighting back. Goldman Sachs has reorganised itself to better take on private-credit lenders.



The revolutionary effect of these firms is clearest at the boundaries which run through the financial system. One is between banks and non-banks. Bankers are busily greasing the wheels of the firms that take the bets they used to. Loans to non-bank financial institutions have doubled since 2020 to $1.3trn and account for a tenth of all bank lending (see chart). Hedge-fund borrowing from the prime-brokerage divisions of banks has increased from $1.4trn to $2.4trn over the same period. Lending partnerships between banks and private-credit firms have proliferated.

Another boundary is that between public and private markets. Borrowers now choose between "public" bond and loan markets, where debt changes hands frequently, and private ones, where loans are hardly traded at all. These days more asset managers are operating in both markets.

The third boundary is between retail and institutional investors. Retail investors can now access products as complex as anything changing hands on a trading floor. Exchange-traded funds (ETF), once considered staid investment vehicles, are booming as asset managers structure them to offer individuals the sort of risks and rewards one might find in a casino. (Cryptocurrencies only fuel the speculative fever.)

We're not so different, you and I

The parable of BlackRock neatly illustrates this messy picture. Now the world's largest asset manager, it opened shop in 1988 as part of Blackstone, a private-equity firm. They broke up in 1994, and for decades thereafter, the firms represented alternative visions of finance. BlackRock's world was one of public markets, low fees, retail investors and the overbearing socially conscious capitalism of its founder, Larry Fink. Blackstone meanwhile focused on private markets and institutional investors. Stephen Schwarzman, its founder, is the archetypal buy-out baron.

Now the firms are converging. Blackstone pitches its products to individual investors. BlackRock has jumped the other way, into private markets. Last year the firm spent the equivalent of a quarter of its market capitalisation on HPS, a private-credit lender originally carved out of JPMorgan; Preqin, a data firm; and Global Infrastructure Partners, which does what it says on the tin. It even atoned for its wokeness by bidding for strategically important ports in Panama currently owned by CK Hutchison, a firm based in Hong Kong, earning it praise from Donald Trump.

The sum of these changes is an American economy increasingly funded by capital markets instead of by banks. This new-look financial system is certainly innovative. But is it resilient? Those at its apex sing its praises by comparing it with European finance, which remains dominated by local banks. In contrast to Europe there is a rocking dynamism about Wall Street, as evidenced by the speed at which it finances innovation in the real economy. Shortly after leaving OpenAI, the maker of ChatGPT, two senior executives are separately raising billions in venture-capital funding based on their ideas. Debt markets are keenly financing new data centres, aiding the boom in AI-related capital expenditure. Both would be unthinkable in Europe, where the biggest financial story is the woes of an Italian bank trying to buy a German one.

Risky business

Rapid change also brings risks. Dangerous financial innovations are often recognised as such only after they falter. Some, like a pandemic-era boom in special-purpose acquisition companies, a method of raising capital, fade into irrelevance without doing much harm. Others, like credit derivatives in the 2000s, wreak systemic havoc. A potent mixture of complexity, leverage and short-term funding is often to blame.

The trouble is identifying cracks. Researchers at the New York Fed and New York University argue in a paper that tight interlinkages between bank and non-bank financial institutions undermine claims that systemic risk has been reduced by regulation since the crisis. Andrew Bailey, the governor of the Bank of England, has argued that structural changes in markets are creating new and underappreciated risks, calling out big hedge funds in particular. Harvard's Jeremy Stein puts it bluntly. "Financial innovation is like a virus, finding weaknesses in existing incentive schemes and regulation," he says. "When something is growing very fast, that suggests they have found a weakness." ■

More from this Special Report

---

https://www.economist.com/special-report/2025/05/23/clash-of-the-titans

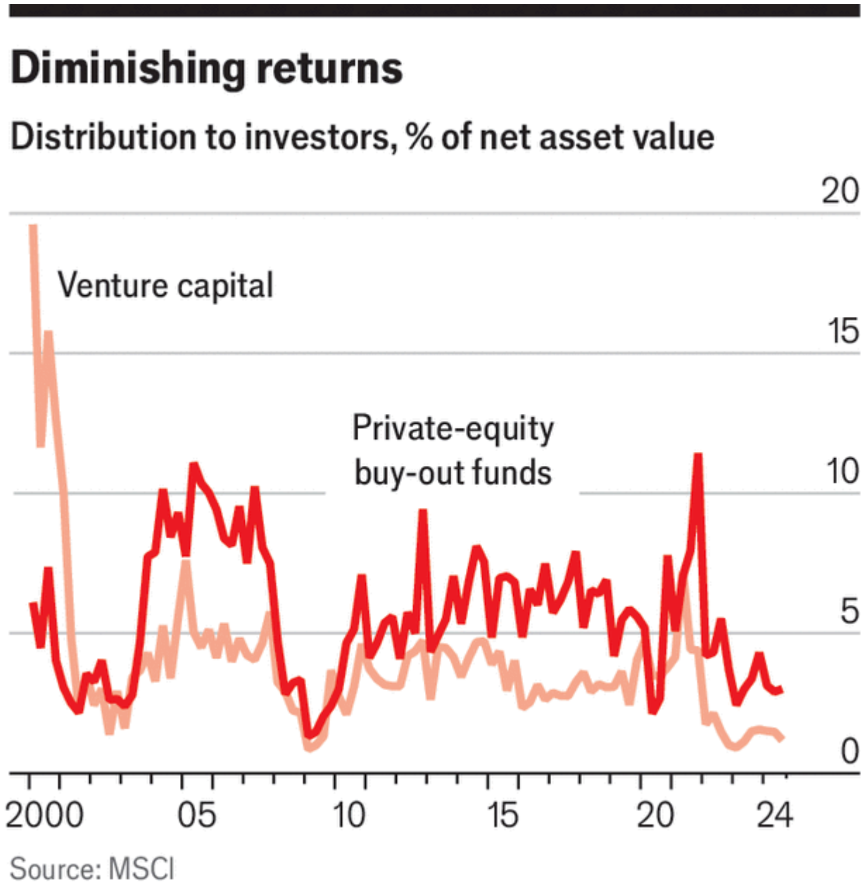
Trapped capital

What it means to be illiquid

Investors are learning how hard it is to get money out of private equity and venture capital

Jun 05, 2025 05:08 PM

ON WALL STREET, the investment bankers who arrange mergers and public offerings are the first casualties of economic uncertainty. Coaxing wary corporate bosses to raise and spend capital is, unsurprisingly, much less fruitful than encouraging bullish ones. Mergers have stalled. Initial public offerings, including those of Klarna, a “buy now, pay later” lender, and StubHub, a ticket-resale website, have been postponed. Bankers say they are “cautiously optimistic”, which is what business-school graduates mumble when they fear for their jobs.



If volatile policymaking is bad news for bankers, it is worse for their biggest clients. Private equity and venture-capital firms have struggled to sell their existing investments since 2022, when central banks raised interest rates. When sketched, the balance of payments of an investor in such funds should resemble what academics call a J-curve but ordinary folk recognise as a Nike swoosh: funds quickly "call in"—or demand—the capital investors have promised in order to make deals (the short, cresting wave) before returning it gradually with profits (the long, soaring tail). The second part is proving difficult. Since 2023 private-equity funds have returned 3.3% of the value of investments each quarter, well below the long-term average of 5.6%. Things are bleaker in venture capital, which relies more on public markets for its exits (see chart).

The point of no returns

The first wave of private-equity buy-outs—highly leveraged, often hostile, targeting large public companies—peaked in 1989 when

KKR bought RJR Nabisco, a conglomerate whose holdings included Winston cigarettes, for $25bn. That year Michael Jensen, an economist, predicted the decline of the public company in *Harvard Business Review*. Empire-building corporate managers tend to enrich themselves at the expense of shareholders, he argued; rather than erecting unwieldy conglomerates, private-equity funds pulled them apart. America's industrial conglomerates have since disappeared. Its private-equity industry has not. Instead, it has grown large and cumbersome, in some ways reflecting the firms it used to target. After the financial crisis low interest rates enabled the sector to quadruple in size: debt was cheap, valuations went up and investors were short of places to put their capital.

That money machine is broken. Even before the tariffs, private-equity fundraising had slowed down, reducing the amount of capital searching for new deals. (Last year, assets managed by private-equity funds recorded a modest fall, to $4.7trn.)

All manner of techniques have been used to create liquidity, many of them seen in a surge of deals in secondary markets where positions in funds or companies change hands. (The value of such deals grew 39% last year to $152bn according to Lazard, an investment bank.) Tactics deployed include: continuation funds, where funds sell assets to themselves; net-asset-value loans, where a fund borrows against its value to pay dividends or allow investors to cash out; and even collateralised-fund obligations, where pools of illiquid positions in funds are smashed together in the hope of creating something more appealing. Only naive or delusional institutional investors see these developments as anything other than signs of distress.

The biggest private-equity firms, meanwhile, have speedily diversified into private lending (though they mostly lend to firms owned by private-equity funds) and other activities. Investors seem to think they have not diversified quickly enough. Their valuations have fallen dramatically in recent months; the share price of

Blackstone, the largest private-market asset manager, has fallen by 30% since its high in November.

Whereas private-equity firms find solace for their troubles in financial engineering, venture capitalists seek salvation from their own liquidity crunch in the next big thing. Counterintuitively, their capital woes coincide with a dealmaking boom. In America the value of funding rounds in which startups raised large sums from VCs hit a record during the first quarter of the year, according to PitchBook, a data provider. Artificial-intelligence startups absorbed most of the cash (a $40bn funding round for OpenAI was the largest in history). Silicon Valley's new interest in the defence industry is also generating mega deals, and some mega-size companies: Elon Musk's SpaceX, whose lucrative government contracts are expected to grow under the Trump administration, is worth $350bn.

None of this will comfort investors who might need a quick exit strategy. America's elite universities have long been a top customer for private equity: their endowments have extended time horizons and vast riches. But Donald Trump's assault on academia, including threats to research grants and to the tax-exempt status of universities, is putting pressure on their finances. Huge investments in private markets have left them uniquely unsuited to face a liquidity crunch, as they suffered during the financial crisis. Almost 40% of the $190bn of Ivy League universities' endowments is invested in private equity. At Yale, where David Swensen, who previously ran the university's endowment, led the charge into private markets, that figure is 45%. The university reportedly plans to sell $6bn of investments in private-equity funds. (Last year all endowments combined sold less than $9bn, according to Evercore, another bank.) It doesn't take an Ivy League education to know that will be tough. ■

More from this Special Report

https://www.economist.com/special-report/2025/05/23/what-it-means-to-be-illiquid

Private lending

The debt barons who are taking on the banks

Private-credit funds are courting borrowers of all sorts. Regulators are sceptical

Jun 05, 2025 05:09 PM

NO DEAD INSTITUTION looms larger over the financial system than Drexel Burnham Lambert. The investment bank, which collapsed in 1990, is to today's Wall Street what PayPal was to present-day Silicon Valley: an incubator for young hot shots who went on to shape an industry. Whereas those from the payments firm would start SpaceX, LinkedIn and YouTube, Drexel alumni founded Apollo, Ares and Cerberus, and firms that later became the credit divisions of Bain Capital and Blackstone.

Drexel's great innovation under Michael Milken was introducing risky borrowers to bond markets; its junk bonds fuelled private equity's leveraged-buy-out boom during the 1980s. The ambitions of its descendants, and Apollo in particular, are even more radical. They, too, have grown by funding buy-outs, but now court many more types of borrowers, from blue-chip companies to households, with the promise of being quicker, more flexible and more reliable than banks. They simultaneously pitch investors higher returns than on other types of debt without an increase in risk.

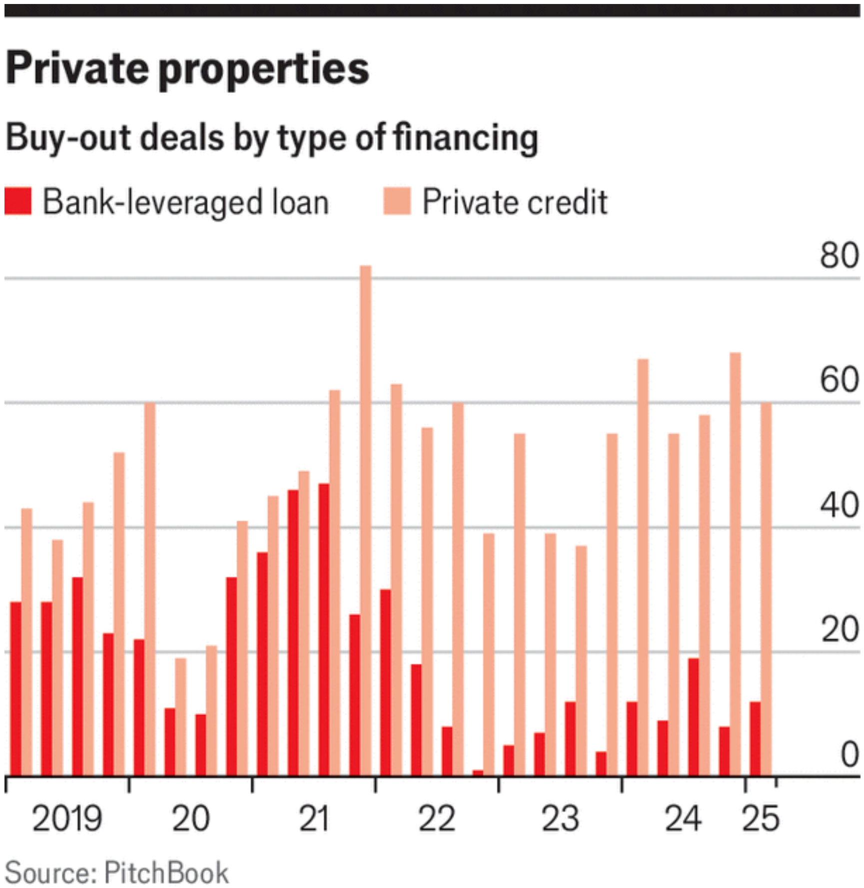
Much like Mr Milken before them, the private-credit kings believe they are injecting vitality into a sclerotic system. Marc Rowan, the boss of Apollo, sees private credit as the solution to the fragility of banks and a boon for the economy. KKR, a rival investment firm, likened the present innovation in credit to the launch of the iPhone in 2007—an historic disruptor.

Irrational exuberance?

Regulators and some bankers are sceptical. They see private debt as an exuberant and dangerous form of regulatory arbitrage, bound to blow up when defaults rise—as they surely would during a recession. Expanding private credit to include new sorts of assets and investors will only compound the folly, they assume, with potentially systemic consequences.

The stakes are massive. The five biggest private-credit managers have amassed $1.9trn of debt assets. But they view all of the $40trn borrowed by American households and businesses as fair game, particularly the $13trn of loans sitting on the balance-sheets of banks. McKinsey, a consultancy, says private credit's addressable market is $34trn. Apollo, around $40trn.

So far private credit has mostly consisted of private-equity firms lending to companies owned by other private-equity firms. It represents the third wave of innovation in borrowing by such highly indebted outfits. After junk bonds in the 1980s—the first wave—came leveraged loans, which are made by investment banks before being securitised (pooled and sliced up) by asset managers as collateralised loan obligations. The resulting tranches, varying in risk, are sold to investors, including insurers and banks. The share of corporate debt classified as bank loans fell from a third in the 1960s to a tenth in 2009 due to these innovations.



The trouble is banks can be left holding unwanted debt when investor demand dries up, as when central banks began raising interest rates in 2022 (some loans which financed Elon Musk's takeover of Twitter in October 2022 were sold only in April). Private-credit funds, lenders often managed by firms with big private-equity businesses, stepped in and thrived in this turmoil. They now fund the majority of new buy-out deals—including some of the biggest (see chart).

But this is nothing compared with the empire of debt private credit plans to build. To understand it—and just how radical it is—consider the ways in which they are raising capital and finding borrowers.

First, the capital. Some funds have already grown massive on the back of courting individual investors. Assets held by business-development companies (BDCs), funds which invest in private credit and are generally open to individual investors, have quadrupled to

$440bn since 2019. Blackstone started BCRED, the biggest, which is pitched at wealthy individuals, in 2021. The fund now manages $70bn of loans. Were it a bank, BCRED would be America's 37th-largest.

They just wanna have funds

To broaden their appeal to retail investors, the architects of these investment products have become rather creative. Apollo and State Street, an asset manager, launched an exchange-traded fund (ETF) in February which holds a portfolio including private loans. Apollo has also started "tokenising" ACRED, a private-credit fund, to give investors access to its wares on the blockchain. KKR has launched products which mix public and private debt for retail investors through its partnership with Capital Group, another asset manager. In April Blackstone said it was working on something similar with Vanguard and Wellington Management.

Private-credit firms are also turning to life insurance for capital. Unlike bank deposits, which can be withdrawn instantly on a smartphone during a panic, life-insurance policyholders typically incur penalties for withdrawing their capital early. Private-markets firms argue that this comparatively stable funding makes insurers ideal buyers of less liquid and more complex assets with higher yields, including private credit. The sleepy life-insurance industry can be marshalled to fund long-term projects and lending, to the benefit of America's economy and its growing number of retirees. They also benefit from lax regulation, including by way of offshore reinsurance arrangements in Bermuda and the Cayman Islands.

Apollo started Athene, its insurance arm, in 2009—a decade before many of its rivals cottoned on to the idea. Athene now sells more annuities, a type of retirement product, than any other insurer in America. Last year KKR completed its acquisition of Global Atlantic, another big insurer. Blackstone has taken minority stakes in insurers in exchange for managing their assets, rather than buying a firm outright; it now has $237bn of insurance assets under its watch. Brookfield and Carlyle, two more investment firms, both manage insurance assets. And in April Bain Capital said it would buy 9.9% of Lincoln Financial, another life insurer, in exchange for managing its assets.

This scramble for new assets has been matched by an aggressive search for places and ways to lend them. That includes stalwart firms with stronger credit ratings which in the past have borrowed from America’s investment-grade-rated bond market. And it extends to markets like mortgages, credit cards and other types of asset-based lending. Goldman Sachs reckons private-credit firms might capture $11.5trn of such debt—much of it currently lent by banks.

Banks are falling over themselves to supply them with debt. They are striking partnerships with asset managers, shifting debt from heavily regulated balance-sheets to insurers and funds. According to PitchBook, a data provider, eight such partnerships were announced between October and March (there were four in 2023). Barclays agreed last year to offload to Blackstone a portfolio of credit-card debt against which it would have had to hold more capital. In September Citigroup made the biggest such deal so far, agreeing to arrange $25bn of corporate loans before funnelling them to various funds at Apollo.

The speedy courtship between banks and asset managers has surprised many. In 2023 the chairman of UBS, a Swiss bank, told a conference that there was “clearly an asset bubble” in private credit; in May the bank agreed to partner with General Atlantic to give the banks’ clients access to the option of borrowing from the private-markets asset manager. One investor likens the new partnerships to asset-rich old men finding racier young brides. Such May-December couples include Oaktree, a 30-year-old California fund, and Lloyds, a 260-year-old British bank.

But the biggest firms are doing more to supplant banks than siphoning off their loans; they are increasingly generating their own loans. Blackstone originated $35bn in investment-grade lending last year, destined for the insurance balance-sheets it manages. Apollo did $220bn across its businesses. Nearly half came from a stable of 16 lending firms owned by Apollo, Athene and other affiliated funds. They include a former division of GE Capital, the ill-fated financing arm of the legendary American industrial conglomerate, and Atlas, the legendary securitisation business of Credit Suisse, the ill-fated Swiss bank.

Apollo reckons it will surpass $275bn annually by the end of the decade. That includes big-name clients. Since the firm struck a deal to finance AB InBev, a giant brewer, in 2020, demand for its services has risen from corporate bosses hoping to benefit from the firm's unrivalled capacity for financial engineering. Last June Apollo supplied $11bn to the Irish manufacturing facility of Intel. For the purpose of the challenged chipmaker's credit rating the transaction was classified as an equity investment. Yet the deal was structured to furnish $4.7bn of pristinely graded debt for Athene's balance-sheet, equivalent to 15% of the insurer's capital. (Intel has since been downgraded by rating agencies, and its share price has fallen by almost a third.) Blackstone announced a similar transaction with EQT Corporation in November, allowing the natural-gas producer to retain its credit rating while furnishing the insurers advised by Blackstone with debt.

A revolution has unfolded in debt markets. But can this rewired system cope with a recession? BDCs provide a window on their investments each quarter. Even before President Donald Trump instituted new tariffs on April 2nd, borrowers were deferring interest payments in an attempt to stave off defaults. Almost half of borrowers have negative free operating cashflows, compared with a quarter at the end of 2021. The concentration of private-credit loans in technology and business-services sectors is of particular concern.

Default is in our pars

There is also surely hidden stress in a system where assets change hands less frequently than in public markets. Take Pluralsight, a tech company bought by Vista, a private-equity firm, in 2021. Private loans to Pluralsight were marked at close to par before seeing their value slashed in a restructuring last year. In January the keys to Alacrity, another software company, were handed to lenders who until recently had valued its debt at similarly high levels. Private-equity funds spent years paying top prices for assets before 2022. A recession would undoubtedly reveal more instances of shoddy lending and valuation.

The risks of private-credit funds could pose some dangers to the banks they have been keen to dislodge. Private-credit lending usually augments, rather than fully replaces, the role of banks. For every dollar a BDC raises from investors, it typically borrows one more from banks. Close to half of BCRED's $30bn of borrowing is from big banks. David Scharfstein of Harvard and co-authors argue in a paper that capital requirements have incentivised banks to lend to BDCs rather than make the loans directly to companies. That would make a recession worse if private-credit firms pull back from lending more sharply than banks would have. But banks in turn would have more security given investors in BDCs would take the hit first.

Greater dangers lie in the novel sources of private credit's capital, retail investors and insurance schemes. One is that investment firms promise too much liquidity to retail investors, who assume that their investments will be as easy to exit as stocks, resulting in a run for the exit and politically unpalatable losses. Experimenting with ETFs indicates that firms are underestimating these risks·.

Life insurance is a more complex beast. Insurers are highly leveraged, and have taken on more debt in recent years. Their borrowing from Federal Home Loan Banks—privately owned but government-sponsored banks—has risen to $160bn, a record. The market for funding-agreement-backed notes, another type of debt, is growing rapidly. If the assets of life insurers go bad, institutional investors will run for the exit. The failure of a large life insurer would be severe; the simultaneous failure of a large asset manager would compound the effect. The lack of transparency in private markets means regulators and investors might not see a problem coming until the very last moment. ■

More from this Special Report

---

https://www.economist.com/special-report/2025/05/23/the-debt-barons-who-are-taking-on-the-banks

| Section menu | Main menu |

Speculation

The latest investment fad is made for gamblers

Leveraged ETFs are exploding. They seem designed to incinerate your money

May 29, 2025 12:49 PM

FINANCE IS AN industry of ceaseless experimentation. The experiments which pay off are quickly copied and propagated through the market. That is often to the good. But left unchecked, innovation places intolerable risks on investors and the financial system.

Consider exchange-traded funds (ETFS). The idea—that securities can be wrapped together and the resulting bundle traded on an exchange—is straightforward. For most of their history, which began at the Toronto Stock Exchange in 1990, so were the assets they held. ETFS have reduced the cost of passive investing in equity indices like the S&P 500. More recently they have had the same effect in bond markets. But the past few years has also seen the rapid expansion of more complicated products, including leveraged ETFS. These funds, designed to give investors multiples of the daily return of an asset using swaps and futures contracts, now manage around $100bn. Retail investors punted huge amounts into these funds as markets swooned in April, in the hope that they were exploiting a dip, rather than being exploited as dips themselves. The boom in speculative ETFs is mad indeed. But how risky is it?

There have been 340 ETFs launched in America this year, around 50% more than during the same period last year (leveraged ETFs are predominantly an American phenomenon). Among these fledgling funds, most offer exposure to some country, sector or trend. Others have more esoteric pitches. The Anti-Defamation League, an advocacy group, launched one to invest in companies it says align with Jewish values. Some mimic the strategies of famous investors, including Warren Buffett.

Mostly, though, these new funds are designed for gamblers: one fund promises investors triple the inverse of the daily return of shares in American banks; another, leveraged exposure to Nvidia and AMD, two chipmakers; another, twice the daily return of Donald Trump-owned Trump Media & Technology Group. Some of these funds would make the credit derivatives of the 2000s blush.

ETFs are certain to get spicier still. One prospectus proposes an ETF which would bet against two other double-leveraged ETFs linked to the share price of Strategy, the volatile tech company investing billions of dollars in bitcoin. Gary Gensler, the head of the Securities and Exchange Commission under President Joe Biden, did little to prevent these funds growing. His replacement, Paul Atkins, is likely to be even more amenable, especially when it comes to funds investing in cryptocurrency. Trump Media has said it will soon start selling MAGA-themed ETFs in partnership with Crypto.com. (Scott Bessent, Mr Trump's treasury secretary, recently told school-age children in a recorded message, "Financial literacy will make all the difference in your future.")

Most of these funds seem designed to incinerate investors' money. In addition to their volatility, and unlike their low-cost forebears, they charge high fees; fee rates on leveraged ETFs approach those levied by hedge funds.

How dangerous are these new ETFs for the rest of the financial system? One worry is that they are making markets more volatile, since leveraged ETFs often cause large bouts of buying and selling at the end of trading days so that they continually reflect a promised return on underlying assets. This effect will only increase as the asset class grows.

A more hypothetical, but potentially more severe, worry involves the mechanics that allow ETFs to function in the first place. When the price of an ETF differs from the value of the securities it holds, financial institutions, often hedge funds, create and redeem ETF shares to close that gap. This arbitrage opportunity keeps the value of ETFs in line with their holdings, underpinning investors' faith in the funds. Recent volatility has led to some uncomfortably large gaps between ETFs and the value of the assets they hold, particularly where those assets were illiquid loans. More complex products and volatility could test this process further, perhaps to its limits. Even if it does not, these new funds indicate that the market is becoming a casino. ■

More from this Special Report

---

https://www.economist.com/special-report/2025/05/23/the-latest-investment-fad-is-made-for-gamblers

Titans of finance

Can anything stop America’s superstar hedge funds?

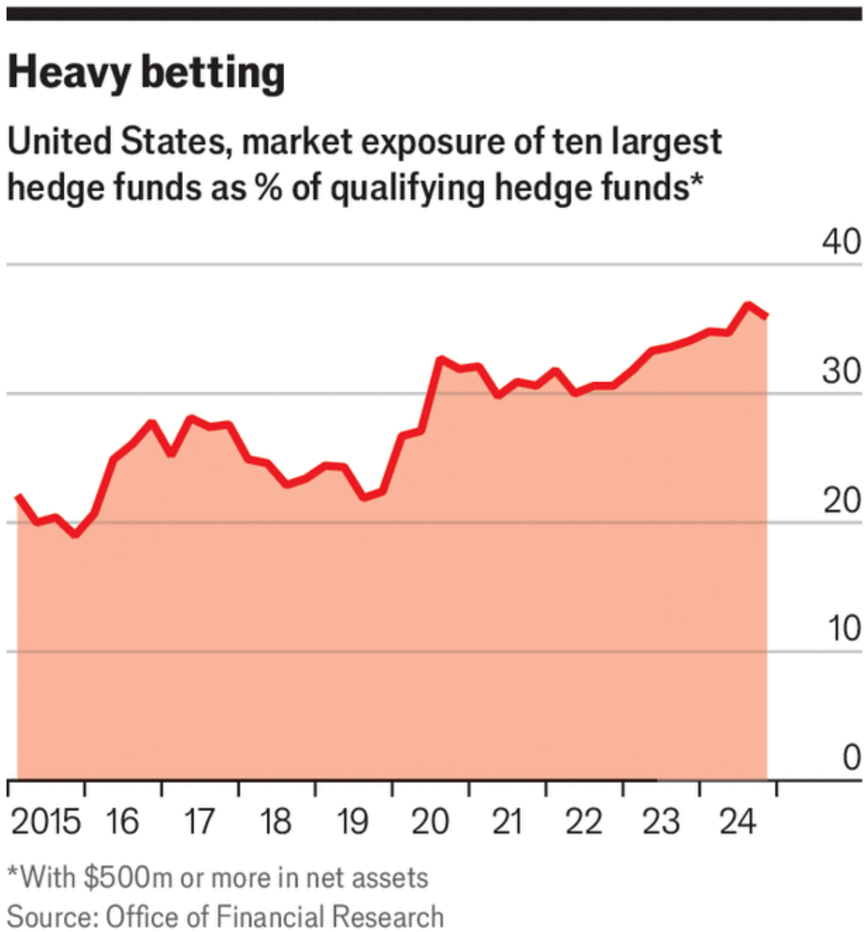
Citadel and other giant funds have remade public markets

Jun 05, 2025 05:09 PM

KEN GRIFFIN was stunned. It was March 10th and America’s markets had suddenly fallen out of love with Donald Trump. The NASDAQ index fell by 4%. Citadel, Mr Griffin’s hedge fund, had lost money in the rout. “You have to tear apart and re-examine the portfolio,” he told *The Economist* after markets closed. “And ask yourself in what ways we have positioned or mispositioned ourselves against the reality that the odds of a recession have gone higher.”

Mr Griffin tried to explain what had gone wrong on a whiteboard. Three of his investment teams had been sure of something that turned out to be wrong, he said. When he reaches an explanation, it has to do not with the arcana of derivatives but with interpersonal dynamics. The one guy who was right, he said—“frankly the smartest” guy—also happens to be mild-mannered. “Just speak up next time, you know.”

Citadel and its peers are as much a marvel of management as they are of finance. Mr Griffin and other senior executives allocate capital to different asset classes—equities and commodities are the largest at Citadel. Within each asset class executives allocate capital to portfolio managers, who have autonomy over investment decisions and paying their underlings. Each team tends to be a fief unto itself, but operates within limits on risk set at the centre.



Firms following some version of this model have grown while much of the hedge-fund industry has languished (see chart). Since 2019 the number of staff employed by the five biggest "multi-managers" has increased from 6,000 to 15,000. Based on the notional value of their positions in markets (a measure used by regulators) the size of these firms has almost tripled to $1.6trn. Much as BlackRock and Vanguard dominate the "buy and hold" world of passive investing, Citadel and Millennium have achieved consolidation among active stockpickers and investors. Regulators now worry that the dominance of these firms brings new risks.

Whereas funds used to rise and fall with the performance of a single star trader, the multi-manager model inverts that structure. The idea is that, over the long run, it is more efficient for top investors—Mr Griffin at Citadel, Israel Englander at Millennium or Steven Cohen at Point72—to choose stockpickers and the conditions under which they operate than make all the trades themselves. Investors benefit from diversification across teams and types of assets. Portfolio managers enjoy economies of scale in technology and financing, but sign up for lengthy non-compete clauses and a level of subservience instinctively antithetical to placing billion-dollar bets. Bosses of these firms end up with a shot at that most elusive of things in the hedge-fund world: a firm that outlives them.

Investors clamour to get—or keep—money in Citadel. The firm has handed back $25bn in profits to investors since 2017. Visitors to Citadel's office in Miami (where the firm decamped from Chicago in 2022) are transported by a swaggering lift plastered with a sign reading: "#1 most profitable hedge-fund manager of all time". Demand for Millennium's services mean that it has raised capital which investors lock up for up to five years, far longer than is typical at hedge funds.

Paying top dollar

In an industry often chided for fees and leverage, multi-managers thrive on both. Funds "pass through" their operating expenses—such as wages and the cost of tech—to investors. A survey by Barclays, a bank, puts these annual expenses at a whopping 6.2% of their managed assets, in addition to the fees hedge funds collect when they perform well. In effect infinite budgets have resulted in an arms race for resources. Competition to hire top investors is fierce between funds. Competition between funds and banks is extraordinarily one-sided. “For Citadel or Millennium, the cost of hiring our best traders, trying them out and keeping them if they’re any good is virtually nothing,” complains a bank executive.

The sheer size of the funds also enables them to get better prices from banks on the leverage they use to power their businesses. Funds can borrow upwards of ten times the capital they raise from investors. Data from the Office of Financial Research show that the share of borrowing concentrated in the ten largest funds has risen from 32% in 2014 to 41% today; in aggregate borrowing by hedge funds has reached a hefty $5.5trn, around half of which is supplied by banks, whose prime-brokerage divisions provide leverage through derivatives and margin loans.

When markets convulse without clear reason, many now assume a team at a multi-manager fund has breached its risk limits and is being forced to sell assets. In February Andrew Bailey, the governor of the Bank of England, said that funds selling “aggressively in a shock” could amplify big moves like the one that hit markets in April. Another regulator in Europe concurs, arguing that given the risk limits at multi-managers, they “are much quicker to cut and run, cultivating a hair-trigger approach to risk management.” (This is truer of firms like Millennium, which is known for imposing tight risk limits on its traders, than Citadel, which is less cut and dried.) The Financial Stability Board, the international regulatory body where Mr Bailey will soon take over as chairman, has been busily investigating the use of leverage by hedge funds.

Worries about hedge funds may be amplified in Europe, where the collapse of Archegos, an American fund which borrowed heartily and fraudulently to bet on media stocks, led indirectly to the collapse of Credit Suisse, a bank, in March 2023.

Archegos was a family office managing the personal fortune of Bill Hwang, a trader, rather than capital from outside investors and was subject to lighter regulatory supervision than big funds. Yet recent volatility across markets makes understanding the risks of these goliaths more important. The idea that the Trump administration could destroy investors' faith in the safety of American assets is one existential risk to markets today. That possibility is not lost on Mr Griffin, a major Republican donor. "Our reserve currency status is intertwined with the sense that under American law, you will be treated fairly," he says.

On what basis?

In April investors frantically sold America's government debt. The role of hedge funds in that market has been under particular scrutiny. Some feared that, as happened in March 2020, there had been a blow-up in the "basis trade" conducted by hedge funds. The basis trade exploits small differences in price between Treasury bonds and related futures contracts. The trade is huge and highly leveraged. One imperfect measure for its size is the notional value of short positions in Treasury futures taken by funds, which currently sits at around $1trn. That is nearly twice as much as in 2020 when a chaotic unwinding of the trade led the Federal Reserve to step in to buy Treasury bonds, something which might be harder today as central banks attempt to reduce the size of their balance-sheets.

It turned out that this time the basis trade was not the culprit for the market turmoil. Instead it seems to have been the reversal of another highly leveraged trade which had bet that Mr Trump would cut the cost for banks to hold Treasuries. Banks help finance such Treasury market activities. A recent paper shows that when they lend to hedge funds against Treasuries, they often lend more than the Treasuries are worth—a sweetheart deal called a "negative haircut".

Mr Griffin says that if regulators are so concerned they should impose a positive haircut of 2%. He is less sympathetic to more general worries about the industry's risk-management capabilities, especially compared with the country's banking system, which benefits from deposit insurance and periodic bail-outs. "I can assure you that when you don't have the full faith and credit of your government you care a lot about the management of systemic risk. I don't think anyone at Silicon Valley Bank cared about it a damn bit."

In Citadel's case that might be true. The firm has a diverse and, it argues, stable base of funding. "Instead of relying on a subset of the same eight to ten prime brokers like most hedge funds, we finance our portfolios with more than 40 institutional counterparties and banks around the world" says Gerald Beeson, Citadel's chief operating officer. The firm has borrowed $1.6bn from bond markets—a small but unusually long-term source of funding for a hedge fund—and is the only one of its kind with an investment-grade rating.

Concerns about risk will dog the hedge funds as they get even bigger. One way they may do so is by expanding into new markets, as Citadel did with commodities. But Mr Griffin says he is wary of getting into private credit, as Millennium and Point72 are doing. "I have to become a better equity investor," he says.

Another option is changing the structure of the business. Millennium is reportedly considering selling a minority stake in its business and has invested liberally in other funds, most of them spin-outs of Millennium's own investment teams. According to research by Goldman Sachs, 40% of funds now seed external managers in this way. Just how big can these superstar multi-manager funds get? It is a question that vexes both regulators and the rest of the industry. ■

More from this Special Report

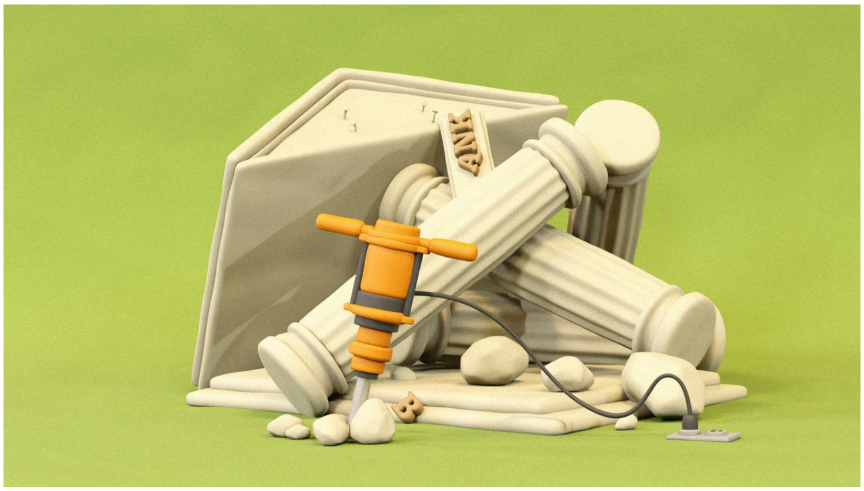
https://www.economist.com/special-report/2025/05/23/can-anything-stop-americas-superstar-hedge-funds

Future shock

How the next financial crisis might happen

The new titans of Wall Street present the world with new risks

Jun 05, 2025 05:09 PM



THE TRENDS outlined in this report have transformed finance. Many of them will only intensify. Private-equity firms will keep diversifying away from buy-outs into lending and life insurance. Hedge funds will continue consolidating and reaping the benefits of scale. The brain drain from banks to hedge funds and other asset managers will carry on. So will the quest of some on Wall Street to rip off Main Street. The craze in cryptocurrencies and leveraged exchange-traded funds is already making the meme-stock madness of 2021 look quaint by comparison. President Donald Trump, for his part, seems more keen to profit personally from the gamification of markets than to protect investors through regulation.

The instinct of regulators will be to disadvantage the new titans of Wall Street by cutting red tape for their competitors in the banking industry. Michelle Bowman, the Fed governor responsible for financial regulation, said recently that rules had pushed “foundational banking activities out of the banking system into less regulated corners of the financial system”. She wants to change that. Daniel Tarullo, a former bank regulator at the Fed, likens the competition between asset managers and banks to pressures faced by banks in the late 1970s from the growth of capital markets, such as bond markets and money-market funds. “The answer then was to deregulate the banks so they could more effectively compete,” he says.

But deregulation would probably accelerate rather than halt the transformation. Eroding supervision and capital requirements for banks will merely allow them to lend even more to asset managers and hedge funds than they do now, supercharging the growth of the new, less-regulated giants of finance.

Proceeds at your peril

Rapid growth in financial markets often fosters and obfuscates weaknesses which become visible only during periods of crisis. How might a crisis play out? Danger could emerge from inside these high-flying firms—due to, say, sloppy lending by private-credit outfits or big hedge-fund trades going sideways. The holdings in both industries are large enough to worry about. The five top players in private credit manage $1.9trn of credit assets across funds and insurance balance-sheets. Assets of the five biggest multi-manager hedge funds sit at $1.6trn, including huge leverage.

Even where these firms do not rely on short-term funding their failure would risk infecting the banking system, which does. Some have been so successful that they have become too big to fail, raising the possibility that they should be designated as systemic institutions like the largest banks, which would give regulators more oversight. GE Capital received this designation in 2013 (it was revoked in 2016). Apollo, the firm which most closely resembles the industrial conglomerate’s lending arm today, could be one candidate given its uniquely important role in debt markets.

A shock could also come from outside these firms. Fragile regional banks, falling commercial property prices and highly valued technology stocks are all causes for some concern. More so is Mr Trump, who in his second term has already proved to be an agent of chaos for financial markets. As the tariffs-induced turmoil showed in April, the state of American finance is vulnerable to the country's corroded politics. Any sustained bout of worry about the safety of America's government debt, where a flood of borrowing flows through creaky pipes, could trigger a meltdown on Wall Street. Highly leveraged hedge funds have come to play a critical role in this market.

Wall Street beguiles foreigners. Governments abroad look on American finance with a mixture of jealousy and concern. Jealousy because the country's capital markets are rich and dynamic. Britain curses the exodus of its firms to stockmarkets in New York. Europe pines for a day when its members are as financially integrated as American states, a hopeless wish.

Indecent exposure

They worry because they are more exposed to American assets than ever before. The flip-side of America's current-account deficit is increasing foreign ownership of its assets, since the dollars America pays for things made elsewhere are invested in dollar-denominated assets. That means a blow-up on Wall Street would mean a blow-up for the world. They worry too because the state of American leadership is much degraded since the last financial crisis. The response then was marked by global co-ordination as the world's economy collapsed. This time will be different. When the next crisis does come, American financial institutions will undoubtedly be at the centre of it. The world will be left to contend with the fallout. ■

More from this Special Report

https://www.economist.com/special-report/2025/05/23/how-the-next-financial-crisis-might-happen

Business

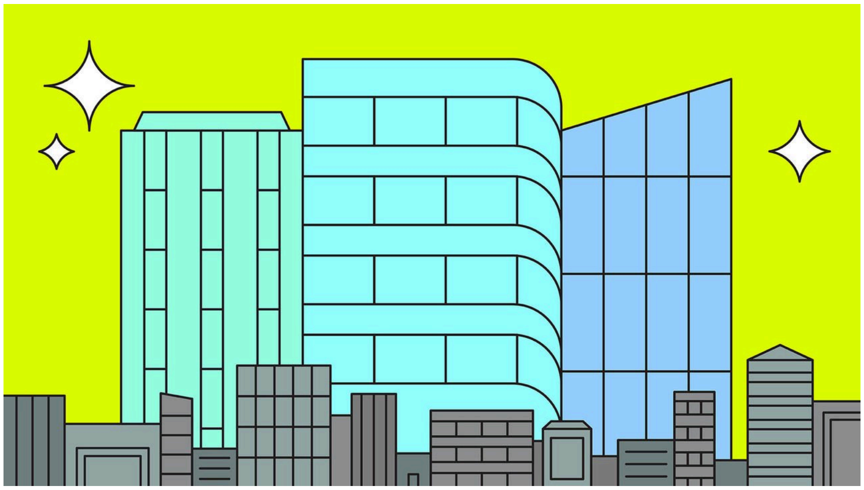
- ## Why it has never been better to be a big company
  The new economies of scale :: The upheaval brought by AI and Trump favours corporate giants—for now
- ## Will European business turn away from America?
  Eastward ho! :: Trump's tariffs are making China look more attractive
- ## Europe's attempted bonfire of red tape is impressing no one
  Slow burner :: From CSRD to GDPR, the EU's alphabet soup is still causing despair
- ## The contest to cash in on Chinese AI heats up
  BAT race :: Who will come out ahead?
- ## Boeing enjoys a Trump bump
  Lifted up :: Are its troubles finally behind it?
- ## A manager's guide to handling crises
  Bartleby :: How to keep calm and carry on
- ## Can Korea Inc step up?
  Schumpeter :: Asia's faded corporate star gets another chance to shine

The new economies of scale

Why it has never been better to be a big company

The upheaval brought by AI and Trump favours corporate giants—for now

Jun 19, 2025 06:18 PM



FOR ALL the unwieldiness it entails, scale has always brought enormous benefits in business. Fixed costs are set against more revenue, raising profits and supporting investment. Heft brings greater bargaining power with suppliers and financiers. From the early 2000s, the advantages of scale became even more pronounced. Intangible assets, including software and intellectual property, gave the upper hand to companies that could afford to invest in them. Globalisation provided big companies with more room to grow, as well as access to larger—and cheaper—pools of labour. In America, the gap in profitability between big and small firms widened (see chart 1). Economists began to speak of "superstar" firms racing ahead of the competition.

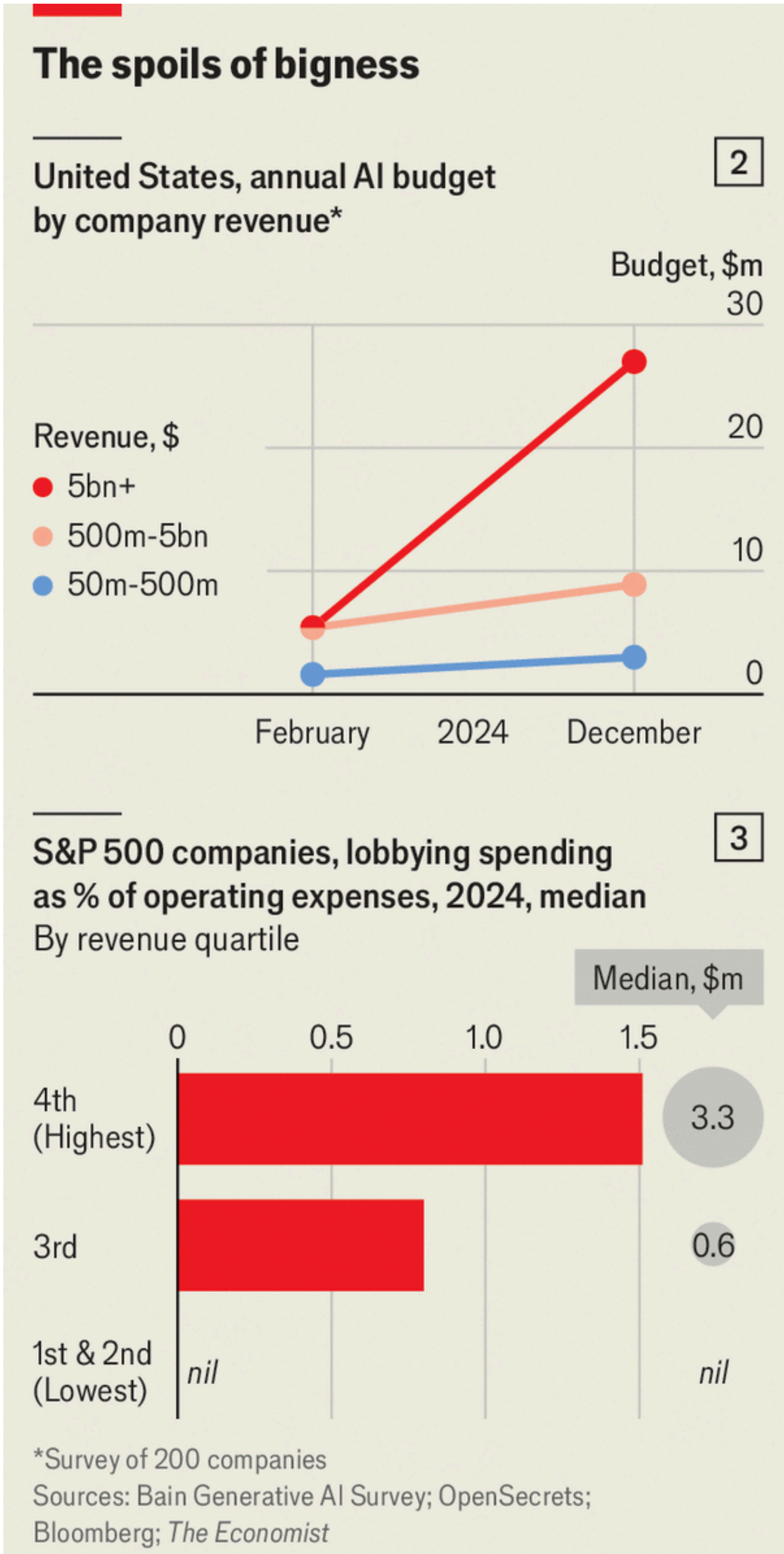
Now size is conferring advantages in new ways. Artificial intelligence (AI) is reinforcing the dominance of big firms over small ones. So is the presidency of Donald Trump, which has raised the importance of resilience and political sway. Yet these same disruptions could spell danger for America's corporate giants. Already companies from Apple to Walmart are discovering how their size can make them a target of Mr Trump's wrath.

Start with AI. You might imagine that lumbering leviathans would be too tied up in bureaucracy to make use of the technology. In fact, their scale allows them to invest far more in it than smaller rivals. According to a survey in December by Bain, a consultancy, American companies with more than $5bn in revenue had an average annual budget for generative-AI projects of $27m, five times the level in the preceding February. Those with between $500m and $5bn in revenue, by contrast, had set aside $9m, up by two-thirds over the same period (see chart 2). JPMorgan Chase, America's biggest bank, says it has rolled out AI tools to most of its 320,000 employees. UnitedHealth, the country's biggest health insurer, claims to have 1,000 different applications for the technology.

Sanjin Bicanic of Bain notes that getting AI to work well is proving more expensive than for other types of digital technology, as it requires companies to organise their data and tinker with models. Big firms have the added advantage of larger data sets that can be used to refine the AI systems they build.

It is not only technology, but politics, too, that is making it even better to be big. Although many of Mr Trump's tariffs· now face legal uncertainty, those that remain will hammer sales and profits for businesses. Big firms, though, tend to be more resilient to such shocks. Among listed American firms, those in the top quintile by revenue have fatter operating margins and a healthier ratio of debt to operating profits (before depreciation and amortisation) than the average, and hold a lot more cash, too.

That means they are less likely to get into financial trouble during a downturn. It also allows them to bounce back more quickly, as happened following the covid-19 pandemic. We examined the profitability of listed American companies, as measured by their return on invested capital, in nine non-financial sectors before and after the pandemic. For seven of the nine, the biggest firms—those in the top quintile by revenue—were, on average, more profitable across 2023 and 2024 than they were across 2018 and 2019. The bottom quintile, by contrast, became less profitable in the same number of sectors.



Bigness tends also to bring increased supply-chain resilience—just as important in a trade war as it was amid covid-19. "During the pandemic, I kept getting calls from small and medium-sized businesses saying that they could not get shipping capacity. The big companies were, by and large, at the front of the queue," says Philip Damas of Drewry, a shipping consultancy. Such prioritisation pays when companies are rushing to import products into America before tariff deadlines.

It helps, in addition, that big companies tend to have more suppliers in more places. A study by the World Economic Forum and Kearney, a consultancy, found that firms which grew their market share in the wake of the pandemic were more likely to have back-up suppliers in a variety of countries for a significant share of the products they procured.

Last, with scale comes an increasingly valuable asset: political capital. We examined data from OpenSecrets, a non-profit organisation, on the lobbying activities of American firms in the S&P 500 index. The median company in the smallest half of the index by revenue spent nothing on lobbying in 2024, relying solely on groups such as the US Chamber of Commerce to champion its interests. The median firm in the top quartile, by contrast, spent $3.3m on lobbying, five times as much as for the next quartile and twice as much as a share of operating expenses (see chart 3). It also hired a greater number of lobbyists relative to its number of employees.

Mr Trump likes to talk directly with the bosses of many of America's largest companies. In April those of Home Depot, Target and Walmart, three retail giants, met the president to discuss their concerns over tariffs. Smaller retailers have received no such attention. Mr Trump seems particularly receptive to firms that promise to invest large amounts in America. "So many companies want to come to the White House...[They offer] $10bn or more and I am there," he said in a speech in February. Such direct access is even more important than usual, notes Jorge Guajardo of DGA, a political-advisory firm, because many mid-level positions in the administration have still not been filled.

All this helps explain why, since Mr Trump's inauguration, the Russell 2000 index of America's smallest listed companies is down by 11%, compared with a drop of only 3% in the S&P 100 index of America's largest firms. Yet the shifting business landscape also presents dangers for corporate giants.

As with all new technologies, incumbents that are too timid in using AI will be exposed to newcomers that have built themselves around it. Then there is the risk that Mr Trump's tariffs result in a lasting reversal of globalisation which limits companies' access to foreign markets. That scenario would hit big companies harder than small ones. America's top quintile of listed non-financial firms by revenue derive 23% of their combined sales abroad, compared with just 7% for the bottom quintile.

More attention from politicians may not always be welcome, either. Walmart recently angered Mr Trump by suggesting on an earnings call that it would need to raise prices in response to higher tariffs. Or consider Apple. In April the iPhone-maker won a partial reprieve from tariffs on Chinese-made smartphones. Two weeks later it said that it would shift the production of its America-bound iPhones to India. Mr Trump was not pleased. On May 23rd he threatened a tariff of "at least 25%" on iPhones sold in America but made elsewhere. Even if the courts make Mr Trump's tariff threats toothless, he has plenty of other means at his disposal to make life difficult for companies. America's corporate giants have enjoyed super-sized advantages. They should be prepared for some super-sized headaches, too. ■

---

https://www.economist.com/business/2025/05/26/why-it-has-never-been-better-to-be-a-big-company

Eastward ho!

Will European business turn away from America?

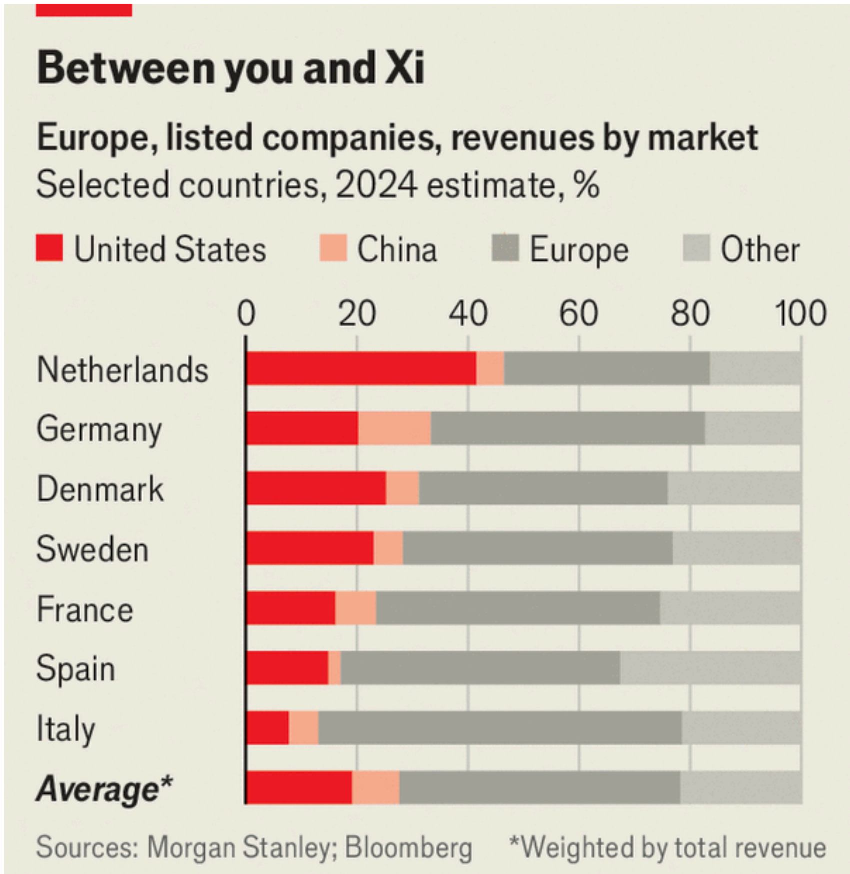
Trump's tariffs are making China look more attractive

May 30, 2025 11:54 AM | BERLIN

Changing trade winds

IF THE EUROPEAN UNION was, as Donald Trump claims, formed "to screw the United States", nobody told its companies. The stock of foreign direct investment in America held by EU businesses reached more than $2trn in 2023, accounting for nearly two-fifths of the country's total, up from a third a decade before. That is far more than from any other source. European companies employ around 3.5m people in America, more than American ones do in the bloc. Germany's car-industry association says its members have 140,000 workers across 2,000 factories in America, producing 900,000 vehicles a year.

Nevertheless, European companies have found themselves in the sights of America's president, who is irked by the fact that his country imports more goods from the EU than it exports (and ignores the fact that the opposite is true for services). On May 23rd Mr Trump threatened to impose a 50% tariff on European wares from June 1st. Since then, a flurry of diplomacy has led to a reprieve, and a court in America has thrown Mr Trump's tariff-setting powers into doubt. But the uncertainty is enough to make European bosses take a hard look at their exposure to the country.



Based on figures from Morgan Stanley, a bank, companies listed in the EU rely on America for almost a fifth of their sales on average (see chart). For companies such as EssilorLuxottica, a Franco-Italian maker of spectacles, and Novo Nordisk, a Danish manufacturer of weight-loss drugs, the share is much greater. Even European firms that produce in America often rely on inputs from abroad. As America threatens to become a more costly and volatile place to do business, some may be tempted to shift their attention to another market that has lately fallen out of favour: China. Should they?

European companies have poured money into America in recent years, attracted by the spritely growth of its economy and, for some industries, the generous subsidies introduced by the Biden administration. At the same time, many European firms have dialled down their investments in China in response to slowing growth, fierce competition from domestic rivals and concerns over the country's increasingly fractious relations with the EU. Over the past few years, the share of listed EU companies' sales generated in China has stalled at below a tenth, while the portion from America has gradually ticked upwards.

Redirected

Now some European businesses are rethinking their westward turn. Although a few, such as Sanofi, a French pharma giant, and Siemens, a German machinery-maker, have announced big investments to boost production in America, many others are being put off by Mr Trump's chaotic policymaking. In a recent survey by Germany's Chamber of Commerce and Industry, 24% of companies said they were planning to increase their investments in America, whereas 29% said they were planning to reduce them.

"The uncertainty is making big strategic decisions very tricky," says Alexander Lacik, boss of Pandora, the world's largest jewellery-maker by volume. Around 30% of the Danish company's sales come from America. Most of its production is not in Europe but Thailand. Pandora also ships wares destined for Canada and Latin America to its distribution centre in Baltimore, which it may stop doing as a result of American tariffs. The boss of a Dutch multinational company likewise laments the volatility of America's trade policies. Every new tariff announcement has potentially big ramifications for its supply chain and pricing.

Meanwhile, some European companies are turning their gaze back eastward. "There is an appetite among European business leaders for re-engagement in China," says Max Zenglein of MERICS, a think-tank based in Berlin. Volkswagen, Europe's biggest carmaker, is one company that is eager to reverse its deteriorating position in the market. At the Shanghai auto show in April it announced that it would launch 11 models exclusively for China, including six electric vehicles and two plug-in hybrids. It has set itself a target of selling 4m cars in China annually by 2030, up from 2.9m in 2024—a difficult task, given that its sales there shrank by nearly 10% last year.

Despite recent efforts by China's leaders to court European bosses, the country remains a tricky place for EU companies to operate in. European firms still face significant barriers to investment, procurement and data handling, says Mr Zenglein. In a survey conducted earlier this year by the EU Chamber of Commerce in China, 73% of companies said that doing business there had become more difficult over the past year.

"China's charm offensive—no matter how timely given Trump's aggression against the EU—should be ignored," argues Alicia García Herrero of Natixis, an investment bank. Profit margins are razor thin, foreign companies are at a disadvantage and anyone hoping to transfer technology from China to Europe will do so in vain, cautions Ms García Herrero.

Not all European firms will place the same bets. China is the world's largest market for cars and machine tools; America is the biggest for apparel and drugs. Exposure to the two superpowers already varies significantly across European countries. America accounts for 42% of the sales of listed Dutch firms, according to Morgan Stanley, compared with just 8% for Italian ones. German companies generate 13% of their revenue in China, whereas Spanish ones make just 2% of theirs in the country.

What is more, America and China are not the only options available to European businesses. Jacob Aarup-Andersen, chief executive of Carlsberg, a Danish brewer, says that although his company plans to continue investing in China, which makes up a fifth of its sales, it is also increasing its efforts to grow in other markets such as India and Vietnam. There is, after all, a world beyond the rival superpowers. ■

Correction (May 30th, 2025): *The original version of this article described EssilorLuxottica as Franco-German. In fact, the company is Franco-Italian. Sorry.*

---

https://www.economist.com/business/2025/05/29/will-european-business-turn-away-from-america

Slow burner

Europe's attempted bonfire of red tape is impressing no one

From CSRD to GDPR, the EU's alphabet soup is still causing despair

May 29, 2025 01:56 PM

Changemaker?

A COUPLE OF years ago DP World, an Emirati ports group with vast operations in Europe, began work to meet European Union rules on sustainability reporting and due diligence. The company had to amass more than 170 different bits of data. Some, like the size of its workforce and their gender, were easy to gather. Others, like water use, less so. DP World hired consultants, expanded its sustainability team and bought new software. Then the EU decided to revise its rulebook.

In a bid to make the continent a more tolerable place to do business, the European Commission is reviewing all sorts of regulations, from rules on privacy to those on environmental, social and governance (ESG) standards. The EU's executive arm aims to cut corporate-reporting requirements by 25% overall, and more for small and medium-sized firms, by 2029.

Businesses do not seem as grateful as it might have hoped, however. Some are dismayed at the prospect of rapid changes to rules that took years to draw up and comply with. A group of firms including DP World has called for “consistency, clarity and confidence”. Others complain the commission is tweaking rules that should be scrapped. Only consultancies and lobbyists, eyeing bumper business from the changes, seem happy.

There is little doubt the EU, with its stagnant economy, needs to cut red tape. While China and America wage a titanic battle for tech supremacy, Europe is being left behind. In a 400-page report last year, the bloc’s unofficial chief technocrat, Mario Draghi, called the risk “existential”. The nearly 14,000 legal acts rolled out between 2019 and 2024 haven’t helped. The cost of complying with the Corporate Sustainability Reporting Directive (CSRD) ranges from €150,000 ($169,000) for unlisted firms to €1m for listed ones, according to one estimate. The General Data Protection Regulation (GDPR) is costlier still and holds back innovation in artificial intelligence (AI), which requires reams of data. In response to the rules, EU companies have reduced their data storage and processing, relative to American peers.

But the commission’s attempts at simplification, laid out in a series of “omnibus” packages, have been meagre. On ESG rules, the commission has suggested postponing deadlines and exempting more small firms. That is not enough to make Europe a much easier place to do business, and just enough to cause confusion. Big firms point out that it is tricky to provide ESG data on their supply chains if not all their suppliers do so. Small firms are not sure whether to maintain their efforts at data collection or give up. “This is more about creating the perception that now they are listening, that the EU is open for business,” says Vittorio Allegri of FTI Consulting, who was involved in the original discussions on the ESG rules.

Other regulations are also being revisited. Last week the commission took its pruning shears to GDPR, suggesting an additional 38,000 small firms should be exempt from record-keeping. Henna Virkkunen, the bloc's tech commissioner (pictured), says further changes are planned to the landmark data-privacy law. She worries that it limits innovation in AI and that differences in implementation by member states cause confusion. The fearsomely stringent AI Act, passed only last year, could be relaxed as well. In particular, Ms Virkkunen says the commission is looking at copyright rules, which need to protect creative industries while allowing sharing of content with AI developers.

Amendments will need approval by the European Parliament and member states, which will take time. And anyone expecting far-reaching changes is likely to be disappointed. "We are simplifying the process but we are not rolling back," says Ms Virkkunen. "We are very committed to the main objectives we have in these rules."

Politicians and policy wonks are grumbling. Some argue that the commission is not going far or fast enough. "Instead of an omnibus we need a Transrapid," says Axel Voss, a member of the European Parliament. Emmanuel Macron, France's president, has called for certain sustainability rules to be scrapped altogether.

Others worry that the commission is being too hasty in an attempt to appease—and imitate—America. Its investigations into American tech giants have angered Donald Trump, who threatened (then postponed) tariffs of 50%· on imports from the bloc. Republican lawmakers have argued that ESG-related rules should be treated as a non-tariff barrier in trade negotiations.

"The risk for Europe is that if it tries to emulate the US too much, the one advantage it has—that its democratic institutions seem more reliable—is chipped away at," says Zach Meyers of the Centre on Regulation in Europe, a think-tank. The Germans, of course, have a word for it. *Verschlimmbesserung*: an effort to improve something that simply makes it worse. ■

https://www.economist.com/business/2025/05/29/europes-attempted-bonfire-of-red-tape-is-impressing-no-one

| Section menu | Main menu |

BAT race

The contest to cash in on Chinese AI heats up

Who will come out ahead?

May 29, 2025 12:49 PM | Shanghai

CHINA'S INTERNET moguls are nothing if not fiercely competitive. Take, for instance, the jockeying for leadership in the market for cloud services. Baidu, the country's search giant, surprised industry watchers on May 21st when it revealed that revenue from its cloud-computing business in the first quarter had surged by 42%, year on year, blowing through analysts' predictions. The same day Tencent, maker of the WeChat super-app, hosted a cloud-computing conference at which the firm cut its prices and promised a big upgrade to its platform. The next day Alibaba, China's biggest e-commerce firm, told an audience at its own cloud-themed conference that it was expanding globally and that its services would soon be available in dozens of countries.

Artificial intelligence· (AI) has set off a new phase of intense rivalry in China's tech industry. Baidu, Alibaba and Tencent—the country's original internet titans, known collectively as BAT—are not the only giants battling for dominance. Bytedance, the firm behind TikTok and its local sister app, Douyin, has become a leading force in Chinese AI. Huawei, a maker of hardware, is also eyeing the AI spoils, as are Meituan and Pinduoduo, two younger tech stars. The upshot is likely to be a period of furious innovation.

The battle over Chinese AI is taking place across three layers: cloud infrastructure, models and applications. Consider each in turn. Cloud-computing sales in China will exceed $50bn this year, and reach nearly $80bn in 2027, according to Morgan Stanley, a bank. Demand for AI will account for much of that growth. For years the market has been led by Alibaba, whose cloud sales in the first quarter grew by 18% year on year. But rivals are gaining ground. Bytedance's cloud business, Volcano Engine, has expanded rapidly since its launch in 2020. Huawei has carved out a sizeable market share by targeting state-owned enterprises that tend to trust it more than the internet giants.

China's cloud providers are also developing their own AI models to lure in customers. These efforts have been complicated by DeepSeek, a Chinese startup that has made its cutting-edge models freely available. But some cloud businesses are differentiating themselves with specialised offerings. Baidu, for example, has encouraged robotics companies onto its platform with a "multimodal" AI system that brings together language and vision models.

Then there is the contest to monetise AI through applications. Here the tech giants have very different starting points and strategies. Tencent is perhaps best positioned. WeChat, with 1.4bn active users, is not just a messaging service and a payment system; it also incorporates millions of "mini-apps" that let consumers do everything from buying clothes to ordering food. Tencent has already begun to embed AI features such as search and image generation, using its own and DeepSeek's models. It is now developing "agentic" services that can make purchases and perform other semi-autonomous actions on users' behalf. The company has warned that many such services will end up looking the same; its bet is that the many users and companies already plugged into WeChat will give it an edge.

Alibaba has strengths of its own. Hosting one of the world's largest e-commerce marketplaces provides it with masses of consumer data that can be fed into AI models to fine-tune product recommendations and make advertising on the platform more attractive.

Baidu, which has already seen its position in China's internet economy weaken, is less promisingly placed. It lacks the captive user base of its rivals, and its chatbot, Ernie, which is free to use, is cannibalising its search business. Whereas Tencent's ad revenue grew by 20% year on year in the first quarter, Baidu's fell by 6%. A third of its search results in April came via generative AI, up from around 20% at the start of the year. Still, Baidu is making strides in other applications. It runs one of the world's largest fleets of driverless taxis, for which it is using the technology.

In time, AI could further erode the dominance of BAT over China's internet. Pinduoduo, which has been nipping at Alibaba's heels in e-commerce for years, is developing its own AI models, as is Meituan, which has evolved from a food-delivery service into another super-app. Huawei has amassed hundreds of millions of users for its smartphones and other consumer devices, whom it could target with AI services of its own.

The biggest threat, though, may come from Bytedance. It holds reams of data on its users' viewing habits and, thanks to its rapidly expanding e-commerce operation, their shopping patterns, too. Unlike most other Chinese tech firms, it also has a large presence abroad, which gives it more visibility into AI developments elsewhere, as well as better access to talent and semiconductors. The battle over Chinese AI, it seems, is just getting started. ■

https://www.economist.com/business/2025/05/27/the-contest-to-cash-in-on-chinese-ai-heats-up

| Section menu | Main menu |

Lifted up

Boeing enjoys a Trump bump

Are its troubles finally behind it?

May 29, 2025 02:19 PM

Brighter skies

BOEING'S REPUTATION for reliability in recent years has been earned not by the performance of its products, but by its ability to generate unwelcome news. So the first few months of 2025 have come as something of a relief. The American aerospace giant has mostly been the bearer of good tidings, in the shape of growing orders for planes, legal woes set aside and military contracts won. After a long period of largely self-inflicted trouble, there are signs the clouds may be parting.

A share price some 15% higher than at the start of the year has cheered investors. Compared with the year before, first quarter revenue rose by around a fifth and net losses were far lower. Strong orders for new jets culminated on May 14th in Boeing's biggest-ever for widebodied planes—160 aircraft for Qatar Airways, ordered after a visit by Donald Trump. The mood is summed up by Ron Epstein of Bank of America as one of "cautious optimism".

The latest reason to be thankful is a deal with America's Department of Justice, announced on May 23rd, that lets Boeing avoid prosecution for two fatal crashes of 737 MAX passenger jets over six years ago. To the chagrin of some victims' families, who feel Boeing has got off lightly, the firm will avoid a trial that might inflict further damage to its reputation. Avoiding being branded a corporate felon, which might have made it ineligible for future defence contracts, is an "enormously good outcome" for Boeing, says Andrew Charlton of Aviation Advocacy, a consultancy.

Putting the consequences of the crashes behind it is a relief. The more onerous task is to improve safety practices and restore a culture of engineering excellence, which had taken a back seat to returning cash to shareholders, while also making more planes. Boeing seems to be succeeding. Production is slowly ramping up, albeit under the watchful eye of Federal Aviation Administration (FAA) officials, who have overseen production lines to ensure safety and quality since a mid-flight door-plug blowout in January 2024.

Boeing is still not making 737 MAXs at the FAA's capped rate of 38 a month, but it should do so soon. It then hopes to gradually increase production to 57 a month by the end of 2027, a number it once hoped to hit in 2020. Production of long-haul 787 Dreamliners, which was also once hampered by quality problems, is rising as well. Even if timelines slip, Boeing is travelling in the right direction.

The sky is clearing at Boeing's defence-and-space division, too. Once consistently profitable, it has suffered annual losses since 2022 as it has struggled to fulfil fixed-price contracts. The first quarter of 2025 was the first in the past three years that the business did not attribute a loss to one of its programmes. In March Boeing beat Lockheed Martin for a contract worth over $20bn to develop the F-47, a new fighter jet for the US Air Force. It is still in the running for another to replace the F-35 jet.

For America's biggest exporter, Mr Trump's trade policies have not proved as bad as might have been expected. China's retaliatory ban on deliveries of Boeing planes was lifted after a 90-day truce in the trade war. A trade deal with Britain has brought with it an order from British Airways's parent company. The cost of tariffs on imported parts, if America's courts allow Mr Trump to keep them in place, will also not be devastating, put at between $300m-500m this year. Some of that Boeing may be able to pass on to airlines clamouring for new planes.

Despite huge backlogs at both firms, Boeing is still far behind its duopolist rival, Airbus, in both production and orders. And its unerring talent for self-harm may manifest again. For now, though, Boeing is in a steady climb. ■

---

https://www.economist.com/business/2025/05/28/boeing-enjoys-a-trump-bump

Bartleby

A manager's guide to handling crises

How to keep calm and carry on

May 29, 2025 12:49 PM

NO BOARDROOM CLICHÉ is more hackneyed than the idea that this is the age of uncertainty. Annual reports and executive speeches repeat that things have never been less predictable, that crises have never hit with such force and frequency.

That might surprise people who had to cope with bubonic plague, ice ages, Vikings, world wars, colonisation and the rest. But it is true that managers everywhere have had to navigate unexpected events in recent years, and that crisis management—the subject of the latest episode of our Boss Class podcast—is a big test of a leader's mettle.

One way to think about handling a crisis well is that managers have to resist their natural instincts. An obvious temptation, despite all the rhetoric, is to put off preparing for disaster. No company's risk register would be complete without mentioning cyber-attacks. Yet a quarter of large British businesses still lack a formal incident-response plan in the event of one.

Table-top scenarios and planning workshops are not really about predicting the future. They are a way to hone thinking, to press organisations to articulate their guiding principles, to create the building-blocks from which an actual crisis response will materialise.

Paul Ingram of Columbia Business School tells the story of a former student who drew up multiple crisis scenarios in his role as a logistics commander for the US Navy in the Pacific; they included a tsunami, a nuclear accident and an earthquake. The fact that none of his scenarios envisaged all three occurring at once, as happened in Japan in 2011, did not make the exercise futile. Planning is not about "developing a complete response", says Mr Ingram, but "elements that are going to be recombined into a pattern that suits the unexpected".

When a crisis does strike, a second urge is to centralise: for bosses to set up command centres, form task-forces and start using words like "sitrep". But by its nature, a crisis confronts organisations with novel, fast-moving problems. Previous experience counts for less; running things up the chain means delays.

In a paper published in 2015, Eric Anicich of the University of Southern California and his co-authors looked at the outcomes of more than 5,000 mountain-climbing expeditions in the Himalayas. Their conclusion was that climbers from more hierarchical cultures achieved more summits but also suffered more fatalities. Their explanation was that hierarchy enabled greater co-ordination in normal circumstances, but also meant people were less likely to voice concerns if they thought things were going wrong.

Svein Tore Holsether, the boss of Yara, a Norwegian fertiliser giant, is an advocate for a decentralised approach. The firm handed much more control to local managers to get through the initial phase of the covid-19 pandemic, and found it worked so well that it reorganised along regional lines in May 2020.

Mr Holsether argues that this structure served the firm well again in early 2022, when it had to respond to another crisis—Russia's full-scale invasion of Ukraine. Russia was a huge supplier of the raw materials that go into fertiliser; Ukraine was a big sales market. Local employees scrambled to change procurement deals, plant operations and distribution channels to cope; things did not need to go back to Oslo for approval.

When a crisis hits, a third instinct is to focus on getting through the immediate problem. But it pays for bosses to look ahead to a post-crisis future. When the pandemic took the wheels out from under Lime, whose bright-green e-bikes may well block a pavement near you, its boss, Wayne Ting, faced tough choices.

Plenty of people advised him, for example, to outsource the manufacturing of Lime's vehicles in order to slash costs. He ignored them, because making the most durable bikes and scooters was critical to the firm's long-term success. Keeping production in-house was the best way to achieve that goal. "Whatever we cut," he says of that period, "we don't cut to the core because then we have nothing to come back from."

Plan. Decentralise. Prioritise. As advice, this might seem clichéd, too. But it will make a crisis more navigable. ■

---

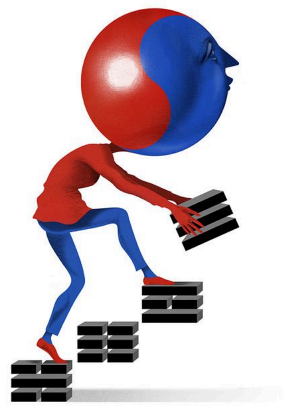
https://www.economist.com/business/2025/05/26/a-managers-guide-to-handling-crises

Schumpeter

Can Korea Inc step up?

Asia's faded corporate star gets another chance to shine

May 29, 2025 01:50 PM



SOUTH KOREANS would rather forget most of the past 12 months. Thousands of doctors and teachers took to the streets to air assorted grievances. Catastrophic summer floods ravaged swathes of the country. The president launched a coup, failed, was impeached and, after some constitutional confusion, removed from office. BTS remained disbanded while its K-pop heartthrobs complete their mandatory military service.

Investors in South Korean businesses, too, have had little to sing of lately. Even before Donald Trump liberated the world from level-headed trade policy on April 2nd, the benchmark KOSPI 200 index of large companies had fallen by 3% relative to the start of 2024 as rival Asian bourses rose. Japan's Nikkei 225 had gone up by 7%, and mainland China's CSI 300 by 16%; Hong Kong's Hang Seng and Taipei's TWSE Taiwan 50 each leapt by nearly 40%. Between mid-July 2024 and early April 2025 shareholders in Samsung Electronics, South Korea's corporate superstar, saw a third of its market value, or some $160bn, melt into oblivion.

As summer approaches, however, the national mood may be brightening on the streets and in boardrooms alike. Doctors and teachers are back at work. A snap presidential election on June 3rd promises to usher in a modicum of political stability. Better yet, later that month BTS are planning their post-conscription reunion. Bankers and equity analysts are, for their part, beginning to hum one of the boy band's smash hits, "Go Go".

On the surface this corporate optimism seems unwarranted. Relative to both forecast earnings and the book value of their assets, South Korean companies' share prices continue to trail those of their rivals in the rest of the rich world, often by some distance. Stocks in more than half of the KOSPI's 178 non-financial constituents, and the index as a whole, trade at a discount to book value. That includes Samsung Electronics, two other of its parent conglomerate's eight listed offspring and six public subsidiaries of Lotte, the country's most troubled *chaebol*.

Still, the optimists may be on to something. For one thing, large South Korean businesses are clustered in industries exposed to the trendiest of 21st-century megatrends. Samsung Electronics and SK Hynix, the KOSPI's two largest members, manufacture high-bandwidth memory (HBM) chips critical to the artificial-intelligence revolution. Samsung Biologics, ranked third by value, is a biotech powerhouse. LG Energy Solution, number four, makes batteries for the green transition. Two of the top ten manufacture electric vehicles (EVs) for climate-conscious motorists (Hyundai and Kia) and two others build weapons for war-wary governments (Hanwha Aerospace and HD Hyundai Heavy Industries).

Helpfully, the South Korean firms' competition in many of these areas is limited. Given sky-high barriers to entry in HBM manufacturing, Samsung Electronics and SK Hynix are mainly up against established producers—which is to say themselves. European allies questioning America's trustworthiness under Mr Trump are looking for alternative suppliers of materiel. In March

Poland said it would buy another 180 K2 tanks from Hyundai Rotem for $6bn, doubling its fleet of the vehicles.

Korea Inc also benefits from the even greater geopolitical rift between the West and China. South Korean companies may struggle to compete head to head with Chinese EVs (from BYD), batteries (from CATL), shipyards (like CSSC) or contract drugmakers (like WuXi Biologics) on price, quality or both. But thanks to growing Western unease over hastening China's rise by patronising its businesses, they don't have to. And non-Chinese competitors are either weak (think American and European EVs), few (Japanese shipbuilders and battery-makers) or nonexistent (in medical contracting).

There is one other, less flattering reason to hope for improvement in Korea Inc's prospects. These had been looking so bleak for so long that the country's political and business leaders could not ignore it any more and finally took action.

A year ago the government launched the "Value-Up" programme of corporate reform. It is modelled on a similar effort starting in the early 2010s to spruce up Japan Inc. At the time the Nikkei looked as knackered as the KOSPI does now. Barely 85 of its 200-odd non-financial stocks traded above their book value. A typical one had highish net debt, of 1.7 times operating profit (before depreciation and amortisation), and free cashflow running at just 1.7% of revenue—figures close to KOSPI's results today.

Then a mix of standards and laws prompted Japanese firms to disclose more information, set performance targets, curb related-party transactions, unwind cross-shareholdings, appoint more independent directors and become less hostile to activist investors. Today the Nikkei's price-to-book ratio averages 1.5 or so, its companies are a third less indebted and generate one and a half times as much free cash as in 2012. In February 2024 the index at last surpassed its previous peak set in December 1989. No less discerning an investor than Warren Buffett is a fan.

Permission to dance

South Korean bosses are getting the message. Although 75% of the index's market capitalisation is in *chaebol* hands, the groups' current leaders are more open to change and less legacy-obsessed than their grandfathers' founding generation. On May 22nd Samsung Biologics said it would spin off its drug-development arm to focus on its core contracting business.

Firms have begun paying higher dividends and buying back more shares. So far 120 in the KOSPI have published "Value-Up" disclosures, some even in English. Managements faced 137 shareholder proposals last year, an unprecedented third of them from activist investors. A record 24% were adopted. Go go, indeed. ■

---

https://www.economist.com/business/2025/05/29/can-korea-inc-step-up

| Section menu | Main menu |

Finance & economics

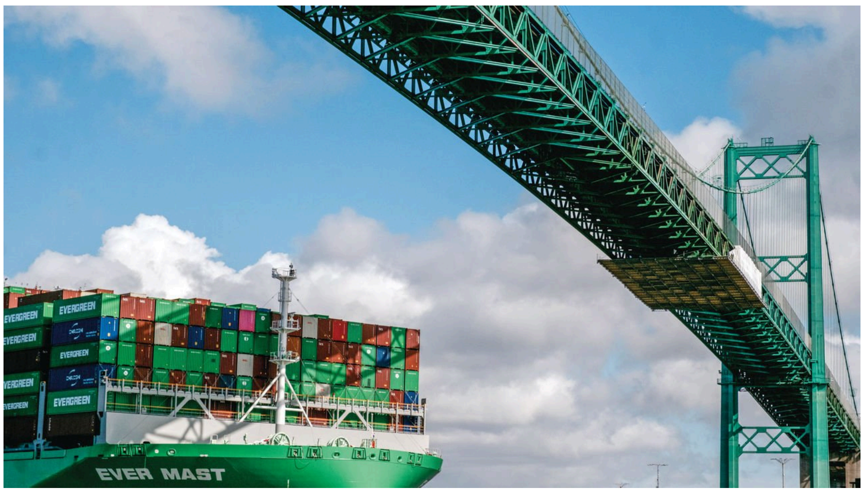
- ## The courts block Trump's tariffs. Can he circumvent their verdict?
  Collision course :: American trade policy is in chaos
- ## Trump's financial watchdogs promise a revolution
  Back to the 1930s :: The regulatory pendulum swings violently
- ## Soaring bond yields threaten trouble
  Tightening the screws :: Long-term debt is getting costlier, and not just in America
- ## Why AI hasn't taken your job
  Boy cries wolf :: And any jobs-pocalypse seems a long way off
- ## India has a chance to cure its investment malaise
  No capex please, we're Indian :: Global trade turmoil presents a rare opportunity
- ## Shareholders face a big new problem: currency risk
  Buttonwood :: Analysing it is more important than ever. Mitigating it is a nightmare
- ## How might China win the future? Ask Google's AI
  Free exchange :: The country's sprawling industrial policy is beyond mere human comprehension

Collision course

The courts block Trump’s tariffs. Can he circumvent their verdict?

American trade policy is in chaos

Aug 05, 2025 12:06 PM

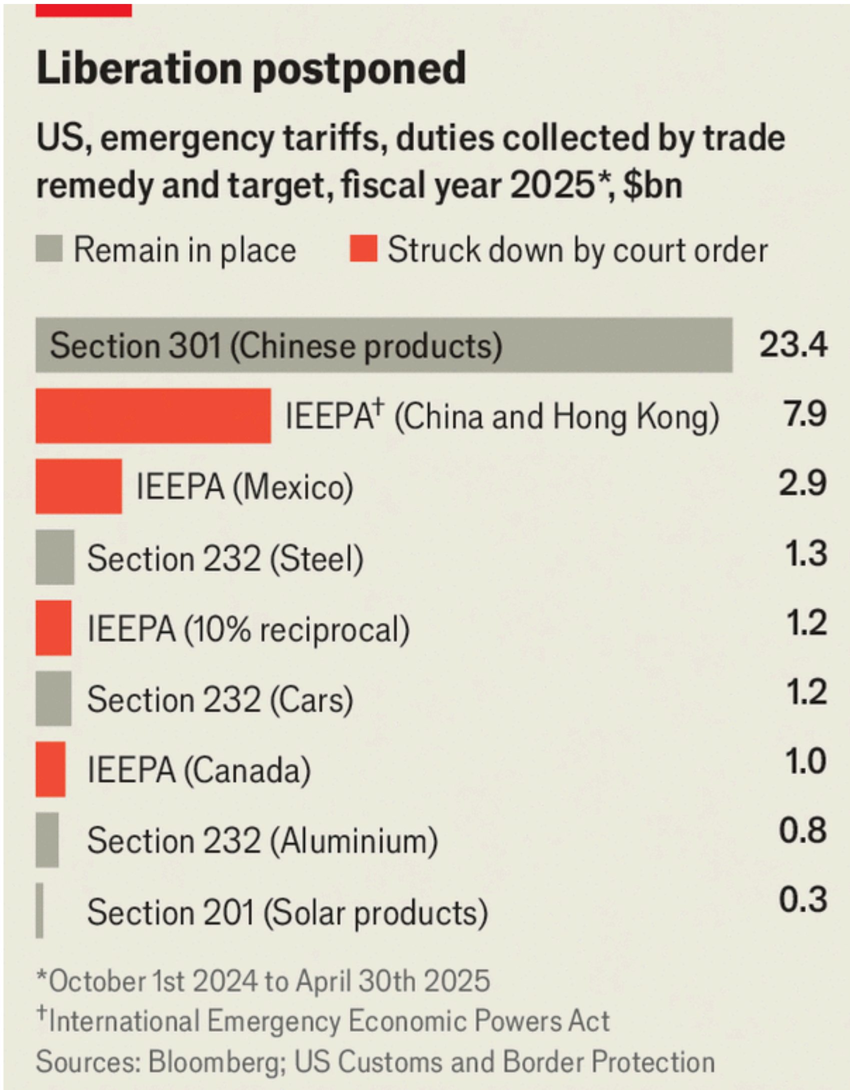


DECADES AGO, when Victor Owen Schwartz first tasted cold, polished ginjo sake, it was a “light-bulb moment”, he has written. His firm, which imports alcohol to America from over a dozen countries, began adding the drink to its list. It now offers varieties from 19 breweries.

But all of this was threatened when Donald Trump announced sweeping “reciprocal” tariffs on April 2nd or “Liberation Day”, as the president labelled it. The levies were touted as a remedy to America’s trade deficits. Mr Schwartz could not simply pass the cost on to buyers: he has to post his price a month in advance to regulators. Another bulb lit up: Mr Schwartz decided to fight the tariffs in court. He joined with the Liberty Justice Centre, a legal-advocacy outfit, and several other small firms, including a pipemaker, a maker of women’s cycling gear and an importer of fishing tackle.

On May 28th they landed a big catch. The United States Court of International Trade ruled that Mr Trump lacked the authority to impose his reciprocal tariffs. In response to another complaint, it also ruled against “trafficking tariffs” inflicted on Canada, China and Mexico. These levies were meant to cajole leaders of the three countries into cracking down further on the flow of fentanyl, a synthetic opioid.

Investors welcomed the news: futures contracts on America’s S&P 500 index jumped by 1.5%. Financial markets have repeatedly punished Mr Trump for his recklessness. On April 9th, after Treasury yields spiked, Mr Trump was persuaded to suspend the highest Liberation Day tariffs until July 9th. China’s reciprocal levy, which reached 125%, was also cut for 90 days after talks in Geneva. But even after these climbdowns, a residual 10% stayed in place on almost all of America’s trading partners, and the fentanyl tariffs remained on Canada, China and Mexico.



Investors hoped their disapproval would keep America's president in check. But they had generally not thought that Mr Trump would face opposition from the courts, too. His orders imposing the fentanyl tariffs and reciprocal levies had cited a 1977 law called the International Emergency Economic Powers Act (IEEPA). It has its roots in the Trading with the Enemy Act, passed after America joined the first world war in 1917, which gives the president leeway to interfere in international economic transactions during national emergencies. Mr Trump had declared both the fentanyl situation and America's persistent trade deficits to be such crises. Often the courts defer to the president on matters of foreign policy and national security.

This deference does not apply when it comes to enforcing limits on the president's authority that Congress has specified, the court argued. The law requires, among other things, that any measures taken "deal with" the emergency declared. The administration conceded that the fentanyl tariffs were an attempt to gain leverage over the countries in question, so they could be forced to change their behaviour. But dealing with a problem, the court said, requires a more "direct" link.

While the fentanyl tariffs fell on the basis of plain English, the reciprocal tariffs were brought down by lofty constitutional principles. In recent years courts have argued that the executive branch cannot rely on ambiguous delegations of power to take actions of great consequence, a principle known as the "major-questions doctrine". IEEPA does not mention tariffs, but does give the president the power to "regulate" imports. Relying on it to "authorise anything as unbounded" as global tariffs, the court said, was inconsistent with both the major-questions doctrine and the established idea that Congress cannot delegate its powers to the president wholesale.

The administration's power to impose universal tariffs, the court argued, is specified in a different law: the 1974 Trade Act. This permits the president to respond to balance-of-payments crises, which might include the trade deficits that so irk Mr Trump, with tariffs of up to 15% for up to 150 days. It also allows unlimited levies on specific trading partners whose trade policy the administration judges to be "unjustifiable" or to "[burden] or restrict" American firms. But such unlimited levies can only be imposed after extensive investigation, a public notice and a comment period. Importantly, Congress specified these restrictions after President Richard Nixon used the Trading with the Enemy Act to levy a temporary universal tariff in the Bretton Woods crisis of 1971—the main precedent to which Mr Trump appealed.

It is to these alternative powers that Mr Trump can now be expected to turn. A universal tariff of 10% applied under the Trade Act would give the administration about five months to have the ruling overturned on appeal, during which time officials might also run Section 301 investigations to establish a country-by-country basis for tariffs. But it would be hard to investigate every trading partner at once. It seems likely that the disputes will find their way to the Supreme Court. At that point they would be presided over mostly by justices who have been strong proponents of the major-questions doctrine.

The market reaction to the judgment was muted compared with the enormous falls seen after April 2nd. That is, in part, because so many investors have come to assume negotiations with America's trading partners will result in deals which stop the "reciprocal" tariffs from ever coming into full effect. Those talks will now be muddied by the unclear nature of the administration's authority to follow through on its threats. Indeed, analysts at Goldman Sachs, a bank, warn that trade uncertainty has increased, rather than decreased, as a consequence of the court's decision. Unless Mr Trump has a light-bulb moment of his own, America's importers will be doing business in the dark. ■

---

https://www.economist.com/finance-and-economics/2025/05/29/the-courts-block-trumps-tariffs-can-he-circumvent-their-verdict

Back to the 1930s

Trump’s financial watchdogs promise a revolution

The regulatory pendulum swings violently

May 29, 2025 02:18 PM | New York

AFTER AN ELECTION, America’s financial agencies experience what is known as the “regulatory pendulum”. Priorities and philosophies change as the new president picks appointees to supervise American markets, banks and other financial institutions. Although the pendulum has swung violently in the past, it has never swung quite as violently as now.

The upheaval is most evident at the Securities and Exchange Commission (SEC), where a tight-knit team of erstwhile colleagues has taken charge. Paul Atkins, a former commissioner and the new chair of America’s most powerful market regulator, took up his role on April 21st. Mark Uyeda, acting chair from January to April, is now just a commissioner. He and Hester Peirce, another commissioner, were advisers to Mr Atkins when he worked at the agency under President George W. Bush. The trio of stalwart Republicans now hold three of the agency’s top five positions.

They are making quick progress. Since Mr Trump entered the White House on January 20th, the SEC has cut back its climate-change requirements, dropped anti-crypto lawsuits and curtailed its own enforcement division. Mr Biden's securities regulators were seen by many bankers and investors as activists. The new top brass envisage a narrower role. "The SEC has gone back to its traditional roots," Mr Uyeda told *The Economist* on May 23rd.

To Democrats, this looks like an attempt to clip the wings of one of the country's most powerful regulators, and perhaps even to scrap a crucial component of the administrative state built during America's "New Deal" era. But in Mr Uyeda's telling, it was the SEC under Gary Gensler, Mr Biden's chair, that had become a "merit regulator", enforcing and instituting law on the basis of political judgments. "Congress in the 1930s, when they adopted the federal securities laws, specifically did not give that power to the SEC," he says.

Roosevelt v memecoins

Crypto clearly illustrates the divide. "I know our former chairman strongly believed that nearly all crypto were securities," says Mr Uyeda. "My response was, 'If you believe that, let's put out a commission interpretation that says they are all securities.'" Mr Gensler's attempt to use enforcement actions against companies to create a body of crypto law was, in Mr Uyeda's view, "also inefficient, because it [would] take years to play out through the courts". He believes that fewer digital assets should count as securities, and therefore that fewer fall under the SEC's purview. Cases against prominent firms, including Ripple Labs, a crypto issuer, and Coinbase, a big exchange, have been dropped.

In regular securities markets, the new approach means that disclosure rules are being rolled back. Under Mr Gensler public companies had to produce lots of information about the ways that climate change might affect their operations, which Mr Uyeda says was intrusive and motivated by politics rather than financial risk. The SEC has paused its own defence of the rules in court. Similar rules requiring disclosure about the use of conflict minerals originating in the Democratic Republic of Congo will probably be axed, too. Last year a report by the Government Accountability Office, a watchdog, judged that they had not had an impact on mining conditions.

But it is firms in private markets that stand to benefit most of all from the SEC's new approach. The category of "accredited investor" limits who can invest in private-market assets, and has existed in some form since 1982. It currently requires an investor to have at least $1m in assets, or have had a gross annual income of $200,000 or more for two years. Under Mr Uyeda's brief chairmanship, the SEC loosened enforcement of these rules; more changes may now be on the way. "When you think of the net-worth test, for instance, somebody who has invested for decades is more likely to have accumulated the necessary million dollars," says Mr Uyeda. "If they are 75 years old....an investment that has a horizon of five to seven years may not make sense, but it might make perfect sense for the 23-year-old recent university graduate."

America's enormous stock of individual-retirement-account and 401k-plan savings represent a holy grail for firms such as Apollo and Blackstone. Mr Uyeda is cautiously optimistic that they will gain access to such savings as Mr Trump's other appointees fall in line behind the SEC. For instance, the Department of Labour must reassure pension-plan managers that private-market assets meet their fiduciary standards. At present, they fear being sued if they invest in them owing to the higher fees such companies charge.

Nominees to lead other agencies, including the Commodity Futures Trading Commission and Office of the Comptroller of the Currency, still require approval from the Senate. Likewise, Michelle Bowman, a Federal Reserve governor, is waiting for legislative approval to take up the role of vice-chair for supervision at the Fed, a crucial post in banking regulation. The Consumer Financial Protection Bureau, Washington’s youngest financial regulator, has been gutted by budget and staffing cuts, and lacks a nominee to lead it.

If a leaner, more limited regulatory approach is to emerge, co-operation between agencies, government departments and the Federal Reserve will need to be seamless. The greatest concern among even Trump-supporting financiers is that the administration’s chaotic approach makes such an outcome less likely. If it does not master the basics, the current swing of the regulatory pendulum will amount to little in practice—no matter the ambition of Mr Trump’s few appointees. ■

---

https://www.economist.com/finance-and-economics/2025/05/29/trumps-financial-watchdogs-promise-a-revolution

| Section menu | Main menu |

Tightening the screws

Soaring bond yields threaten trouble

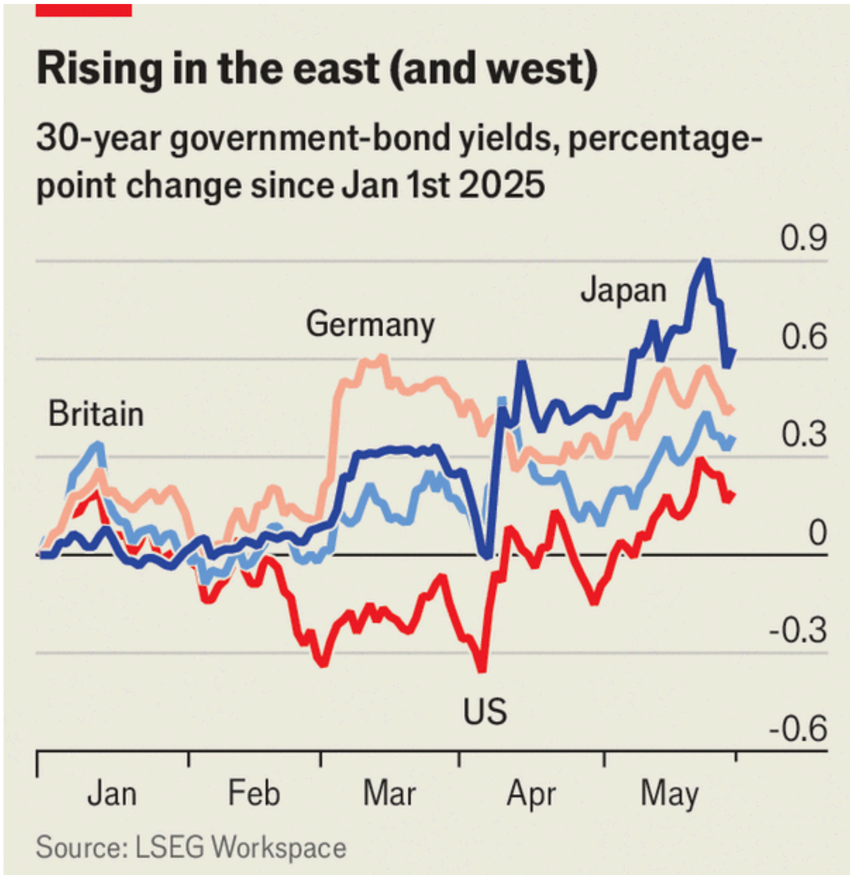
Long-term debt is getting costlier, and not just in America

May 29, 2025 12:49 PM

Deceptively sunny

ROUND NUMBERS should not matter in financial markets, but they do. How many people pay attention to where 11-year Treasury bonds are trading? So seeing yields on America's 30-year government debt hovering near 5%, as they have been for the past few weeks, has given investors the shivers. A particularly large jump came shortly before the House of Representatives passed President Donald Trump's "big, beautiful"—and deficit-widening—budget bill by one vote on May 22nd.

It is no wonder investors are reassessing the risk of long-term lending to Uncle Sam. Even before the budget bill cuts tax revenues, America's government has borrowed $2trn (or 6.9% of GDP) over the past year. Combined with the chaotic policymaking of recent months, and Mr Trump's threats against America's institutions, that has put the once-unquestionable haven status of Treasuries up for debate. And for money managers in search of safety, there is another problem. The debt of other governments looks newly risky, too: long-term yields are rising across the rich world.



As American yields leapt, Britain’s 30-year borrowing cost hit 5.6%, its highest since 1998, aside from a spike in April. Germany’s got to nearly 3.2%, almost its dearest since the euro crisis of the 2010s. In intraday trading on May 21st, the yield on Japanese 30-year government bonds rose to nearly 3.2%, reaching a new record.

All have since fallen back a touch. But traders remain twitchy and it would take a brave soul to bet that the climb will not soon resume. Moreover, even the small pullback owes much to the rumour mill. The reversal followed unconfirmed reports, sparked by a questionnaire about issuance sent to market participants, that Japan’s Ministry of Finance might be considering issuing fewer long-term bonds.

In part, long-term borrowing costs are soaring because what happens in America does not stay in America. The country’s economy is so large, accounting for more than a quarter of the world’s output, that its outsize government deficit tilts the balance of savings and investment globally, raising the cost of capital. Higher returns on Treasuries might also lead traders to prefer them to other sovereign debt unless it, too, yields more. And it is hardly just America’s economy that Mr Trump’s policies threaten. Uncertainty about tariffs, for example, muddies the outlook for inflation and economic growth everywhere, prompting investors to demand a higher risk premium. Some might also conclude that politicians in other countries will be tempted to imitate America’s profligacy.

Yet the rest of the world is also quite capable of generating pressure of its own. Some comes from good news rather than bad. Much of the rise in German borrowing costs followed an announcement in early March that its government would invest far more in defence and infrastructure. Since the popular view has long held that Germany spends too little rather than too much, this has raised expectations of its future growth, and hence the returns available on its sovereign debt.

In Britain and Japan, yields are climbing for more worrying reasons. One is that inflation has again turned surprisingly hot. Consumer prices in Britain rose by 3.5% in the year to April, faster than the market had expected and well above the previous month’s reading of 2.6%. In Japan, “core” consumer prices also rose by 3.5% in the year to April, the sharpest climb since the inflationary surge in 2022 and 2023. Inflation prompts traders to bid up bond yields both because it erodes the value of their coupons and principal repayment, and because it leads them to expect higher interest rates from central bankers.

At the same time, write analysts at Goldman Sachs, a bank, a structural source of demand for long-dated government debt is drying up. “Asset-liability managers”—institutions such as defined-benefit pension funds that use the fixed income streams from bonds to guarantee their future liabilities—have long been big buyers. But yields have now been high enough for them to lock in these cash flows at attractive prices for years, meaning many can afford to withdraw from the market. As the supply of bonds remains high, fuelled by fiscal deficits, this sets the stage for long-term borrowing costs to rise even more.

The most obvious consequence is that public-debt burdens which have already ballooned are about to become even costlier to service. Higher bond yields do not immediately pass through to governments’ interest bills, because these depend on coupons that are fixed at the time of each bond’s issuance. They do eventually, however, as old bonds mature and must be refinanced by issuing new ones, with coupons matching prevailing market yields. America’s net government debt is nearing 100% of its GDP, meaning that a sustained rise in bond yields of one percentage point will in time cost an additional 1% of GDP per year. Japan’s net debt ratio, and hence its sensitivity to yields, is a third higher.

A subtler danger, suggested by the reports of Japan’s planned issuance, is that governments are tempted to tilt their borrowing towards shorter, cheaper tenors. This might lower costs for now, but it loads the debt with even more interest-rate risk. Short-term bonds, after all, must be refinanced sooner, meaning that any future rise in yields passes through to the public finances more quickly. Had governments issued more long-term debt in the 2010s, when rates were lower, they would not have such high interest bills today.

For years, the received wisdom among bond traders was that the 30-year Treasury yield “couldn’t” go much above 5%, since institutional investors would then snap up every bond in sight. That reasoning now faces a stern test—with consequences for governments everywhere. ■

https://www.economist.com/finance-and-economics/2025/05/25/soaring-bond-yields-threaten-trouble

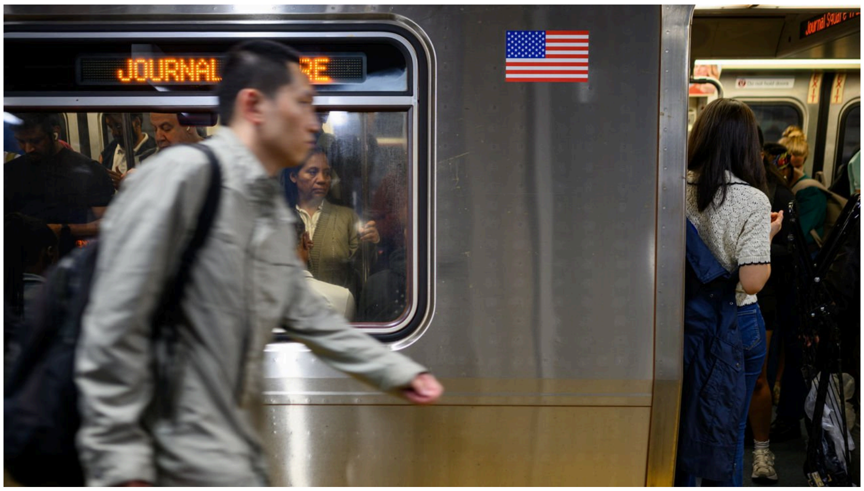
| Section menu | Main menu |

Boy cries wolf

Why AI hasn’t taken your job

And any jobs-pocalypse seems a long way off

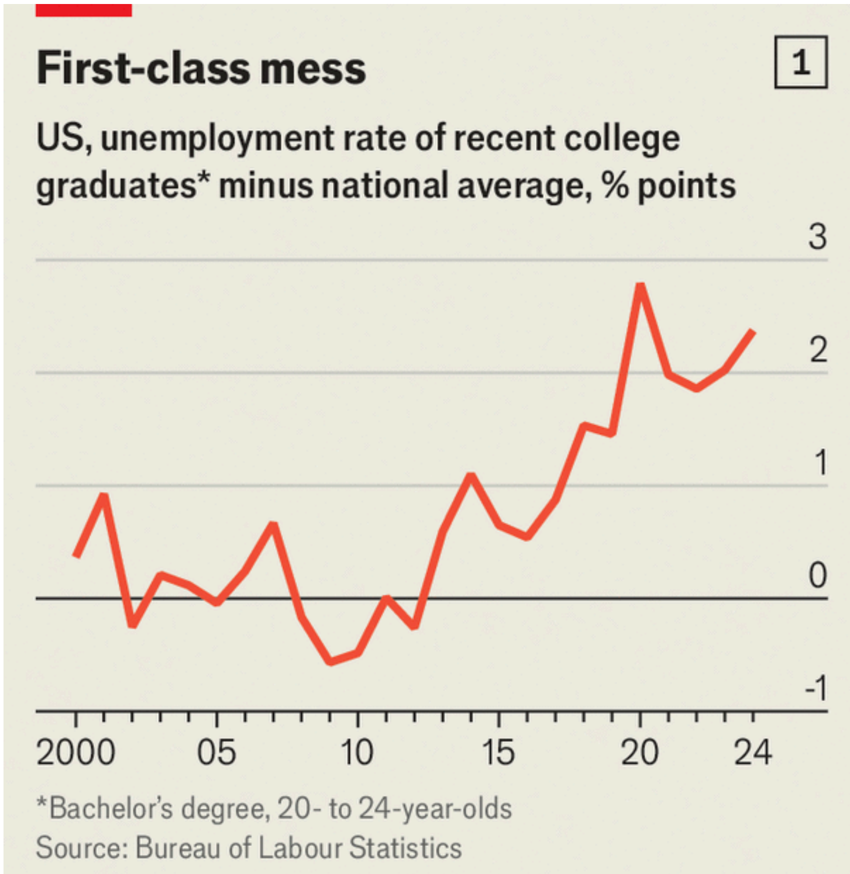
May 29, 2025 12:48 PM | San Francisco



ALMOST EVERY week the world takes another step in the direction of artificial general intelligence. The most powerful AI models can do an astonishing array of tasks from writing detailed reports to creating video on demand. Hallucinations are becoming less of a problem.

Small wonder, then, that so many people worry they will soon be surplus to requirements. Earlier this year global Google searches for “AI unemployment” hit an all-time high. In cities such as London and San Francisco, “How long do you reckon you have left in your job?” is a common topic of conversation. But is ChatGPT actually putting anyone out of work?

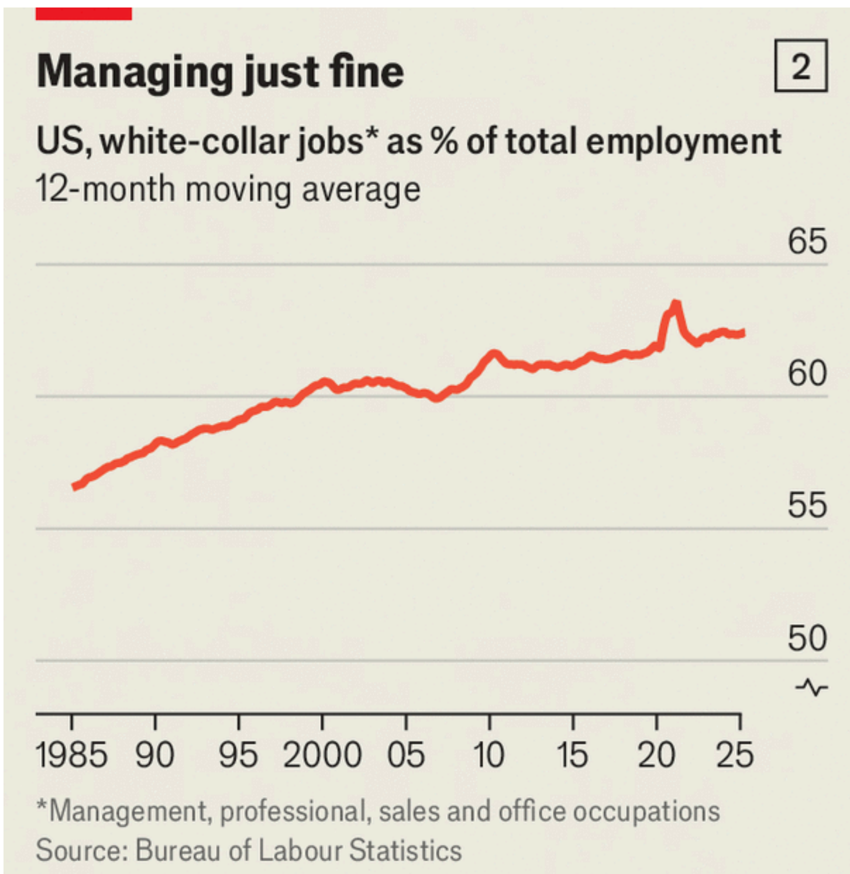
Lots of pundits claim that it is. Many point to a recent paper by Carl Benedikt Frey and Pedro Llanos-Paredes, both of the University of Oxford, which suggests a link between automation and declining demand for translators. At the same time, however, official American data suggest that the number of people employed in interpretation, translation and the like is 7% higher than a year ago. Others point to Klarna, a fintech firm, which had boasted about using the tech to automate customer service. But the company is now undertaking an about-turn. “There will always be a human if you want,” Sebastian Siemiatkowski, its boss, has recently said.



Others still scour the macroeconomic data for signs of the forthcoming AI jobs-pocalypse. One popular measure is the ratio of the unemployment rate between recent college graduates and the overall American average. Young graduates are now more likely than the average worker to be jobless (see chart 1). The explanation runs that they typically do entry-level jobs in knowledge-intensive industries—such as paralegal work or making slides in a management consultancy. It is exactly this sort of task that AI can do well. So maybe the technology has eliminated these jobs?

Well, no. The data simply do not line up with any conceivable mechanism. Young graduates' "relative unemployment" started to rise in 2009, long before generative AI came along. And their actual unemployment rate, at around 6%, remains low.

Returning to a measure we introduced in 2023, we examine American data on employment by occupation, singling out workers that are believed to be vulnerable to AI. These are white-collar employees, including people in back-office support, financial operations, sales and much more besides. There is a similar pattern here: we find no evidence of an AI hit (see chart 2). Quite the opposite, in fact. Over the past year the share of employment in white-collar work has risen very slightly.



Across the board, American unemployment remains low, at 4.2%. Wage growth is still reasonably strong, which is difficult to square with the notion that AI is causing demand for labour to fall. Trends outside America point in a similar direction. Earnings growth in much of the rich world, including Britain, the euro area and Japan, is strong. In 2024 the employment rate of the OECD club of rich countries, describing the share of working-age people who are actually in a job, hit an all-time high.

There are two competing explanations for these trends. The first is that, despite the endless announcements about how firms are ushering AI into their operations, few make much use of the technology for serious work. An official measure suggests that less than 10% of American companies employ it to produce goods and services. The second is that even when companies do adopt the tech, they do not let people go. AI may simply help workers do their jobs faster, rather than making them redundant. Whatever the explanation, for now there is no need to panic. ■

---

https://www.economist.com/finance-and-economics/2025/05/26/why-ai-hasnt-taken-your-job

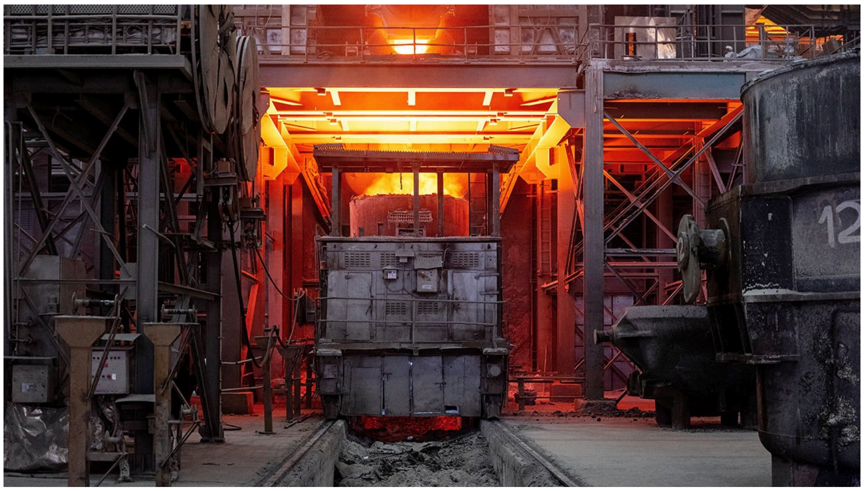
| Section menu | Main menu |

No capex please, we're Indian

India has a chance to cure its investment malaise

Global trade turmoil presents a rare opportunity

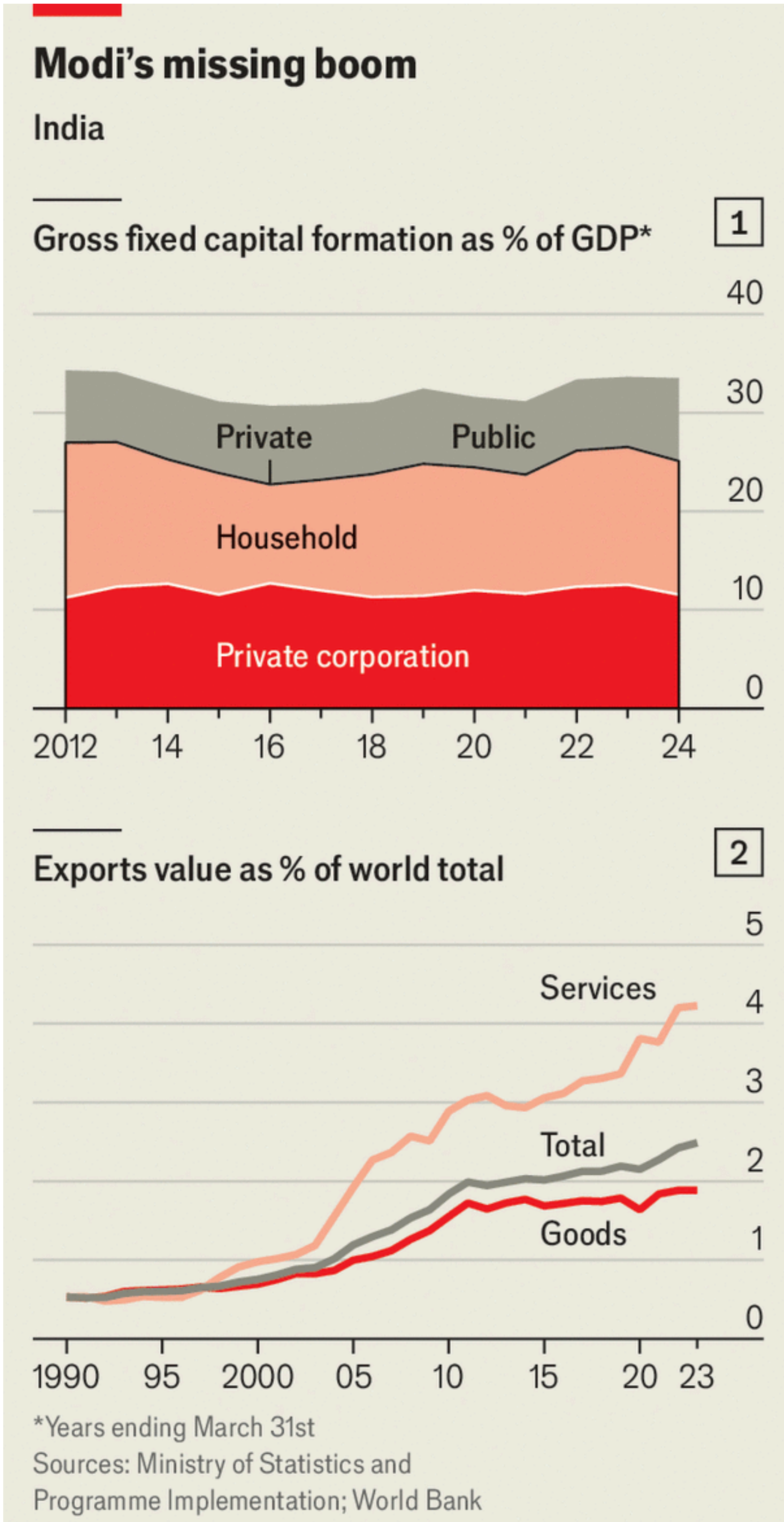
May 29, 2025 12:49 PM | Mumbai



Growth glows

AT A GET-TOGETHER entitled "Recent Global Events: Opportunities for India", Narendra Modi, the prime minister, stressed that his government was boosting its own capital spending and called on his country's business titans to do the same. He asked the assembled bosses to "take risk and increase investments", according to one participant. That was in 2015.

India has in many ways been transformed under Mr Modi over the past decade. But stubbornly unchanged is the private sector's weak appetite for capital expenditure. By 2023 Mr Modi was still issuing the same call, telling bosses that the private sector "should also increase their investment, just like the government". He made the point again earlier this year.



India should, on the face of it, be enjoying a capex boom. Its home market is large and getting larger. The state is dishing out manufacturing subsidies. And the economy is growing at over 6% a year, the fastest of any big country. Yet corporate sentiment remains tepid. When Mr Modi took office in 2014 gross fixed capital formation, which includes investment by households, was 25.3% of GDP. Last year it came to 25.1%. Business investment has only once surpassed that year's 12.6% of GDP, which was itself well below historical highs. Last year it was a mere 11.5% (see chart 1).

Mr Modi promises to make India a developed economy by 2047, the centenary of its independence from Britain. For that to happen the economy will need to grow at an average rate of 7.8% a year, according to the World Bank. Number one on the institution's to-do list is increasing capex.

The government has thrown everything it can at the problem. At first, India's lack of investment was blamed on the country's "twin balance-sheet problem". Firms were indebted and banks' books were stuffed with bad loans. So the government stepped in to clean up the mess. Balance-sheets are now healthy, financing is no longer a bottleneck and interest rates are declining, having risen after the covid-19 pandemic.

A national goods-and-services tax, introduced in 2017, unified India's markets and erased most local taxes, making it more straightforward to do business across state borders. In 2019 a whopper of a corporate-tax cut slashed the effective rate from 35% to 25%. And the government has indeed splurged on capex, especially on infrastructure, in the hope that it will entice private firms to do likewise, by creating new opportunities for investment.

To little avail. According to JPMorgan Chase, a bank, companies' operating profits have surged since the tax cut, yet capex has barely budged. A recent survey by the National Statistics Office suggests it will fall outright this year.

That points to one reason for India's malaise: consumption is not growing fast enough to persuade firms to invest in new facilities. Existing factories have operated at only 70-75% capacity over the past decade, excluding a dip during the pandemic. As Vikash Kumar Jain of CLSA, a broker, puts it, “You can’t put money in something that won’t give a return.”

The government has urged firms to raise wages, and has belatedly made its own moves to boost consumption, too. It announced a big tax giveaway for middle-income earners in this year’s budget. That could increase demand and allow firms to use up some spare capacity, says Ajay Chhibber of George Washington University. All the same, he adds, “the macro effect is quite small.” Salaried workers make up just a fifth of the labour force. Developing economies typically see workers move from farms to factories. But in India the share of workers in manufacturing, at 12%, is the same as it was two decades ago. Half the jobs created since the pandemic have been in agriculture.

Could exports inspire capex? Even without the uncertainty of President Donald Trump’s on-again, off-again tariffs, India has struggled to sell abroad (see chart 2). Ministers have spent years trying to woo firms from China, hoping they will build factories in India—a strategy that has paid slim dividends, in part because the government has recently also raised tariffs and non-tariff barriers. The average duty, at 16%, is over a fifth higher than when Mr Modi came to power.

Corporate concentration is another worry. Since 2016 the five biggest conglomerates have gained more of the market, notes Viral Acharya, a former deputy governor of the Reserve Bank of India. Protectionism helps such firms dominate at home, and thus reduces the incentive for them to seek profits abroad. Government policies are “pro-business rather than pro-market”, says Ritesh Kumar Singh of Indonomics, a consultancy. “And when you are not pro-market you are not pro-consumers.” Shoppers suffer from both higher markups and high consumption taxes.

Investors considering putting money into India require assurance they will not be punished. Volkswagen, a German carmaker, was recently charged by the tax authorities with misclassifying imports. It could face a penalty of $2.8bn, which a lawyer for the company has described as a “matter of life and death” for its Indian operations. Samsung, a South Korean telecoms firm, has been asked to pay $520m for similar alleged offences. Whatever their merits, the cases send a chilling signal to investors with memories of legal battles over back taxes involving Vodafone, a British mobile-phone network, and Cairn, an energy firm from the same country.

In February Mr Modi said that his government would set up a deregulation commission to reduce burdens on businesses. The global uncertainty around trade presents another opening for reform, since tough decisions can be justified by the circumstances. Indeed, Mr Trump’s return to power appears to have focused minds. Tariff reductions were announced in the budget in February. A three-year negotiation over a trade deal with Britain at last ended with an agreement in May. Talks between India and the European Union have gathered speed. Negotiators are also busy discussing terms with America.

In other words, India now has a reason to open its markets, enable competition and bolster consumption. “There is a golden moment right now because the pressure is coming from outside,” says Mr Acharya. Ten years after Mr Modi’s first exhortation to invest, recent global events once again present opportunities in India. This time it might want to take them. ■

---

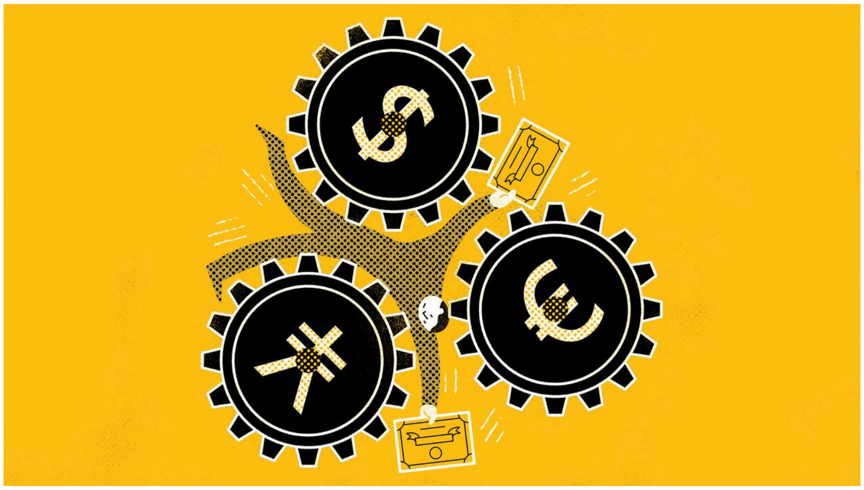
https://www.economist.com/finance-and-economics/2025/05/29/india-has-a-chance-to-cure-its-investment-malaise

Buttonwood

Shareholders face a big new problem: currency risk

Analysing it is more important than ever. Mitigating it is a nightmare

May 29, 2025 12:48 PM



IMAGINE SOMEONE who found secondary-school maths difficult being grilled about logarithms. That is how a lot of equity investors look if you ask them about currency risk. It is not because the question is novel: any client can spot that the share price of an overseas company, or one doing business across borders, ought to depend on foreign-exchange (FX) rates. It is because it is easy to pose, but maddeningly hard to answer. Forecasting earnings is already a pain. It becomes much worse when the task is to make forecasts for each company in a portfolio, before splitting costs and revenues by perhaps a dozen currencies, and then netting it all off against hedging arrangements made years ago by a now-retired treasurer. Unsurprisingly, such analysis is often dumped in the "too hard" bucket.

Time to fish it back out. In recent weeks it has become unusually urgent for investors to work out how unexpected changes in FX rates might affect their portfolios, not least because several such jumps have already taken place. Along with Europe's planned defence spending, the euro has soared against a basket of its peers. The Bank of Japan's newfound hawkishness has made the bull case for the yen more convincing than it has been in years. Jitters over the future of the dollar's global role, meanwhile, have eroded its value—with falls often coming as American share prices have also dropped. This has broken a longstanding hedging relationship for international investors, who used to see the dollar strengthen when trouble was afoot, offsetting losses from stocks.

At the same time, the complexity of some popular stocks' FX risk is rising. Big American companies dominate global investors' portfolios—and they are choosing to issue debt denominated in euros rather than dollars. So far this year, according to Bloomberg, a data firm, giants including Alphabet and Pfizer have sold bonds worth €83bn ($94bn) in Europe, a new record. These "reverse Yankee" deals are priced using the relatively low yields of European government bonds as a baseline, resulting in cheaper debt. They tap a funding source that is less likely to dry up if the newly volatile market for Treasuries convulses again, and therefore seem likely to remain in vogue.

For equity investors, though, this offshore borrowing presents a puzzle. Namely, does it raise or lower a stock's currency risk? It certainly means the old hedging relationship between American stocks and FX rates is less likely to make a comeback, since a weaker greenback inflates the dollar value of euro debt, dragging on share prices. If the borrower also has net outgoings in euros, this effect will be even greater. Conversely, if it has net euro revenues, it would previously have been exposed to the risk of a weaker euro, and the new euro debt will offset this exposure. The only way to know for certain is to dig deep into the firm's accounts.

Even after doing so, hedging a stock's FX risk can be a nightmare. On the face of it this is surprising, as there is no shortage of derivative contracts (which offer variable payouts contingent on some underlying exchange rate) that might be candidates for doing so. The trouble is that none of them works brilliantly when paired with shares.

Forward contracts lock in an exchange rate for a set amount of currency in the future. But since it is uncertain how much a stock will fetch when it is eventually sold, they can be used with much confidence only to hedge the initial cost, not the profit or loss. Options can place an upper limit on losses made from FX movements over a specified time horizon. But their cost balloons as that horizon lengthens, and buying them repeatedly is a sure way to erode returns. Whizzier contracts exist primarily to enrich those who sell them.

Of late, the terms of these contracts have worsened, too. The pricing of forwards favours those selling low-yielding currencies in the future, since the trader on the other side can hold a high-yielding one in the meantime and pocket the additional interest. For years, that allowed American and European investors to hedge the yen exposure from Japanese stocks at a better exchange rate than then prevailed. Now Japanese yields have risen sharply, much of the premium has disappeared. Greater volatility across currency markets, meanwhile, has made all hedging contracts more expensive. These days equity investors cannot afford to forgo the grind of working out how much FX risk they are taking. That does not mean there is a lot they can do to mitigate it. ■

---

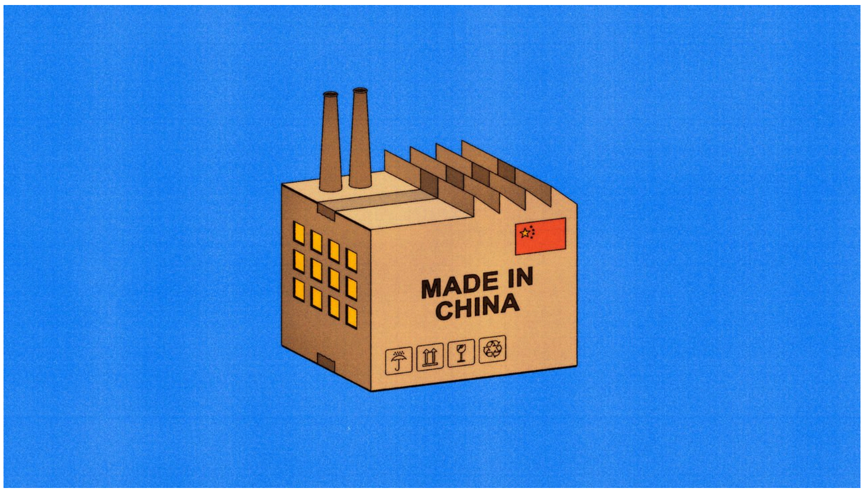
https://www.economist.com/finance-and-economics/2025/05/28/shareholders-face-a-big-new-problem-currency-risk

Free exchange

How might China win the future? Ask Google’s AI

The country’s sprawling industrial policy is beyond mere human comprehension

May 29, 2025 12:49 PM



IF CHINA DOMINATES the 21st-century economy, its industrial policy will get a lot of the credit. The state’s efforts to cultivate new industries, breed winners and foster technological advances inspire awe and anger from outside observers. Kyle Chan of Princeton University recently compared China’s policies to the Manhattan Project, which invented the atomic bomb. On present trends, he argues, “the battle for supremacy” in artificial intelligence (AI) will be fought not between America and China but between leading Chinese cities like Hangzhou and Shenzhen.

American officials may scoff—but they do not doubt the power of China’s policy to distort markets. In March America’s trade representative released a report criticising the “guidance, resources and regulatory support” that China’s government bestows on favoured industries, at the expense of foreign rivals. The report called the “Made in China 2025” plan, which increased the country’s share of industries like drones and electric vehicles, “far-reaching and harmful". Such grievances help explain why President Donald Trump hit China with punishing tariffs in April.

One problem facing both critics and students of China's industrial policies is that it has so many. Its efforts are not confined to national plans such as Made in China 2025 or discrete undertakings akin to the Manhattan Project. They also take the form of obscure memoranda, lacking pithy names, issued by local officials—policies like Anqing City's "Notice on Supporting Large Commercial Circulation Enterprises In Carrying Out Pilot Projects For The Construction Of Modern Rural Circulation Systems".

China churns out more than 100,000 policy documents a year. Over a fifth feature some kind of industrial policy, according to a new paper by Hanming Fang of the University of Pennsylvania, along with Ming Li and Guangli Lu of the Chinese University of Hong Kong, Shenzen. Not even the most diligent researcher could wrap their head around them all. Fortunately, one of the emerging industries that China is keen to promote—AI—can now help economists understand how China goes about its task.

Mr Fang and his co-authors used Google's Gemini, a large language model, to scour millions of documents issued from 2000 to 2022. They were scraped from official websites or obtained from PKUlaw.com, a vast repository. When properly prompted, Gemini could identify documents that met the definition of industrial policy. It could also discern the industries targeted and the tools used. To make sure the model was not making things up, the authors took precautions. They told the model to think of itself as an expert in Chinese industrial policy, and carried out random spot checks themselves. They then asked another model (from OpenAI) to refine the findings. The result is a rich database covering two decades' worth of Chinese efforts to win the future.

Their work captures the underappreciated variety of China's tools. Subsidies are most popular, appearing in 41% of policies. But they are only one tool out of 20 and often absent. Cheap credit and land are less common than you might expect, featuring in less than 15% of documents. Protection from foreign competition appears in only 9%. Instead of offering handouts, protection or perks, about 40% of central-government policies regulate the targeted industry by, say, imposing quality or efficiency standards. A few policies—3%—try to suppress industries that might be too dirty, inefficient or otherwise undesirable. Equating industrial policy with subsidies and tariffs, then, will “paint an incomplete picture of China’s industrial-policy landscape”, the authors warn.

That landscape has also changed over time. Tax breaks and explicit protectionism have become less fashionable. Government funds, which are supposed to act like venture capitalists, have become more so. Efforts to cultivate supply chains and clusters have also become more widely used. The same is true of policies to increase demand, such as government purchases or consumer subsidies. They appear in about a fifth of policy documents, roughly double their share in 2000. Often, city governments embrace these new tools before provincial or central governments.

One of the biggest surprises is that manufacturing—making in China—is targeted by only 29% of the policies. More focus on services; 17% are still dedicated to agriculture. Within these broad sectors, targeting can be savvy. City governments are more likely to pick industries that loom large locally, relative to their prominence province-wide, suggesting officials are playing to their city’s strengths. This is particularly true in richer cities, where local governments may be more sophisticated.

Some cold water

Targets are, however, becoming more similar. All 41 cities in the Yangzi River Delta have chosen “high-end manufacturing” as a “key” industry in their five-year plan, notes The Paper, a Chinese website. Thirty-eight have picked new-generation information technology, which includes AI. The delta, the paper worries, suffers from “industrial isomorphism”.

Local governments may be converging on similar approaches because they are all trying to follow the central government’s lead. Cities have become more likely to cite national policies in their own documents since 2013. They may also be emulating each other. Unfortunately, policies seem to become less effective as they spread from pioneers to laggards. Measures that lift firm revenues and profits in leading cities may fail to replicate in latecomers. Not everyone can have their own Manhattan Project.

Overall, the link between industrial policy and the productivity of firms is “mixed and tenuous” the authors say. But with the assistance of Gemini, they have shed some valuable new light on industrial policy’s many variations. Maybe AI can help improve the design of policies to encourage emerging industries like AI. ■

---

https://www.economist.com/finance-and-economics/2025/05/29/how-might-china-win-the-future-ask-googles-ai

Science & technology

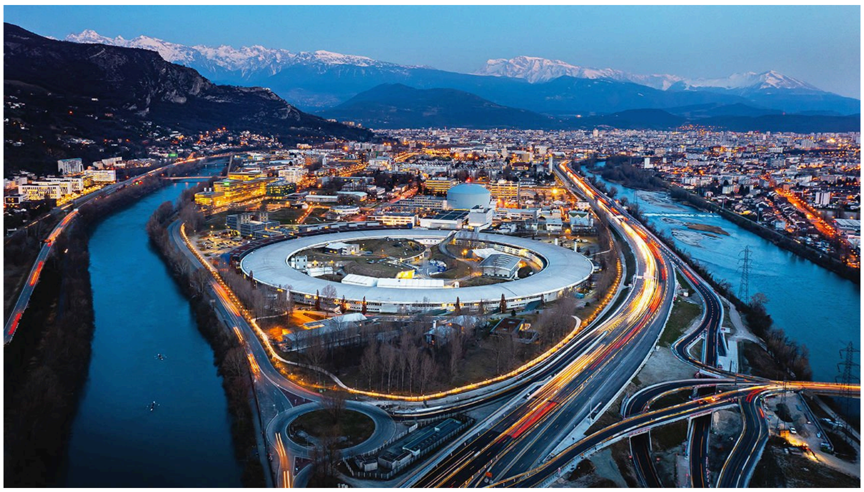
- ## The decoding of ancient Roman scrolls is speeding up
  Digital archaeology :: More data, and a more powerful particle accelerator, should pay dividends
- ## Elon Musk's plans to go to Mars next year are toast
  Third time unlucky :: SpaceX's Starship fails for a third time in a row
- ## Old oil paintings are suffering from chemical "acne"
  Blemish treatment :: Conservators are scrambling to rescue them
- ## Snakes may have once faced a vicious enemy: the humble ant
  Pest control :: Scientists believe that could be why the slithering reptiles developed toxic tails
- ## Should men be screened for prostate cancer?
  Well informed :: The answer is less obvious than you might think

Digital archaeology

The decoding of ancient Roman scrolls is speeding up

More data, and a more powerful particle accelerator, should pay dividends

May 29, 2025 09:47 PM | Herculaneum



IF YOU WANTED to read an ancient Roman scroll, you might reach for a dictionary, and perhaps a magnifying glass. You would probably not think of using a particle accelerator. But that is what is required to unravel the papyrus scrolls found in Herculaneum, a Roman town buried by the eruption of Mount Vesuvius in 79AD. Even then, success is far from guaranteed: since 2023 researchers attempting to unravel the scrolls have been stuck on the first few. Now, armed with more data and a more powerful particle accelerator, they expect to make more rapid headway.

The scrolls in question, stored in a library in a Roman villa that is thought to have belonged to the father-in-law of Julius Caesar, were carbonised by scorching gases that engulfed the town during the volcanic eruption that also buried the nearby town of Pompeii. All attempts to unroll them physically, starting in the 18th century, caused them to disintegrate. So instead researchers have been unrolling them virtually, through computer analysis of high-resolution 3D X-ray scans—which is where the particle accelerator comes in.

Such virtual unrolling is a two-stage process pioneered by W. Brent Seales, a computer scientist at the University of Kentucky. The first stage, called segmentation, involves tracing the edges of the rolled-up papyrus sheet inside the 3D scan, and then extracting 2D images of the scroll's surface. The second stage, ink detection, analyses the resulting images to distinguish the ink of the scroll's text from the papyrus background. This is particularly tricky for the Herculaneum scrolls, which were written in carbon-based ink, so there is very little contrast against the background of carbonised papyrus.

Dr Seales thought artificial-intelligence techniques might be able to help. In 2023 he launched a contest, called the Vesuvius Challenge, along with Nat Friedman and Daniel Gross, two technology entrepreneurs who provided backing. A few X-ray scans were made available online, and a community of thousands of enthusiasts has subsequently developed a range of software tools to speed up the fiddly processes of segmentation and ink detection. In late 2023 the project achieved a breakthrough when the first passages of text, in Greek, were extracted from scans of a scroll called "Banana Boy". Three computer-science students shared a $700,000 reward for doing so. (The scroll's nickname refers to its banana-like shape rather than its content, which appears to be a previously unknown philosophical work.)

At the time, Mr Friedman predicted that entire scrolls would be decoded by the end of 2024. But progress has been significantly slower than anticipated. "I think I entered 2024 a little cocky," he admits. One problem was that improving the segmentation software turned out to be unexpectedly difficult. But Mr Friedman now thinks the main obstacle was the quality of the original X-ray scans.

Banana Boy, which belongs to a Parisian museum, was one of four scrolls that had been scanned at the Diamond Light Source (DLS), a particle accelerator in Oxfordshire. A so-called synchrotron light source, it accelerates electrons to almost the speed of light in a storage ring 562 metres in circumference. As the electrons are steered around the ring, they emit electromagnetic radiation, the frequency of which can be carefully tuned, so as to produce X-rays. The resulting powerful beams are then used for various scientific purposes—such as scanning ancient texts.

Of the four originally scanned scrolls, however, Banana Boy is the only one in which ink has been detected. The scan of a second scroll was not as good, Mr Friedman says. Two other, smaller scrolls also seemed to contain very little ink. One possibility is that they were unfinished works, and so were mostly blank. But it is also possible, says Dr Seales, that chemical treatment of those scrolls in the 1980s, during efforts to unwrap them physically, could have affected the ink. Having found text only in Banana Boy, says Mr Friedman, “We were banging our heads against the other three scrolls.”

Then the winds changed. During 2024 the team secured permission to scan a fifth scroll, kept at the Bodleian Library in Oxford, at the DLS. For the first time, individual letters were directly visible in the scans after the segmentation step, probably because this scroll was written with a different type of ink. Finding ink in another scroll was heartening, Mr Friedman says.

This month two volunteer researchers were awarded a $60,000 prize for detecting the scroll's title—the first time the specific work on a Herculaneum scroll has been identified. It turned out to be "On Vices" by Philodemus, a philosopher who lived in the town (and the likely author of Banana Boy, too). Mr Friedman says longer fragments of text are now being found within the scroll. In April the team scanned another 20 scrolls at the DLS, flown by private jet from the Victor Emmanuel III National Library in Naples. This deluge of new data will help make the segmentation and ink-detection algorithms much better.

At the same time the team has secured a boost in scanning power. This month they undertook a further six-day scanning campaign using the Extremely Brilliant Source (EBS) at the European Synchrotron Radiation Facility in Grenoble, the world's brightest synchrotron. The EBS can produce X-rays 10trn times brighter than those used in medical imaging—and with twice the maximum energy of the DLS, the EBS can perform scans more quickly. To determine how best to use this more powerful machine, the researchers spent the first three days trying out different scanning parameters, akin to adjusting the settings on a photo scanner to get the best results.

Increasing the incident energy of the individual X-rays in the beam (measured in kiloelectron volts, or keV) produces sharper images, but too much energy reduces the contrast and makes features harder to distinguish, says Dr Seales. Adjusting the so-called propagation distance between the item being scanned and the detector, can also affect sharpness and contrast. A third parameter is the spatial resolution, defined as the width of each volumetric pixel in the scan, measured in microns (millionths of a metre). Scanning at two-micron resolution produces far more detail than at eight microns, but the resulting digital files are 64 times larger.

Over a series of scans, all these parameters were varied in turn. The conclusion, says Dr Seales, was to use X-rays with an incident energy of 110keV (higher than the 53keV used at the DLS); a propagation distance of one metre (a longer distance made the contrast worse); and to scan at four microns and then downsample to eight microns, to get good sharpness at a smaller file size. Having established these settings, the team spent three days scanning a further 20 scrolls. The resulting scans, says Mr Friedman, are easily the best so far. “It’s a step change for us—we think it’s a game changer,” he says.

In particular, there is fine detail even in compressed regions, where layers of papyrus are very close together. This should help make the segmentation process easier and more accurate. Mr Friedman thinks reading entire scrolls by the end of this year is now feasible. “Nothing is going to stop me—we are going to solve this,” he insists. The next step is to “triage” the new scans to find the scrolls that can be read most easily, says Dr Seales. Further improvements are no doubt possible in the scanning process, he suggests: in future it may make sense to do a high-resolution scan that is optimised for segmentation, and then a lower-resolution one with more contrast for ink detection.

Eventually, the team aims to scan all 300 surviving unwrapped scrolls. The ultimate hope is that extracting text from the scrolls, and revealing previously unknown books from antiquity, will provide the justification for a full excavation of the villa in Herculaneum, which may contain thousands more scrolls. Gaining access to a lost library of that size “would be the largest discovery in human history”, says Dr Seales. For now, the villa remains under wraps in a quiet hollow next to the ancient town. But elsewhere, vast energies are being unleashed to uncover its secrets. ■

---

https://www.economist.com/science-and-technology/2025/05/28/the-decoding-of-ancient-roman-scrolls-is-speeding-up

| Section menu | Main menu |

Third time unlucky

Elon Musk’s plans to go to Mars next year are toast

SpaceX’s Starship fails for a third time in a row

May 29, 2025 02:18 PM

SpaceX’s ninth test flight of its Starship launch system could be counted as an advance over the previous two, which lit up the Caribbean skies a couple of thousand kilometres down-range of their Texas launch site like spectacular fireworks. A second stage successfully turned off its engines after reaching space intact, but by the time it re-entered the atmosphere on the other side of the world it was clear that this was a third failure in a row.

The main goals of the latest test flight, launched in the evening of May 27th, were to show that the system’s second stage—the pointy bit which is the Starship proper—could relight one of its engines once in space and to gather reams of data from its controlled re-entry so as to improve the heat shielding on future craft. Unfortunately, when the Starship turned off its engines after its initial ascent it found itself rolling, and its Earthbound controllers could not get it to stop. The engine relight was cancelled, all remaining propellant was vented from the tanks and the Starship plunged to fiery oblivion over the empty part of the Indian Ocean where it had been meant to make a controlled splashdown.

This Starship, like those which flew in the previous two flights, was of a new and supposedly improved design compared with the original version used in the first six flights. Its “Block 2” design’s purported enhancements—including higher thrust and fins better suited to re-entry—have not yet had a chance to manifest themselves. The tendency towards fire in the engine bay which doomed the previous two flights seems to have been sorted out, but a loss of fluids from one of the redesigned propellant tanks proved just as fatal. It is possible that this new problem, like the old one, stemmed from excessive vibration.

The issues may be sorted out through modifications to the remaining Block 2 ships; they may inform better design choices in the Block 3 ships. They may also indicate that the goal of a regularly reusable ship so light in its structure that it can get 150 tonnes into orbit is overly ambitious, and that the payload capacity will need to be reduced.

Regardless of what happens next, the three failures mean that the company is no nearer getting a Starship into orbit and successfully back to Earth than it was six months ago, when the last Block 1 Starship managed a controlled splashdown. It has no new data on how best to cope with re-entry; it has no new experience turning engines on and off in space; and it is no longer building the sort of Starships which previously provided it with such things.

The lost six months confirm that Elon Musk, SpaceX’s boss, will not be able to send uncrewed Starships to Mars next year, as he had claimed he intended to. The problems also cast serious doubt on the company’s ability to land an uncrewed Starship on the Moon next year as a precursor to delivering a crew there the year after as part of NASA’s “Artemis” programme. Starship is not the only part of the programme behind schedule; the 2027 date is hard to credit.

The losses have also pushed back the day when Starships might take over the job of launching the Starlink satellites which provide SpaceX with the bulk of its revenue. SpaceX’s Falcon 9 launchers are on track to launch more Starlinks this year than ever before, but the service is still unable to provide bandwidth to all those who want it in some areas. In principle Starship will be able to increase the rate at which capacity is added. And the fact that the most recent test flight successfully reused a previously flown “super heavy” booster to speed the ill-fated Starship on its way was a hopeful sign that such launches can one day become routine. But that day seems to be getting no closer. ■

---

https://www.economist.com/science-and-technology/2025/05/28/elon-musks-plans-to-go-to-mars-next-year-are-toast

| Section menu | Main menu |

Blemish treatment

Old oil paintings are suffering from chemical “acne”

Conservators are scrambling to rescue them

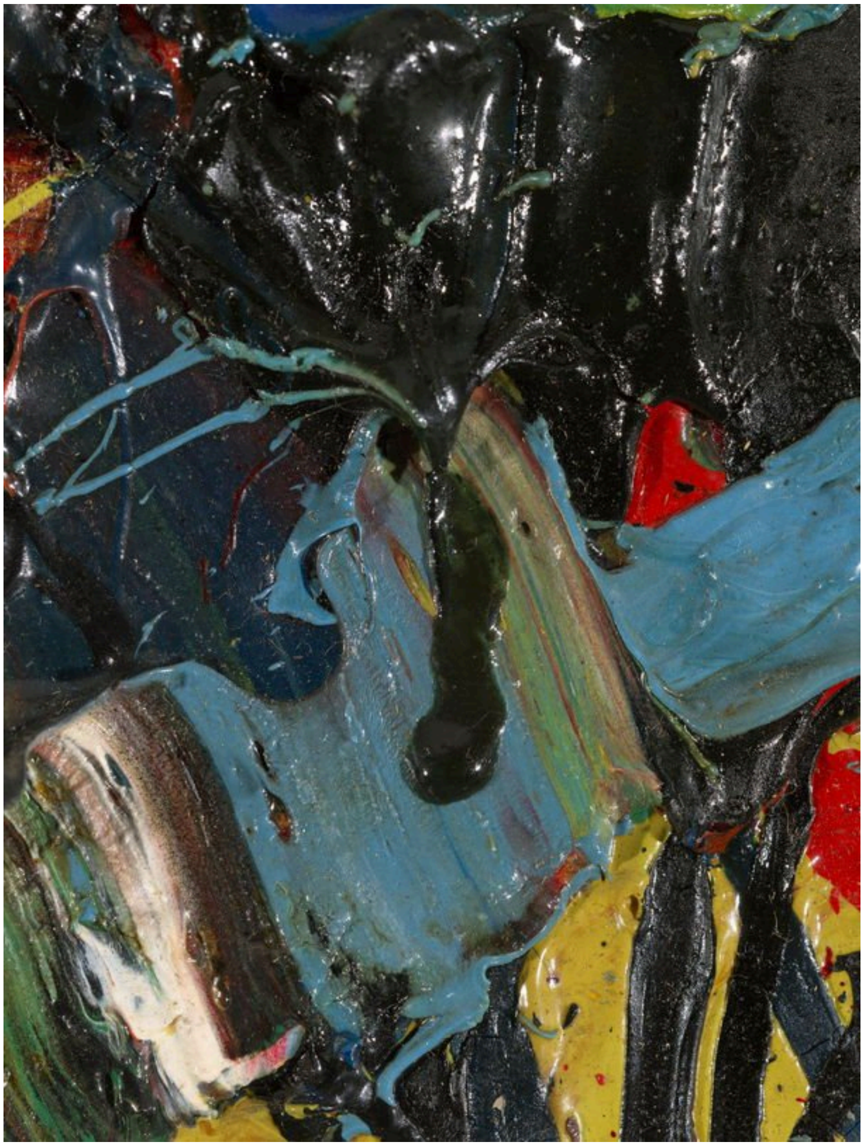
May 29, 2025 09:52 PM

Desperate for a spa day

WHEN AN OIL painting is dried and finished, it is supposed to stay that way. Yet when Ida Bronken, an art conservator, began to prepare Jean-Paul Riopelle’s “Composition 1952” for display in 2006, she noticed drops of wet paint were trickling down the canvas from deep within the masterpiece’s layers. Equally odd were the tiny, hard, white lumps poking through the painting’s surface, as if it had a case of adolescent acne. Other sections seemed soft and moist; some paint layers were coming apart “like two pieces of buttered bread”, Ms Bronken says.

At the time, she was stumped. “I just stared at the artwork and thought ‘Why is this painting acting so strange?’” She soon found out that such behaviour is unexpectedly common in oil-based paintings. There are pockmarks in the red roofs of Vermeer’s “View of Delft” and surprisingly rough surfaces in the black dress of “Madame X”, painted by John Singer Sargent. Damage of this kind has been blamed on everything from air bubbles and glass spheres to insect eggs and sand—all unfairly, as it turns out.

The true culprits instead are positively charged metal ions, such as zinc and lead, present in paint pigments. Over time these react with negatively charged components of oil called fatty acids, which have been severed from the rest of the oil molecules by light, heat and humidity. This process, known as saponification, produces a kind of soap called metal soap, with potentially disastrous consequences. In the past 20 years oil paint's predilection for saponification has been illustrated in masterpieces by Rembrandt, Georgia O'Keeffe and Francisco de Goya, with surveys suggesting it is under way in 70% of oil paintings in museum collections. "I like to think of paintings as little chemical factories," said Katrien Keune, head of science research at the Rijksmuseum in Amsterdam.



To discuss the problem and what might be done to overcome it, Dr Keune and her colleagues convened a conference in April that brought together some 200 painting researchers and conservators from around the world, including the Metropolitan Museum of Art in New York, the National Gallery in London and the Art Institute of Chicago. They agreed that metal soaps are not all bad and, in fact, help the early drying process. But as the decades stack up, the pimple-like balls, paint drips and wet surfaces that Ms Bronken observed on “Composition 1952” can begin to emerge. Sometimes a hazy crust known as efflorescence forms, obscuring the artwork below.

Twentieth-century artworks are particularly vulnerable, partly due to changes in paint formulation. In oil painting, double bonds in the long carbon chains of the oil react with oxygen from the air as the artworks dry. This creates new chemical connections that stabilise the final, cured layers. But the linseed oil used in traditional oil paint became harder to source after the first world war, prompting the use of herring, sunflower and safflower oils as substitutes. These oils contained fewer double bonds, leaving the paintings' layers much weaker. The salutary replacement of toxic lead white with zinc-based pigments likewise caused problems, such as delamination—where painting layers lift, and sometimes fall, off.

So what can be done? One priority is to test more thoroughly the cleaning fluids and adhesives used to remove dirt and repair paintings. Some researchers worry that these solutions could penetrate into paint layers and accelerate saponification. Even water is under scrutiny; conservators are increasingly choosing to clean paintings with high-tech tissues and gels that release only a scintilla of solution. Then there is the problem of water in the air. As the costs of energy have risen, many museums have relaxed a strict 48-52% humidity range to a range as wide as 40-60%. As a result, some institutions are putting especially vulnerable oil masterpieces behind glass, where humidity levels can be optimised for the painting in question.

Many questions remain: should soapy acne be cleaned away, or will that lead to unsightly damage? What about oil drips sliding down a canvas? Wipe them off, and a conservator might accidentally remove material deliberately placed there by an artist. Do nothing, and they might cause further harm. Though few answers have emerged so far, it is clear that watching paint dry has become a pursuit of tremendous cultural value. Art conservators across the world hope that it one day brings fewer dramatic consequences. ■

https://www.economist.com/science-and-technology/2025/05/28/old-oil-paintings-are-suffering-from-chemical-acne

| Section menu | Main menu |

Pest control

Snakes may have once faced a vicious enemy: the humble ant

Scientists believe that could be why the slithering reptiles developed toxic tails

May 29, 2025 09:56 PM

SOME SNAKES are well-known for injecting prey with venom from their fangs. What’s less well known is that they produce toxic stuff at the other end of their bodies, too. Located at the base of the tail in venomous and nonvenomous snakes alike are glands that generate foul-smelling secretions. The point of these glands has long been a mystery, but new research suggests they could stem from a time when snakes were much less impressive and needed to protect themselves from a vicious enemy: the humble ant.

Scientists have known since at least the 1960s that some tail secretions are bug-repellent. One snake, a teeny, worm-like thing called the Texas blindsnake, which when coiled is no larger than a 50-pence piece, smears itself in its tail poison when raiding ant and termite nests for food, for example. Yet until now it has been unclear why all snake species, even those that seemingly never interact with ants, produce this noxious concoction.

To get to the bottom of the issue, Paul Weldon of the Smithsonian Conservation Biology Institute in Virginia and Robert Vander Meer of the Centre for Medical, Agricultural and Veterinary Entomology in Florida collected secretions from snakes on all family branches of the serpentine evolutionary tree. The collection included a boa constrictor, a middle American burrowing python, a ball python, a timber rattlesnake, a king cobra and a unicolour cribo (a large, nonvenomous snake known as the "lord of the forest"). The team then set up enclosures with red fire ants that have large underground colonies and make aggressive stinging attacks on intruders. In one chamber, the team allowed the stench of the snake gunk to waft in, to see if it would put the ants off. But they entered the chamber undeterred.

Drs Weldon and Vander Meer next questioned whether directly interacting with the secretions would have an effect. They presented the ants with both a droplet of ordinary water and a droplet of water tainted with 200 microlitres of snake secretion. Though the ants readily encircled and drank from the ordinary water droplets, they rarely even approached the tainted droplets. Fascinated, the researchers then tested placing tiny amounts of secretions from four different species directly on a small handful of unlucky ants. No matter which snake provided the poison, the ants almost always became paralysed and half usually died within four hours.

The researchers interpret these findings, reported recently in the *Science of Nature*, a journal, to mean that tail secretions from snakes probably evolved for insect defence long ago. Since both ants and snakes occupied subterranean environments during the Cretaceous period when dinosaurs still roamed the Earth, Drs Weldon and Vander Meer propose that the secretion appeared in the earliest snakes, which were probably similar to the modern Texas blindsnake. It would allow them to respond to angry ants defending themselves from attack or predatory ants looking for their next meal.

As for why formidable snakes like king cobras still produce these chemicals, the team believes that they could have come to serve a dual purpose. Past work in other labs shows that carnivorous mammals steer clear of meat streaked with snake-tail secretions. Since carnivorous mammals evolved millions of years after snakes, there is little chance that pressure from mammal predators encouraged the rise of the adaptation. What is more likely is that this built-in insecticide, just by happenstance, tasted so terrible to mammals that it put them off eating snakes. When you have no limbs, you might as well make both ends count. ■

---

https://www.economist.com/science-and-technology/2025/05/28/snakes-may-have-once-faced-a-vicious-enemy-the-humble-ant

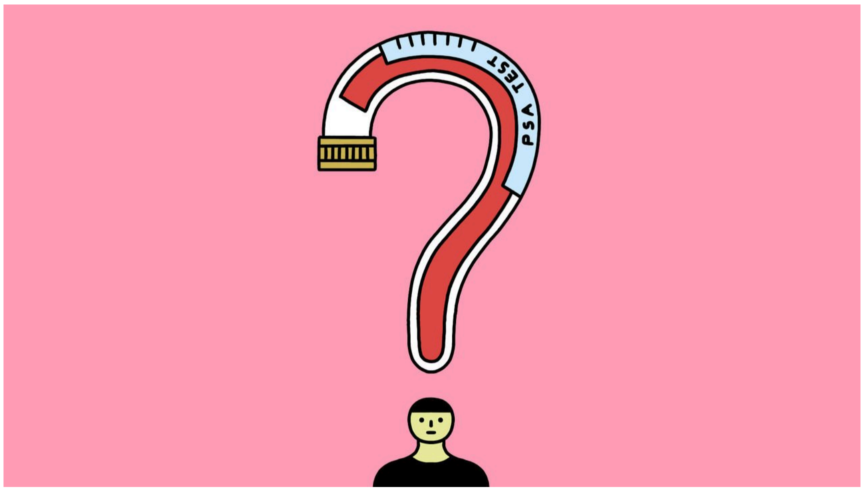
| Section menu | Main menu |

Well informed

Should men be screened for prostate cancer?

The answer is less obvious than you might think

May 29, 2025 01:25 PM



SEEN THROUGH the cold lens of statistics, Joe Biden’s statement on May 18th that he had been diagnosed with prostate cancer is not all that surprising. In America prostate cancer is the second-most commonly diagnosed sort behind breast cancer. (In England it takes the top spot.) Around one man in eight will be diagnosed in their lifetime. As with most cancers, age is the biggest risk, though family history and black ethnicity are others. Younger men can get unlucky and suffer, too. In 2024 Sir Chris Hoy, a British Olympic cyclist, announced that he had an aggressive and terminal form of the disease. Ultra-fit and aged just 48 at the time, Sir Chris was not, on the face of it, at high risk.

Such high-profile cases feed a long-running debate among doctors about whether middle-aged men should be screened for the disease. After Sir Chris’s announcement England’s health service said it would review its advice on the merits of screening, which it currently does not recommend. Mr Biden’s office has said that the former president was last screened in 2014. Screening for such a common cancer may seem like a no-brainer. But many doctors and medical organisations are less sure.

One problem is that the main test, which measures levels of a chemical called prostate-specific antigen (PSA) in the blood, is not very reliable. High PSA levels can be a sign of prostate cancer. But they can also be a sign of vigorous exercise or recent sexual activity. The false-positive rate—the percentage of men who do not have cancer but will get a high reading—is around 75%. The false-negative rate (in which the test mistakenly clears men who do have cancer) is thought to be around 15%. Doctors, therefore, double-check high PSA levels with a biopsy.

If cancer is found, about 20% of cases will need aggressive treatment, says Naser Turabi of Cancer Research UK, a charity. For most men a prostate tumour will grow either slowly or not at all, meaning they will die with the cancer but not of it. (For that reason many doctors think men over 70 should not generally get tested.) And treatment risks nasty and permanent side-effects, including urinary incontinence, bowel problems and impotence. Many doctors worry that mass screening would lead to over-diagnosis and over-treatment of cancers that are very unlikely to be fatal.

A big British trial found the 15-year survival rate for men with cancers that had not spread was virtually identical, at around 97%, regardless of whether they had surgery, radiation therapy, or no treatment beyond keeping a wary eye on the cancer. Such “active surveillance”—which may result in treatment later on—is the most conservative approach, although doctors report many patients become unable to bear the thought of having cancer and opt for treatment despite the risks.

Technological advances may change the picture. These days many men with high PSA levels will be offered an MRI scan, which can characterise any tumours present, before deciding on a biopsy. Genome sequencing could also help assess a patient’s risk. But opinions still differ on the wisdom of routine screening. The European Association of Urology recommends a test at 45. The American Cancer Society suggests men discuss the idea with their doctors at 50—or younger for those with a family history of the illness. Whatever you choose, think carefully—and be prepared for some difficult trade-offs when the results come back.■

Clarification (May 28th 2025)*: The text has been updated to better reflect the approach of "active surveillance" and the guidelines in different countries.*

---

https://www.economist.com/science-and-technology/2025/05/23/should-men-be-screened-for-prostate-cancer

| Section menu | Main menu |

Culture

- ## How an agonising relationship with his dad shaped Xi Jinping
  Party, piety, pity :: The most powerful man on Earth had a grim childhood
- ## The second world war changed Budapest for ever
  Death on the Danube :: How a city that once nurtured intellectuals and artists lost its lustre
- ## Museums should open up their storerooms
  Out in the open :: The V&A is putting more of its collection on show. Others should follow suit
- ## “American Dirt”, and how commerce beats cancel culture
  Back Story :: The author of a controversial smash-hit novel is back
- ## Rhyme, once in its prime, is in decline
  Feeling averse :: Readers like it. So why do poets eschew rhyme?

Party, piety, pity

How an agonising relationship with his dad shaped Xi Jinping

The most powerful man on Earth had a grim childhood

May 30, 2025 03:45 PM

The Party's Interests Come First. By Joseph Torigian. *Stanford University Press; 718 pages; $50 and £41*

BY THE TIME Xi Zhongxun was in his 70s, his teeth were failing him. Tough, chewy foods were a challenge so, during one family meal, he extracted some half-masticated garlic ribs from his mouth and gave them to his son to finish. Xi Jinping—by then in his mid-30s and a rising star in the Chinese Communist Party—accepted the morsel without hesitation or complaint. He took the remains of the ribs and swallowed them.

Mr Xi was used to leftovers. As a boy, he would wash in his father's bathwater. (The next morning the water would be used for a third time, to launder the family's clothes.) He also understood the importance of deference, for Xi Zhongxun had taught him that children who did not respect their parents were doomed to fail as adults. Every lunar new year, Mr Xi would perform the traditional kowtow ritual, prostrating himself before his parent in a display of reverence. If his technique was off, his father would beat him.

These stories are recounted in “The Party’s Interests Come First”, a biography of Xi Zhongxun by Joseph Torigian, an American scholar. Mr Torigian draws on a decade of research using Chinese, English and Russian sources, including official documents, newspapers, diaries and interviews. The book is valuable not only for its portrait of its subject—who was a major figure in the party’s history in his own right—but also for its insights into his progeny, now the supreme leader.

As China’s unquestioned ruler, possibly for life, Mr Xi is arguably the most important person in the world. He will be wielding power long after Donald Trump has retired to Mar-a-Lago. Yet information about him is paltry. His every movement is choreographed by a fawning propaganda machine; in the accounts of his life, interesting details are expunged by overbearing censors. There are only a handful of ways to understand Mr Xi, which involve poring over party records or leaked speeches, learning about key moments in Chinese history that he lived through and studying the people who most influenced him. Few people have shaped Mr Xi more than his father. Xi Zhongxun’s relationship to the party and his thwarted ambitions offer clues as to what his son wants for China.

Like many of his generation, Xi Zhongxun’s life was marked by tragedy. Born in 1913 into a family of peasants, he was an ardent believer in communism from a young age. His belief strengthened in his adolescent years, he said, as he witnessed “the tragic mistreatment of the labouring people”. He took part in violent student protests in 1928 and was imprisoned by the then anti-communist authorities. Xi Zhongxun’s parents died when he was a teenager: the result, he thought, of the stress caused by his jailing. Two of his sisters died of hunger.

After the civil war, Xi Zhongxun rose fast through the party's ranks and "entered the very top echelon of the government", Mr Torigian writes. Then, in 1962, he was purged by Mao Zedong for supporting the publication of a novel Mao considered subversive. Four years later, China's paranoid dictator launched the Cultural Revolution, unleashing frenzied gangs who killed between 500,000 and 2m people and displaced many more. Xi Zhongxun was kidnapped, held in solitary confinement and tortured. Around 20,000 people were targeted for having supported Xi Zhongxun, the author estimates, and at least 200 "were beaten to death, driven mad or seriously injured".

His family suffered, too. They were forced to denounce Xi Zhongxun; one of his daughters committed suicide. A teenager at the time, Mr Xi was branded a "capitalist roader" (ie, a traitor) because of his father's disgrace. On one occasion the young Mr Xi was forced to wear a heavy steel cap and subjected to public humiliation. A crowd ridiculed him, shouting slogans including "Down with Xi Jinping." His mother joined in the jeering.

Mr Xi was thrown in prison, where he slept on an icy floor during the winter. "My entire body was covered in lice," he wrote. One time, Mr Xi managed to escape and make his way home. He begged his mother for some food. Not only did she refuse, she also reported him to the authorities, fearful that she would be arrested otherwise. Crying, Mr Xi ran out into the rain.

What doesn't kill you

The anguish did not stop there. In 1969, aged 15, Mr Xi was "sent down" to the countryside with millions of other young people exiled from the cities. He lived in a cave in a desolate part of the country, where girls were sold into marriage for a dowry calculated by their weight. "Even if you do not understand, you are forced to understand," he later recalled of that time. "It forces you to mature earlier."

Why did both men stay committed to a party that had caused them so much pain? Mr Torigian suggests the answer may lie in "What Is to Be Done?", a novel of 1863 by Nikolai Chernyshevsky, a Russian journalist. In the story a young man named Rakhme sleeps on a bed of nails to strengthen his will. Mr Xi imagined that he was Rakhme as he endured those cold floors, lice, rainstorms and blizzards. Both father and son may have been influenced by a Bolshevik political culture that glamorised "forging"—the idea that suffering strengthens your willpower and dedication to the cause.

Throughout his life, Mr Xi has been loyal to two groups that demand absolute obedience: the family and the party. Both were often "unfairly" strict, Mr Xi has said, yet this did not dent his loyalty. Mr Torigian shows how Mr Xi balances dedication and realism. "If I were born in the United States, I would not join the Communist Party of the United States. I would join the Democratic Party or Republican Party," Mr Xi once told Abe Shinzo, Japan's prime minister at the time. Abe concluded that Mr Xi joined the party not because of ideology, but as a way to gain power.

After Xi Zhongxun was rehabilitated under Deng Xiaoping in the late 1970s, he was put in charge of Guangdong province and began to liberalise the local economy. When Mr Xi became general secretary of the party in 2012—the top job in China—many expected him to be an economic reformer like his father. But the assumption that Mr Xi was any kind of liberal was wrong: he is not interested in creating an open and free country. He believes in restoring China's greatness and thinks that, to this end, the party should use any means necessary. His experience of injustice has not taught him that arbitrary power is undesirable; only that it should be wielded less chaotically than it was under Mao, by someone wise like himself.

In a little over a decade, Mr Xi has become the most autocratic Chinese leader since Mao. His regime ruthlessly represses dissidents at home and activists abroad; it enforces a stifling political conformity, forcing many to study "Xi Jinping Thought". Such methods are justified, he thinks, because he sees himself as a man of destiny, with a duty to generations past and future. He often speaks of himself as a protector of Chinese civilisation. "Whoever throws away those things left behind by our ancestors is a traitor," he told Ma Ying-jeou, a former president of Taiwan.

That attitude is apparent in Mr Xi's Taiwan policy, which bears his father's influence. Towards the end of his career, Xi Zhongxun was put in charge of unification with Taiwan. The party had ambitious dreams of reclaiming the island, which has been self-governing since China's civil war ended in 1949 and the losing side, the Kuomintang (Nationalist Party), retreated there. But Xi Zhongxun died in 2002 with this aspiration unfulfilled.

His son yearns to fulfil it. Mr Xi has made it plain he wants to take back Taiwan. Those who rule China must remember that "The territory left by the ancestors must not shrink," he said in 2012. When or how he may try to seize Taiwan—through war, a blockade or other means—is unclear.

What is clear, though, is that his family's suffering has shaped Mr Xi's dark view of politics. "For people who rarely encounter power and who are distant from it, they always see these things as very mysterious and fresh," Mr Xi once said. "But what I saw was more than the surface of things. I didn't just see the power, flowers, glory and applause. I also saw the cowsheds [where people were confined during the Cultural Revolution] and the fickleness of the world.” Mr Xi’s formative years made him clear-eyed and cynical, hardened and imperious. The worldview he learned from his father will affect not only 1.4bn Chinese people, but the whole of humanity. ■

---

https://www.economist.com/culture/2025/05/29/how-an-agonising-relationship-with-his-dad-shaped-xi-jinping

Death on the Danube

The second world war changed Budapest for ever

How a city that once nurtured intellectuals and artists lost its lustre

Jun 05, 2025 07:45 AM

The Last Days of Budapest. By Adam LeBor. *PublicAffairs; 512 pages; $35. Apollo; £27.99*

AT ONE TIME it almost rivalled Berlin, Paris and Vienna in intellectual heft. Effortlessly, it seemed, Budapest nurtured heavyweights. The city was home to world-renowned musicians (Bela Bartok, Franz Liszt), writers (Arthur Koestler, Karl Polanyi), film-makers (Michael Curtiz, of "Casablanca" fame, and Alexander Korda) and physicists (John von Neumann, Leo Szilard). Before the second world war Hungary was also a hub of Jewish culture. Budapest was home to one of the biggest Jewish communities in Europe, with about 200,000 people—roughly a quarter of the city's population. The beautiful central synagogue on Dohany Street was, and remains, the largest on the continent.

By the time the war started, many of Budapest's most talented minds had fled abroad. Around five years later the city lay in ruins. It has never recovered its lustre. Adam LeBor, a British journalist who has contributed to *The Economist*, chronicles the transformation of one of Europe's finest cosmopolitan capitals in his excellent new book, "The Last Days of Budapest". The Nazis were certainly culpable, but even more so their Hungarian lackeys.

Mr LeBor tells a fascinating, if at times episodic, story of how the city became a centre of wartime intrigue and espionage, which he draws from an impressive range of sources. Hungary's government, led by Admiral Miklos Horthy (pictured on previous page), hoped that Nazi Germany would help it win back the territory lost at the end of the previous world war. It joined the Axis powers in late 1940.

To appease the Nazis, local authorities gradually curtailed the rights and opportunities of the country's Jews. Meanwhile, Horthy was also keen to keep lines open to the British and Americans, albeit discreetly enough to not provoke the Nazis. A revolving cast of Zionist secret agents, Polish refugees and American diplomats populate Mr LeBor's account, along with a more exotic array of aristocrats and actresses, including the striking Katalin Karady, Hungary's most famous movie star and a committed anti-Nazi.

Horthy's independent streak eventually provoked the Nazis to invade Hungary in March 1944; thereafter the pace of persecution quickened. Within months some 400,000 Jews from the countryside had been rounded up and sent to Auschwitz-Birkenau. The Jews of Budapest were pushed into ghettos.

When Ferenc Szalasi, a Nazi sympathiser, took over from Horthy, more carnage followed. Mr LeBor is clear that Hungary's own right-wing, virulently antisemitic paramilitary organisation, the Arrow Cross, was largely responsible. Empowered to terrorise and kill at will, they devised ghastly ways to finish off their victims. Jews snatched from the ghettos were tied together in threes, the middle one shot so as to weigh down the others as they were thrown into the Danube. Perhaps 20,000 Jews were killed this way.

Tragically, as the Soviet forces fought their way into Budapest in February 1945, the slaughter merely intensified. Large parts of the old city were levelled in the final assault. The Russians, who lost around 80,000 men, showed little mercy in victory.

Mr LeBor has no truck with the argument that the Horthy regime, the Hungarian police and other local forces were helpless to prevent all this. Too often, he shows, they stood aside. He refers to one Hungarian historian to argue that “Nowhere else in Nazi-occupied Europe were Jews killed in public in such large numbers over such a long period of time.” During the Soviet occupation that followed, many in the Arrow Cross carried on with their thuggish ways, now under the auspices of the Soviet regime’s secret police.

Mr LeBor’s history is valuable not only for its thoroughness, but also its timeliness. His book is a reminder of how quickly a liberal, sophisticated society can be overrun by baser, crueller forces—and that, once established, authoritarianism can be hard to shift. You need only look to Hungary’s ruler today, the strongman Viktor Orban, for proof of that. ■

---

https://www.economist.com/culture/2025/05/29/the-second-world-war-changed-budapest-for-ever

Out in the open

Museums should open up their storerooms

The V&A is putting more of its collection on show. Others should follow suit

May 29, 2025 02:18 PM

Items with a long shelf life

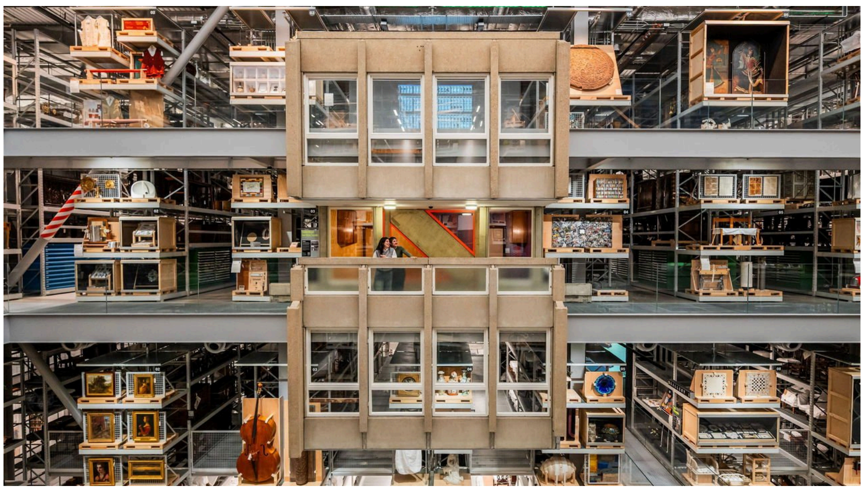
IN MUSEUMS' STOREROOMS, disparate bits of history are brought together. Jesus, rendered in marble, peeks out of a wooden crate; nearby, Napoleon is proud in bronze, but bound by a safety harness. Famous faces are stored alongside forgotten ones. Dante and Nero rub shoulders with a 16th-century Venetian man.

For many museums, the items in storage are out of sight and out of mind. But the Victoria and Albert Museum (V&A) is giving people the chance to browse the eclectic contents of its vaults. On May 31st the V&A East Storehouse, a new facility, will open in the Olympic Park in London. The building will hold more than half a million works, meaning that around 25% of the V&A's 2.8m items will now be publicly accessible, up from 2%.

Treasures and oddments of art and design are arranged across four floors. Visitors can peer at plates, paintings and nearly 900 puppets.

There are 1,500 chairs—shaped like thrones, eggs and even cabbages—and 3,500 pairs of shoes.

Storehouse is no dusty cellar: open racks and glass walkways offer glimpses of treasures from every angle. Nor is it a typical museum. There are rails, boxes and garment bags. Artefacts are strapped to shelves, dust sheets cover precious furniture and pairs of shoes nestle in tissue paper. Lights are controlled by motion sensors to reduce items' exposure and delicate textiles are stored in dark cupboards to stop them from fading. The idea, the V&A says, is to take visitors behind the scenes of the museum's collection.



Institutions have long had to strike a balance between storage and exhibition, notes Steven Lubar, a professor of history at Brown University. When the first public museums opened in the 17th and 18th centuries, everything was put on show. But collections soon grew and many items were subsequently consigned to basements or warehouses. For a time institutions such as the Museum of Fine Arts, Boston, let the public wander through their storerooms. But by the mid-20th century, collections had become the preserve of curators and select researchers.

Now, amid complaints that too many interesting artefacts are being kept in the dark, museums have started opening up their stores again. The Boijmans van Beuningen Museum in Rotterdam opened the first public art depot in 2021, which contains some 150,000 artworks. The British Museum has pledged to make 1.3m objects more available to scholars and the public as part of its new Archaeological Research Collection in Reading.

The V&A's new outpost is a particularly stylish example of how it can be done. The building is designed to remove the barriers between people and objects, says Kate Parsons, head of collections care and access. On a viewing platform visitors can watch conservators at work; anyone can "Order an Object" and have it brought to them. (The project gave staff an opportunity to audit the collection—objects have barcodes and detailed digital records.)

Small displays draw visitors towards particular artefacts, such as a suffragette's scarf or a tiara made from fish scales. There are large installations, too, such as a section of the Agra Colonnade, a structure from the Mughal empire. In September the David Bowie Centre will open, displaying the musician's archive for the first time.

All this will draw crowds. The V&A expects 250,000 people a year to visit Storehouse, compared with the 3,000 who thought to book an appointment to visit the old stores. Like the V&A, it will be free to visit, though people will have to pay to gain entry to special exhibitions.

No doubt many museums would like to have something similar to make use of their mountains of stuff. Such buildings, however, come at a cost. Storehouse and the nearby V&A East Museum, which will display modern culture and design when it opens in 2026, amount to the biggest museum development in Britain in decades, reportedly costing more than £100m ($135m). A government grant funded the V&A's move from its former stores. The rest of the budget came from fundraising, the museum says.

The V&A hopes Storehouse will attract paying members. (The museum already has more than 200,000.) If you "let people closer" to objects, and "they grow to understand and appreciate them," says Tim Reeve, the museum's deputy director, they are more likely to support an institution.

Perhaps. Many visitors will simply enjoy the sheer range of items on display, from a section of a Brutalist housing estate to Rajasthani nose rings. Each floor is intriguing, for you have no idea what is in store. ■

---

https://www.economist.com/culture/2025/05/29/museums-should-open-up-their-storerooms

Back Story

“American Dirt”, and how commerce beats cancel culture

The author of a controversial smash-hit novel is back

May 29, 2025 12:49 PM

PUBLISHING A NOVEL is a queasy, exposing business for its author. Suddenly strangers have views about characters who once existed only in your head. If the book is a success, even people who haven’t read it are liable to hold opinions of it—and of you.

Commercially, “American Dirt”, published in 2020, was exceptionally successful. It was also extremely controversial. Now its bruised, brave author, Jeanine Cummins (pictured), is back with a new title, “Speak to Me of Home”. Her books offer a concise parable of the cultural turmoil of the past five years: a tale of myopic activism, strife on the internet and in the arts, cancellation and the cancellers’ comeuppance.

In “American Dirt”, a mother and son flee Acapulco after a cartel slaughters their relatives. Ambushed by horrors and occasional kindnesses, they ride the roofs of freight trains and pay a *coyote* to smuggle them to *el norte*. Much hyped in advance, the book met a commensurate backlash. Since she was neither Mexican nor a migrant, who was Ms Cummins to write about these experiences? "Trauma porn" was a favourite disparagement. Her publicity tour was called off amid the vitriol. Critics dressed her down on "Oprah's Book Club", a talk show.

The flaw in these objections was less substance than scale. It was fair to point to clichés and distortions in "American Dirt" (though lots of critics seemed to forget it was a story set in Mexico, not an encyclopedia). But some went much further, calling it "dangerous" and "harmful". The wild vocabulary reflected the belief, axiomatic in parts of the left, that political wrongs are all linked on a continuum of guilt, such that uttering a clumsy word can make you complicit in violence. An infelicity in a novel becomes a heinous act of colonialism.

This intolerant, deluded outlook has alienated lots of moderates from causes they might otherwise support. And the brouhaha was typical of the past few years in a different way: it was not a clash between friends and foes of migrants but among their avowed supporters. The book's heroine marvels at those who "venture into tremendous peril, risking their very lives, all for the chance to get to the dream of some faraway country that doesn't even want them". The well-meaning message, as Ms Cummins put it, was that "these people are people."

Today, the waste and cost of this blue-on-blue bust-up, and many others like it, are stark. While cliques of lefties and liberals quarrelled over language, America elected a government that wants to crush diversity initiatives and deport millions. The idea that Ms Cummins ever counted as a villain looks absurd. It always was.

The furore left a mark. Publishers are more aware of diversity among staff and authors—and more cautious. Fearing charges of "cultural appropriation", writers are anxious about imagining lives unlike their own. Yet in a narrow sense, the activists failed.

“American Dirt” was a smash hit, selling over 4m copies worldwide. Oddly, its readers were unmoved by the internet jeremiads. Thus the affair captured another recent lesson: the online world, in which everyone seems to agree with you, is not the real world.

Ms Cummins’s new novel shares themes with its predecessor, such as parenting, grief, lives and families that straddle borders—in this case between Puerto Rico and the mainland—and the shimmery allure of America (a man “harboured some romantic notions” of New York, “the same way everyone did until they went there”). A family saga rather than a thriller, it encompasses several generations and time frames, tracing the impact on the clan of fateful mishaps: a financial bust, an aneurysm, a car crash. Its deep subject is the rolling fallout of migration, as the ache and alienation of the first generation, and the neuroses of the next, bleed into the ethnic self-assertion of today’s.

There is a hint of penance here. Chastised for her outmoded approach to identity, a character resolves that she “will face her own discomfort and she will learn”. By focusing on Puerto Ricans and Irish-Americans—two strands of her own lineage—Ms Cummins has played it safe. Still, she is entitled to tell whichever stories she chooses. The main point about “Speak to Me of Home” is that it is out there.

Commerce beat the cancellers; that is the final moral of this literary parable. As some of those cancellers griped, the market is indeed a faulty means to match reward with talent. But when it comes to determining what people get to read, it is better than leaving it up to them.■

---

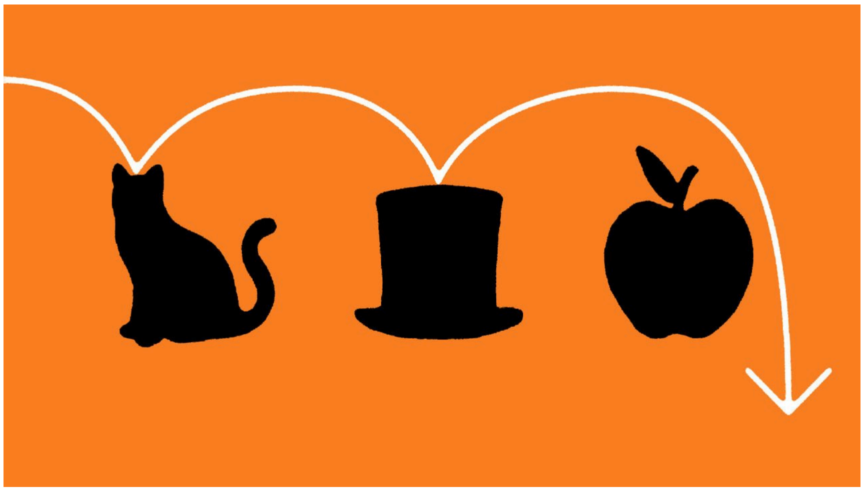
https://www.economist.com/culture/2025/05/23/american-dirt-and-how-commerce-beats-cancel-culture

Feeling averse

Rhyme, once in its prime, is in decline

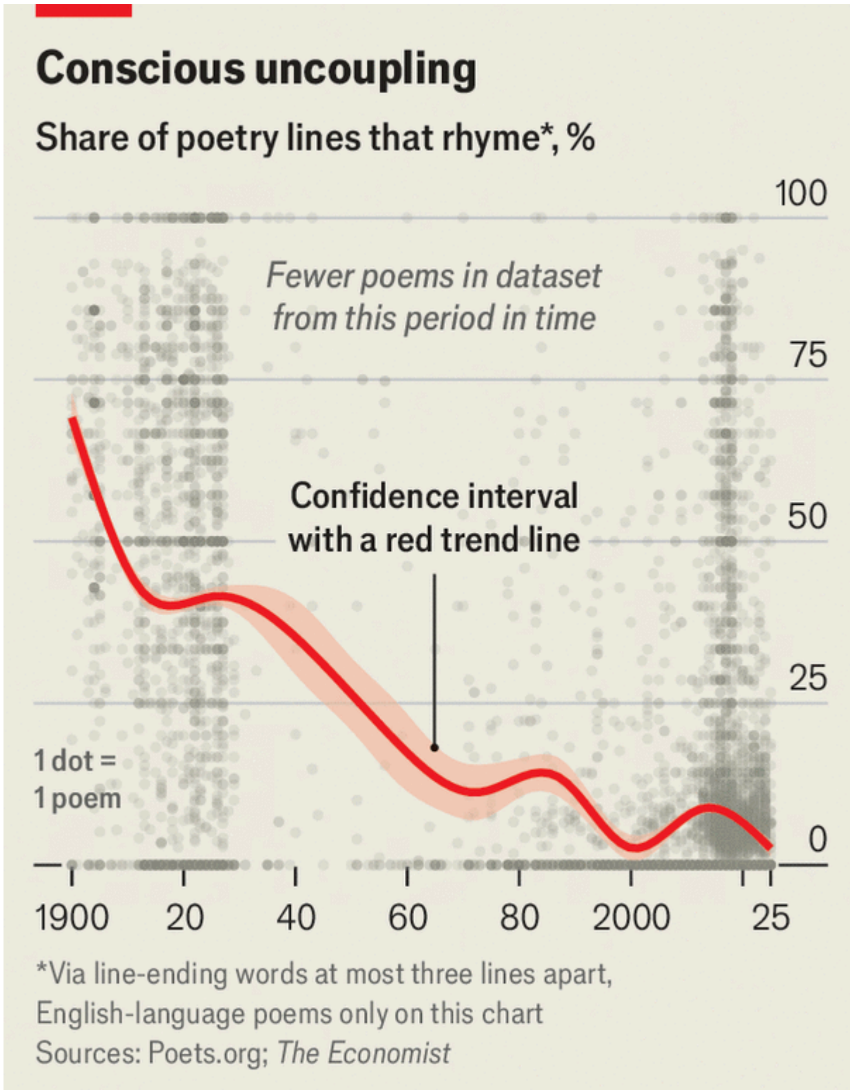
Readers like it. So why do poets eschew rhyme?

May 29, 2025 12:49 PM



FOR JEREMY BENTHAM, a philosopher, poetry was simply writing that “fails” to reach the end of the line. For W.H. Auden, a poet, poetry was that which “makes nothing happen”. Arnold Bennett, a writer, disagreed: he thought poetry was very powerful. The mere word “poetry” could, he said, “scatter a crowd” faster than a firehose.

What unites these descriptions of poetry is that none uses the word “rhyme”. When A.E. Housman, a poet, gave a 51-page lecture titled “The Name and Nature of Poetry” in 1933 he used the word “rhyme” just once, and then only in the phrase “bad rhyme”. Martin Heidegger, in an essay titled “What Are Poets For?” (1946) was similarly avoidant: the philosopher used the word “abyss” 16 times, “death” five—and rhyme not once.



Poets rarely define poetry by whether or not it rhymes. This is just as well, for now it hardly does. P.G. Wodehouse, a novelist, divided poetry into the "old-fashioned kind with rhymes in it" and the modern stuff about "gas-works and decaying corpses". *The Economist*'s analysis of 11,000 poems in English finds verse firmly in the gas-works and corpses camp. In 1900, 80% of poems contained rhyme; today, only around 25% do. Numbers of rhymes fell too: at the start of the 20th century over 60% of lines rhymed; now under 5% do (see chart). Rhyme, says Wendy Cope, a poet, has become "pretty unfashionable".

Poetry's most prestigious prizes bear that out. The contenders for this year's Griffin Poetry Prize—which is announced on June 4th and comes with a cheque for C$130,000 ($94,000)—have produced poems with titles such as “Unregulated Waste Management Facility”. T.S. Eliot prizewinners offer titles including “the body as cemetery”. All are rich in words like “penumbra” and in *unexpected italics.* They are not rich in capital letters at the start of sentences. or jokes. or rhymes.

This is historically unusual. Poetry used to have rhyme and rhythm: the reason both words are hard to spell is that they derive from ancient Greek. The oldest recorded rhyme is from China in the 10th century BC. This ubiquity and longevity hint that the brain is “hardwired” to notice rhymes, says Samuel Jay Keyser, author of “Play it Again, Sam: Repetition in the Arts”, a new book. Other things reveal this too, such as the sheer ease with which you can detect rhymes in a text. A rhythm can be hard for you to see. That last sentence, for example, was in iambic pentameter, but you probably did not notice. Noticing rhyme in text is easier: if it’s got it, you can spot it.

You used to be able to spot it a lot. There were children’s rhymes and adult rhymes, larky rhymes and snarky rhymes that asked bombs to fall on Slough as “It isn’t fit for humans now.” There were sorrowful rhymes that told you not to “Go gentle into that good night”, but “Rage, rage against the dying of the light”.

Then rhyme collapsed. John Milton—a poet who influentially decided to forgo rhymes in his epic poem, “Paradise Lost”—inflicted an early blow. But it was the modernists who killed off rhyme.

At the start of the 19th century, around half the population was literate; by the start of the 20th, 97% was. This was good for egalitarianism but bad for intellectual egos, since poetry does not merely confer pleasure but status. In an era of low literacy the mere ability to read a poem set someone apart; as the era of mass literacy dawned, another marker of intellect was needed. It came in the form of modernism.

In the 20th century, many artforms became “more abstruse, inaccessible and difficult to appreciate”, says Steven Pinker, a professor at Harvard University, “possibly as a way of differentiating elites from the hoi polloi”. Any fool can enjoy an enjoyable thing, but only a committed intellectual can enjoy an unenjoyable one. By the mid-century, rhyming lines had fallen by half.

Modernist verse is thus the peacock’s tail of poetry: something that evolved to be clearly hard to bear, but impressive if you can. Consider the epigraph of T.S. Eliot’s modernist masterpiece “The Waste Land”. It begins, forbiddingly, in Latin, then ends in ancient Greek with the words *apothanein thelo* (“I want to die”). Eliot can make everyone feel a bit like that.

Another possible cause of the decline is market forces—or their absence. Once, poets made money by selling poems: Lord Byron’s “The Corsair” shifted 10,000 copies in a day. Readers wanted rhymes, so poets provided them. But in the 20th century it became possible, as the poet Philip Larkin pointed out, to make a living less by poetry than “by being a poet”.

From bad to verse

Look at a list of recent winners of any of the big poetry prizes and most will share three characteristics: you will not have heard of them; their poems will not rhyme; and they will have worked as poets in universities, peddling poetry as (partially) state-subsidised muses. This is poetry less as a paid-for product than as a literary utility: something that—like road surfacing or sewage disposal—is widely considered necessary for a civilised society but that no one wants to fork out for.

The poetry that does sell is produced by a new generation of social-media poets such as Donna Ashworth and Rupi Kaur. This is to the distress of intellectuals, for Instapoets’ verse is not the gas-works and cemetery kind. It is designed to be shared online, meaning that it is anodyne and often accompanied by line drawings of birds.

Ms Ashworth prefers to write about nice things. She celebrates your “inner voice”, your “inner light” and your “inner child”—which may make many readers feel in touch with their inner breakfast. She warns readers not to listen to their “inner critic”. (Given some reviews, Ms Ashworth may prefer not to listen to outer ones either.) She reveres hope: put hope, she advises, “beside your car keys” lest you lose it.

Naturally such poems do not rhyme. For rhyme, alas, seems to have been almost entirely lost. Perhaps no one remembered to put it beside the car keys. ■

---

https://www.economist.com/culture/2025/05/28/rhyme-once-in-its-prime-is-in-decline

Economic & financial indicators

- **Economic data, commodities and markets**
  Indicators ::

Indicators

Economic data, commodities and markets

May 29, 2025 12:49 PM

Economic data

1 of 2

	Gross domestic product % change on year ago: latest		quarter*	2025†	Consumer prices % change on year ago: latest		2025†	Unemployment rate %	
United States	2.0	Q1	-0.3	-0.1	2.3	Apr	3.2	4.2	Apr
China	5.4	Q1	4.9	4.4	-0.1	Apr	-0.3	5.1	Apr‡§
Japan	1.7	Q1	-0.7	0.4	3.5	Apr	2.2	2.5	Mar
Britain	1.3	Q1	2.9	1.0	3.5	Apr	3.4	4.5	Feb††
Canada	2.4	Q4	2.6	-0.6	1.7	Apr	2.3	6.9	Apr
Euro area	1.2	Q1	1.3	0.9	2.2	Apr	2.2	6.2	Mar
Austria	-0.5	Q4	-1.4‡	0.3	3.3	Apr	2.6	5.4	Mar
Belgium	1.1	Q1	1.6	1.0	2.8	May	2.9	5.9	Mar
France	0.6	Q1	0.5	0.7	0.6	May	1.3	7.3	Mar
Germany	nil	Q1	1.7	0.1	2.2	Apr	2.3	3.5	Mar
Greece	2.7	Q4	3.7	2.2	2.6	Apr	2.7	9.0	Mar
Italy	0.6	Q1	1.0	0.5	2.0	Apr	1.9	6.0	Mar
Netherlands	2.0	Q1	0.4	0.6	4.1	Apr	3.6	3.8	Apr
Spain	2.8	Q1	2.3	2.6	2.2	Apr	2.3	10.9	Mar
Czech Republic	1.8	Q4	2.6	1.8	1.8	Apr	2.1	2.7	Mar‡
Denmark	4.0	Q1	-2.0	2.6	1.5	Apr	2.0	2.9	Apr
Norway	-0.4	Q1	-0.3	1.4	2.5	Apr	2.0	4.3	Mar‡‡
Poland	3.2	Q1	2.8	3.0	4.3	Apr	4.3	5.2	Apr§
Russia	1.4	Q1	na	1.8	10.2	Apr	8.4	2.3	Mar§
Sweden	1.6	Q1	nil	1.8	0.3	Apr	2.3	8.9	Apr§
Switzerland	1.5	Q4	0.8	1.1	nil	Apr	0.3	2.8	Apr
Turkey	3.0	Q4	6.9	2.9	37.9	Apr	33.0	8.0	Mar§
Australia	1.3	Q4	2.4	2.1	2.4	Q1	2.1	4.1	Apr
Hong Kong	3.1	Q1	7.9	1.3	2.0	Apr	1.6	3.4	Apr‡‡
India	6.2	Q4	9.3	6.2	3.2	Apr	4.3	7.7	Apr
Indonesia	4.9	Q1	4.8	4.7	1.9	Apr	1.8	4.8	Feb§
Malaysia	4.4	Q1	5.1	4.2	1.4	Apr	2.3	3.1	Mar§
Pakistan	4.8	2025**	na	3.0	0.3	Apr	6.0	6.3	2021
Philippines	5.4	Q1	4.9	6.1	1.4	Apr	1.8	4.3	Q1§
Singapore	3.9	Q1	-2.6	1.7	0.9	Apr	0.5	2.1	Q1
South Korea	-0.3	Q1	-1.0	0.6	2.1	Apr	1.8	2.9	Apr§
Taiwan	5.5	Q1	7.2	3.8	2.0	Apr	1.9	3.4	Apr
Thailand	3.1	Q1	2.8	1.9	-0.2	Apr	0.5	0.9	Mar§
Argentina	2.1	Q4	5.7	5.7	47.3	Apr	41.0	6.4	Q4§
Brazil	3.6	Q4	0.7	1.9	5.5	Apr	5.4	7.0	Mar§‡‡
Chile	2.3	Q1	2.8	1.9	4.5	Apr	4.6	8.7	Mar§‡‡
Colombia	2.7	Q1	3.2	2.3	5.2	Apr	5.1	9.6	Mar§
Mexico	0.8	Q1	0.8	-0.2	3.9	Apr	3.7	2.6	Mar
Peru	3.9	Q1	5.1	2.8	1.7	Apr	1.7	5.8	Apr§
Egypt	4.3	Q4	0.8	3.2	13.9	Apr	14.5	6.3	Q1§
Israel	1.4	Q1	3.4	3.1	3.6	Apr	3.2	3.0	Apr
Saudi Arabia	1.8	2024	na	3.4	2.3	Apr	2.6	3.5	Q4
South Africa	0.9	Q4	2.3	1.7	2.8	Apr	4.0	32.9	Q1§

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 Note: Euro area consumer prices are harmonised

Economic data

	Current-account balance	Budget balance	Interest rates		Currency units	
	% of GDP, 2025†	% of GDP, 2025†	10-yr gov't bonds latest, %	change on year ago, bp	per $ May 28th	% change on year ago
United States	-3.0	-7.1	4.5	-7.0	-	
China	1.8	-5.9	1.5 §§	-55.0	7.19	0.8
Japan	2.4	-4.8	1.5	45.0	145	8.3
Britain	-2.8	-3.9	4.7	41.0	0.74	5.4
Canada	-0.6	-2.0	3.3	-37.0	1.38	-1.4
Euro area	2.9	-3.3	2.5	-6.0	0.88	3.4
Austria	1.6	-4.5	2.9	-17.0	0.88	3.4
Belgium	-0.1	-4.5	3.1	-1.0	0.88	3.4
France	-0.1	-5.8	3.2	13.0	0.88	3.4
Germany	5.3	-2.6	2.5	-6.0	0.88	3.4
Greece	-6.0	-0.4	3.3	-34.0	0.88	3.4
Italy	0.8	-3.6	3.5	-36.0	0.88	3.4
Netherlands	8.4	-2.4	2.8	-14.0	0.88	3.4
Spain	2.4	-3.2	3.2	-20.0	0.88	3.4
Czech Republic	0.5	-2.4	4.2	-21.0	22.1	2.9
Denmark	12.3	1.2	2.5	-13.0	6.60	3.9
Norway	16.1	9.8	4.0	33.0	10.2	3.1
Poland	0.3	-6.1	5.6	-23.0	3.75	4.3
Russia	2.2	-1.7	15.8	126	79.8	10.9
Sweden	5.8	-1.0	2.4	-1.0	9.64	9.4
Switzerland	6.5	0.6	0.3	-50.0	0.83	9.7
Turkey	-1.5	-3.6	30.6	462	39.1	-17.6
Australia	-0.8	-1.8	4.4	19.0	1.56	-3.9
Hong Kong	12.0	-5.4	3.1	-76.0	7.84	-0.4
India	-0.3	-4.4	6.2	-82.0	85.4	-2.5
Indonesia	-1.4	-3.2	6.8	-6.0	16,290	-1.2
Malaysia	1.6	-3.9	3.5	-36.0	4.22	11.1
Pakistan	-1.5	-6.2	12.4 †††	-177	283	-1.6
Philippines	-3.1	-5.4	6.3	-49.0	55.5	4.5
Singapore	16.2	-0.2	2.4	-87.0	1.29	4.7
South Korea	2.9	-2.3	2.7	-77.0	1,376	-1.3
Taiwan	13.7	nil	1.6	-4.0	29.9	7.5
Thailand	1.8	-5.8	2.1	-48.0	32.6	12.3
Argentina	-0.8	0.4	na	na	1,163	-23.2
Brazil	-2.5	-7.1	14.0	229	5.70	-9.5
Chile	-2.1	-1.9	5.8	-22.0	940	-4.5
Colombia	-2.7	-6.0	12.4	92.0	4,131	-6.8
Mexico	-0.2	-3.5	9.4	-37.0	19.4	-13.7
Peru	1.5	-2.9	6.6	-52.0	3.65	2.7
Egypt	-5.2	-7.7	na	na	49.8	-4.4
Israel	4.1	-4.9	4.5	-53.0	3.50	5.1
Saudi Arabia	-3.5	-4.6	na	na	3.75	nil
South Africa	-0.7	-4.6	10.3	-19.0	17.9	1.9

Source: Haver Analytics §§5-year yield †††Dollar-denominated bonds

Markets

In local currency	Index May 28th	% change on: one week	% change on: Dec 31st 2024
United States S&P 500	5,888.6	0.8	0.1
United States NAS Comp	19,100.9	1.2	-1.1
China Shanghai Comp	3,339.9	-1.4	-0.4
China Shenzhen Comp	1,965.5	-2.2	0.4
Japan Nikkei 225	37,722.4	1.1	-5.4
Japan Topix	2,769.5	1.3	-0.6
Britain FTSE 100	8,726.0	-0.7	6.8
Canada S&P TSX	26,283.5	1.7	6.3
Euro area EURO STOXX 50	5,378.4	-1.4	9.9
France CAC 40	7,788.1	-1.5	5.5
Germany DAX*	24,038.2	-0.3	20.7
Italy FTSE/MIB	40,127.8	-1.0	17.4
Netherlands AEX	924.4	-1.0	5.2
Spain IBEX 35	14,100.6	-1.4	21.6
Poland WIG	103,870.3	2.3	30.5
Russia RTS, $ terms	1,102.2	-0.7	23.4
Switzerland SMI	12,186.7	-1.6	5.0
Turkey BIST	9,177.7	-2.4	-6.6
Australia All Ord.	8,624.9	0.2	2.4
Hong Kong Hang Seng	23,258.3	-2.4	15.9
India BSE	81,312.3	-0.3	4.1
Indonesia IDX	7,175.8	0.5	1.4
Malaysia KLSE	1,523.5	-1.4	-7.2
Pakistan KSE	118,332.9	-1.3	2.8
Singapore STI	3,911.9	0.8	3.3
South Korea KOSPI	2,670.2	1.7	11.3
Taiwan TWI	21,357.7	-2.0	-7.3
Thailand SET	1,160.7	-1.6	-17.1
Argentina MERV	2,344,329.5	1.1	-7.5
Brazil BVSP*	138,887.8	0.7	15.5
Mexico IPC	58,735.9	0.3	18.6
Egypt EGX 30	32,493.9	2.1	9.3
Israel TA-125	2,710.4	1.9	11.7
Saudi Arabia Tadawul	11,052.8	-2.2	-8.2
South Africa JSE AS	93,868.9	0.5	11.6
World, dev'd MSCI	3,845.7	0.4	3.7
Emerging markets MSCI	1,163.8	-0.9	8.2

US corporate bonds, spread over Treasuries

Basis points	latest	Dec 31st 2024
Investment grade	106	95
High-yield	379	324

Sources: LSEG Workspace; Moscow Exchange; Standard & Poor's Global Fixed Income Research *Total return index

Commodities

The Economist commodity-price index

2020=100	May 20th	May 27th*	% change on month	% change on year
Dollar Index				
All items	136.6	134.9	-0.2	-4.9
Food	155.9	153.1	0.1	1.8
Industrials				
All	120.6	119.8	-0.5	-11.1
Non-food agriculturals	126.4	125.2	-2.6	-9.3
Metals	119.1	118.4	0.1	-11.6
Sterling Index				
All items	131.3	128.2	-1.1	-10.1
Euro Index				
All items	138.5	135.9	0.2	-8.8
Gold				
$ per oz	3,279.1	3,298.1	-0.4	40.0
Brent				
$ per barrel	65.4	64.1	-0.3	-23.6

Sources: Bloomberg; CME Group; FT; LSEG Workspace; NZ Wool Services; S&P Global Commodity Insights; Thompson Lloyd & Ewart; USDA; WSJ *Provisional

---

https://www.economist.com/economic-and-financial-indicators/2025/05/29/economic-data-commodities-and-markets

Obituary

- **Simon Mann was the go-to guy for military coups and bespoke warfare**
  Green light flashing :: The private military contractor, aka mercenary, died on May 8th, aged 72

Green light flashing

Simon Mann was the go-to guy for military coups and bespoke warfare

The private military contractor, aka mercenary, died on May 8th, aged 72

May 29, 2025 02:18 PM

As his hired Hawker biz jet lurched towards the rendezvous on March 7th 2004, Simon Mann kept his gaze fixed on the instrument panel. Not the one in the cockpit. The one in his brain. If he saw just one red light, he would jack the whole thing in.

The plan was to remove Teodoro Obiang Nguema Mbasogo, the long-time dictator of Equatorial Guinea. Mr Mann had a team of 69 men ready, mostly ex-South African Defence Force. Old sweats hardened in bush wars and desperate to fight. They would meet to load weapons in Harare, Zimbabwe's capital, and fly to Malabo, the capital of EG. There they would meet a plane carrying the new ruler, Severo Moto (known as "the priest") from exile in Spain. While Mr Obiang was woken up with tea and handcuffs, they would escort Mr Moto to the palace. As thanks, they would get a large cut of EG's oil rights. Piece of cake.

Yet he longed for that red light. Snag after snag had hit the project. People in the know had leaked like sieves. And he had never before acted against "the heads", the ruling government. Despite that, every light, each one a high-placed snout in a different country, was green, saying GO-GO-GO. *Get a bloody move on!*

He always felt that way before an op. Sweaty, trembling. Sick to his stomach. Yet he was good at them. In 1993 in Angola he and his oil-company boss Tony Buckingham had won back the city of Soyo from UNITA, rebels against the former Marxist (but internationally recognised) regime. This had not only led to a ceasefire. It also saved his and Tony's Soyo-connected company, Heritage Oil and Gas, and put them in high favour with the government. They made millions from this useful intervention, and he bought a beautiful house near Beaulieu once owned by the Rothschilds.

By then he part-ran two private military companies. Their names, Executive Outcomes and Sandline International, were glossy. But the work was private warfare. Ex-soldiers swarmed to join; 2,000 on his list, 3,000 waiting. In 1995 he and they cleared rebel forces out of the diamond fields of Sierra Leone. Again they won warm thanks from the government, though payment in full was hard to extract and the rebels returned. In 1997 they hoped to win back the solid-copper island of Bougainville for the government of Papua New Guinea, but were deported first. PNG's loss.

What was he doing in this line of work? Why was he there? He could have gone into brewing, the family's fortune. But soldiering had seized him. His father and grandfather had both excelled in war. Nanny took him to look at bomb sites and watch the Changing of the Guard. She also encouraged him to read books of derring-do: John Buchan, Hornblower. At Eton, maps of benighted lands appealed far more than lessons.

He got a commission in the Scots Guards. But the army disappointed him. He wanted more action; worthy dragons to slay.

Not so much of Her Majesty's Regulations. At White's club when he was 21 he met the founder of the Special Air Service (SAS), Britain's elite and semi-secret fighting force. They talked of a coup in the Seychelles. Eagerly, he signed on; at 27 he joined officially. He liked their philosophy of operations: *Do whatever it takes*.

The word "mercenary" troubled him, though. He kept testing his motivations. Was he just a brute and badass, like Mike Hoare and his men in Congo in the 1960s? No. He liked money, sure. But most regular soldiers signed up for the money, too. They were not patriots first. Armies had also used private workers since for ever to help behind the lines. Privateers were sent to capture Spanish ships. If a house was burning, and the municipality could not or would not send a fire engine, what was wrong with a private company dousing the flames for money? His men were not unaccountable. He took only trained soldiers, and they had to stick to the rules they had learned. They sometimes asked him what sort of mercenaries they were, being so bloody well behaved.

Doing good was the excuse he clung to. In Equatorial Guinea in 2004 the people were impoverished under Mr Obiang's rule. More than half had no access to clean water. The mortality rate for newborns was nearly one in ten. Yet the place was awash with petrodollars. He saw no reason not to putsch the bastard. The man they were installing would be better and very, very grateful.

Sadly, though, this op was a shambles. A monster child. After the plane had landed in Harare they were all arrested. (Betrayed by the CIA, he thought.) He was handcuffed, put in shackles and taken to a holding shed. Continual beatings followed. Once sentenced, he went to Chikurubi prison in Harare for three and a half years; then to Black Beach prison in Malabo, to serve 32 years. After less than two, he was released and thrown out of the country.

That op was his last. It had a distasteful tail, when he defended Mr Obiang and his spendthrift son Teddy in a French court in 2017.

That, and repentance, and his naming of dissidents when in prison, seemed obvious quid pro quos for getting out early.

The failed coup also brought both ridicule and fame. In a letter to his wife Amanda from Chikurubi, he mentioned that only “a large splodge of wonga!” [cash] would get him out. He imagined that Mark Thatcher, son of the former prime minister, terrier-eager to help, might offer it. But he never came through. And his presence, once revealed, exploded the story into scandal. Mr Mann was now the star of the “Wonga Coup”, a scruffy figure in prison shorts and glasses. Hands still grubby with bribes and guns. A famous mercenary in the worst reading of the word.

His memoir in 2011 tried to adjust that. Being a mercenary was like mountain-climbing. He was flattered to be asked to go. He yearned for danger and adventure. Setbacks would not deter him, once he had the top of the mountain in view. He watched for the red light—even hoped for it. But his heart leapt at the green. His book’s title gave the clue, from Shakespeare’s “Julius Caesar“: “Cry ‘Havoc!’ And let slip the dogs of war.” ■

---

https://www.economist.com/obituary/2025/05/29/simon-mann-was-the-go-to-guy-for-military-coups-and-bespoke-warfare