The Economist

Next-gen narcos

US v China: a new episode

The Arctic's real vulnerability

Parable of Château d'Yquem

OCTOBER 18TH–24TH 2025

The coming debt emergency

A SPECIAL REPORT

The Economist

October 18th 2025

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The world this week

The world this week

Politics

October 16th 2025

As the ceasefire between Israel and Hamas came into effect, Israeli troops withdrew from parts of Gaza. Israelis celebrated as the 20 remaining living hostages were released from Gaza. Israel freed some 1,900 Palestinians in exchange.

Hamas handed over the bodies of only nine of the 28 dead hostages. Israel's defence minister threatened to limit the flow of aid into Gaza in retaliation for what he said was a "blatant violation" of the deal.

Donald Trump hailed "peace in the Middle East" at a summit in Sharm el-Sheikh for the official signing of the ceasefire. Arab and Western leaders joined him, but neither Israel nor Hamas was present. Israeli troops killed a number of Palestinians in Gaza after the ceasefire. Violence broke out between Hamas and other Palestinian groups, including gangs armed by

Israel. Hamas deployed thousands of fighters to patrol the streets and executed people it said had collaborated with Israel. Mr Trump said that Hamas was taking out “a couple of gangs that were very bad” but said that the group must disarm soon or “we will disarm them”.

Cameroon’s leading opposition candidate claimed victory in the country’s presidential election and called on Paul Biya, the 92-year-old president, to concede. The statement by Issa Tchiroma Bakary, formerly an ally of Mr Biya, complicates the ageing president’s plan to prolong his 43-year rule by another term, particularly if enough opposition leaders choose to join Mr Tchiroma. Official results are not due until October 26th.

An elite army unit took power in a coup in Madagascar two days after Andry Rajoelina, the president, fled the country following weeks of protests against poverty and corruption. Michael Randrianirina, a colonel in the unit, appointed himself interim president and dissolved most democratic institutions. He promised elections and a return to civilian rule within two years.

Ashley Tellis, a prominent think-tanker and adviser to the US State Department, was charged with unlawfully retaining documents related to national defence. The FBI found troves of classified records during a search of Mr Tellis’s home, the Justice Department said. The 64-year-old was detained pending a hearing due to be held next week. Deborah Curtis, a lawyer for Mr Tellis, told the Associated Press they looked forward to the hearing where they can present evidence.

Many news outlets across the political spectrum rejected a new policy issued by America’s Department of War. It requires, among other things, that Pentagon reporters not solicit or publish sensitive materials, even if they are not classified. Journalists from outlets that refused to sign were asked to surrender the badges that give them access to the Pentagon by Wednesday. The Pentagon Press Association said that the measure “gags Pentagon employees”. Pete Hegseth, the war secretary, said that access to the Pentagon was “a privilege, not a right”.

A grand jury indicted Letitia James, New York state’s Democratic attorney-general, for alleged mortgage fraud. Ms James has denied the charges, claiming they are part of Mr Trump's "political retribution". Last year Ms James successfully sued Mr Trump for financial fraud at his property business. In September this year, the DoJ charged James Comey, a former FBI director whom Mr Trump despises for investigating links between Russia and his presidential campaign of 2016, with perjury.

The shutdown of America's federal government stretched into its third week with no sign of a deal in sight. A judge temporarily blocked Mr Trump's plan to lay off thousands of federal workers during this period, after unions claimed that it was unlawful.

Meanwhile, Mr Trump signed an order to ensure that members of the armed forces receive pay during the shutdown, instructing Mr Hegseth to use any congressional funds available.

Emmanuel Macron, France's president, reappointed Sébastien Lecornu as the country's prime minister four days after he resigned from the position. In a speech to the French parliament Mr Lecornu promised to suspend an unpopular pension reform introduced by Mr Macron that raises the retirement age to 64. Mr Lecornu hopes that this will be enough to ensure that he survives two upcoming no-confidence votes.

Mr Trump said he authorised the CIA to conduct covert operations in Venezuela amid rising tensions with Nicolás Maduro, the country's dictator. In a press conference Mr Trump hinted his administration was "looking at" land strikes. Since last month the United States has killed at least 27 people in attacks on small boats off the coast of Venezuela that Mr Trump alleged were carrying drugs. The latest strike on October 14th killed all six people on board.

Javier Milei, Argentina's president, met Mr Trump at the White House to discuss a further support package to prop up the peso. Mr Trump tied American support to the performance of Mr Milei's party in midterm elections on October 26th, telling reporters "If he loses, we are not going to be generous with Argentina."

Dina Boluarte was ousted as president of Peru amid political unrest over a rise in crime. Peru's Congress chief, Jóse Jerí, was sworn in as her successor and pledged to fight the "war on crime". Mr Jerí, 38, is Peru's seventh president in nine years.

Tommy Robinson, a British far-right activist, said Elon Musk was paying his legal fees in a trial that began on October 13th. Mr Robinson was detained by police under counter-terrorism laws in July: officers say he refused to give them his phone PIN. He has pleaded not guilty and a verdict in the case is due on November 4th.

Chinese authorities detained some 30 Protestant church leaders including the prominent pastor Jin Mingri in raids across the country. It comes after China's leader, Xi Jinping, reiterated his call for religious groups to be "sinicised".

Afghanistan and Pakistan agreed to a 48-hour ceasefire after dozens were killed in days of border skirmishes. Both countries accuse the other of initiating the attacks, which saw the worst violence between them since the Taliban seized power in Afghanistan in 2021. Pakistan has long accused Afghanistan of harbouring militant groups that pose a threat to its safety. Afghanistan denies this is the case.

The world this week

Business

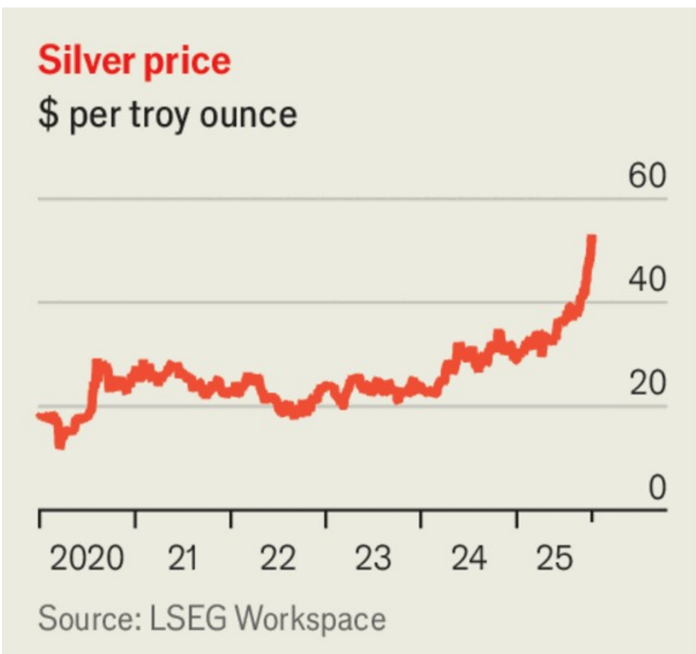
October 16th 2025

America threatened China with an extra tariff of 100% and export controls on "critical software" from November 1st, reigniting the trade war between the two countries. President Donald Trump said the measures were in response to new Chinese restrictions on exports of rare-earth minerals, used in high-tech products from smartphones to electric vehicles (EVs). Stockmarkets slumped after Mr Trump's announcement. On October 10th the S&P 500, an index of big American firms, fell by 2.7% (its biggest one-day drop since he unveiled his "Liberation Day" tariffs in April) before recovering some of its losses.

Meanwhile America and China introduced tit-for-tat port fees. America now charges Chinese ships $50 per tonne of cargo to dock at its ports. In return Chinese ports will collect a levy of 400 yuan ($56) per tonne from American ships, as well as those controlled by firms that are more than 25% American-owned. China will increase its fees over the next three years.

The Netherlands took control of Nexperia, a Dutch-based, Chinese-owned firm that makes chips for consumer goods and cars. In 2024 America accused Wingtech, Nexperia's owner, of helping China acquire semiconductor equipment and placed it on a blacklist that makes it near-impossible for American firms to do business with it. Last month America said it would put restrictions on the subsidiaries of blacklisted firms, too. The Dutch government said that, if Nexperia lost its ability to deliver chips, it could pose a risk to "economic security".

Jerome Powell indicated that the Federal Reserve might cut interest rates at its next meeting on October 29th. The Fed's chair warned that "downside risks to employment have risen". The Fed lowered its main interest rate to 4-4.25% on September 17th, its first cut since December 2024.



The price of silver hit a record $53 an ounce, beating the previous nominal high of $49.95 that it reached in 1980. The precious metal's price has risen by more than 80% this year, beating even gold's blistering rally. The surge has been driven by investors seeking protection from inflation, as well as growing industrial demand: silver is used in everything from solar panels to EVs.

Oil prices slumped after the International Energy Agency, a forecaster, said it expects a surplus of 4m barrels a day in 2026. Brent crude, the global benchmark, fell to $62 a barrel, its lowest level since May.

Shares in LVMH rose by 12.2%, their biggest daily increase since January, after the French luxury group reported that its revenue grew by 1% year on year in the third quarter. LVMH's revenue declined in the first and second quarters of 2024 because of weakening demand from China and American tariffs. European luxury stocks jumped as investors bet on a turnaround for the sector.

Third-quarter profits at American banks soared. Goldman Sachs's profit rose by 37% year on year to $4.1bn; JPMorgan Chase's rose by 12% to $14.4bn. Morgan Stanley's equity-trading division made $4.1bn in revenue, beating Goldman's traders for the first time since 2022. An upswing in mergers pushed earnings from investment-banking fees to their highest since 2021.

A group of firms including BlackRock, an asset-management titan, and Nvidia, America's leading chipmaker, agreed to acquire one of the world's biggest data-centre operators for $40bn. They aim to double the capacity of Aligned Data Centres, which runs nearly 80 sites across the Americas. The deal is the latest in a wave of investments intended to provide extra computing power to run artificial-intelligence models.

HSBC offered to take its Hong Kong-based rival, Hang Seng, private for HK$106bn ($13bn). The British bank already owns around 60% of Hang Seng, which holds a growing number of bad loans because of Hong Kong's ailing commercial-property market. Hang Seng's shares rose by more than 25% following the announcement.

ASML, a Dutch firm that builds advanced chipmaking tools, reported orders worth €5.4bn ($6.3bn) in the third quarter, exceeding analysts' expectations. It said it did not expect sales to fall next year, despite forecasting a big drop in sales in China. Meanwhile TSMC, Taiwan's leading chipmaker, reported profits of NT$452bn ($15.1bn), an increase of 39% on the third quarter of

2024. Taiwan's economy ministry said China's new controls on rare-earth exports would not affect its chipmaking industry.

China's producer-price index, which measures factory-gate prices, fell by 2.3% year on year in September, according to the National Bureau of Statistics. It marks the third consecutive year of falling wholesale prices since October 2022.

The world this week

The weekly cartoon

October 16th 2025

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

The America v China spat reveals a dangerous dynamicDonald Trump and Xi Jinping: both weaker than they think[America and China return to fierce trade conflict]

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

Leaders

Leaders | Everyone is Argentina

The rich world faces a painful bout of inflation

Governments are living far beyond their means. Sadly, inflation is the most likely escape

October 16th 2025

Just about everywhere you look in the rich world, government finances are in ruins. France, as its debt mounts, is getting through prime ministers faster than Versailles went through wigs; on October 14th Sébastien Lecornu, the latest, proposed delaying an increase to the retirement age that was meant to restore sanity to the budget. In Japan both rival candidates for prime minister want to splash out, despite their country’s vast debts. Britain faces big tax rises to plug a hole in its budget, after welfare reforms were mostly abandoned—and despite a supposed once-and-for-all tax rise last year. Looming over everything is America’s unsustainable deficit of 6% of GDP, which President Donald Trump muses about adding to with yet more tax cuts.

How long can governments live so far beyond their means? Rich-world public debt is already worth 110% of GDP; before the covid-19 pandemic, it had been so high only after the Napoleonic wars. Then, Britain ran almost a century of tight budgets to pay back its creditors. Yet, as our special report explains, politicians today struggle to balance the books.

They cannot avoid rising interest bills and higher defence spending; ageing populations exert an irresistible electoral pressure to hand over more cash. Tax rises are just as hard. In Europe government revenues are already high; in America taxes are a ticket to electoral defeat. Only once in the era of universal suffrage has a G7 economy achieved a big fall in debt primarily by tightening its belt: Canada starting in the 1990s, at the height of the technocratic era. Do not bet on anyone repeating the trick today.

You might hope that productivity growth, powered by artificial intelligence (AI), would relieve the state of difficult budget choices. But that would be wishful thinking. Countries tend to grow their way out of debt because their workforce is increasing or they are small and catching up with other economies. Breakthrough technologies like AI are different. Pensions and health-care spending tend to rise with incomes: in big welfare states they will surge along with productivity. So too, say standard economic models, will interest rates. If AI has miraculous effects on growth, today's exorbitant spending on data centres and chips will become even bigger. This will lift interest rates, making legacy debts more expensive to service and offsetting the fiscal windfall that comes from faster growth.

It is therefore increasingly likely that governments will instead resort to inflation and financial repression to reduce the real value of their high debts, as they did in the decades after the second world war. The machinery for such a strategy is in place at central banks, which have a large footprint in bond markets. Already, populists such as Mr Trump and Nigel Farage in Britain attack their country's central banks with proposals that would weaken the defences against inflation.

Price rises are unpopular—just ask the hapless Joe Biden—but they do not need political support to get going. Nobody voted for them in the 1970s or in 2022. When governments cannot get their act together, and run economic policies that are unsustainable, bouts of inflation just happen. By the time markets wake up, it is too late.

All the more reason to think ahead and reflect on how inflation harms the economy and society. It redistributes wealth unfairly: from creditors to debtors; from those with cash and bonds to those who own real assets such as houses; and from those who agree on contracts and wages in cash terms to those wily enough to anticipate higher prices. It causes what John Maynard Keynes called an "arbitrary rearrangement of riches". And that could happen just as societies are grappling with other transfers of wealth that the losers will also see as unfair: in the labour market, as AI takes on routine office work; and through inheritance, as baby-boomers bequeath vast property wealth to those lucky enough to have the right parents.

This multipronged upheaval of fortunes could wreck the middle class, which binds democracies together, and scramble the social contract. In the 20th century Argentina, plagued by inflation, went from being one of the world's richest young countries to a middle-income economy that lurched from one crisis to the next. The competition that raged in Buenos Aires was not over who could innovate or be the most productive, but over who could capture the state and exploit its power to help them avoid inflation's confiscatory effects. That is the future for places where leaders deny or avoid budget constraints in their pursuit of redistribution. A decade ago this newspaper urged emerging markets like Brazil and India to heed the parable of Argentina. Today our warning is for the world's richest economies.

Yet that downward spiral is not inevitable. The sustained price rises of the 1970s also led to the election of Ronald Reagan and Margaret Thatcher, who saw sound money as central to the pact between the state and the citizen. They established an orthodoxy which said that, if public debts were to be honoured, then they also needed to be justified and sustainable. The Federal Reserve waged a war on inflation that established the credibility of independent central banks for a generation. This technocratic model spread. The decline of inflation in most emerging markets since the 1990s has been miraculous. Even the beleaguered Javier Milei may yet enable Argentina to thrive.

Which path will the rich world take—ruinous or prudent? In many countries populists will be in power as the budget crunch hits. Perhaps they will be blamed for the mess, raising the possibility of a return to sound budgeting. Everywhere, a coalition of cash-savers and bondholders will oppose inflation. Whether their voices are heard is likely to be determined by a series of clashes between the bond markets and the politicians, some of which could turn ugly.

If the world emerges with lower debts and conscious of the dangers of excessive borrowing, a renewal of sorts is possible. The alternative would be for the world's most important economies to descend into chaos. ■

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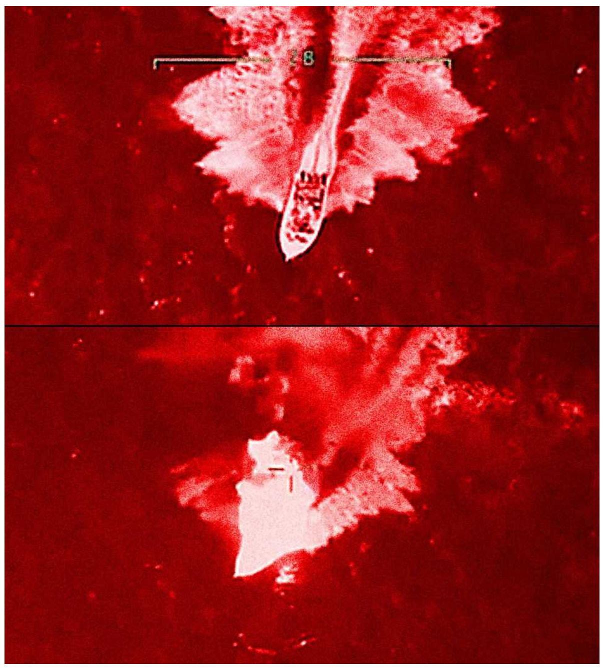
Leaders | Next-gen narcos

Brute force is no match for today's high-tech drug-runners

They are more inventive and adaptable than ever

October 16th 2025



HeLLFIRE MISSILES used to strike terrorist hideouts in the mountains of Afghanistan. Now they rain down on the sparkling waters of the Caribbean. Small boats and their crews, alleged drug-traffickers, are incinerated. On October 15th videos of the latest strike, the fifth in recent weeks, went viral on social media. President Donald Trump is prosecuting a new war on drugs with the deployment of military force and unprecedented violence. He talks of attacking Venezuela, whose president, Nicolás Maduro, he calls a "narco-terrorist". The template is the war on terror. The trouble is that Mr Trump is chasing a new narcotics industry which is more innovative and nebulous than ever.

America's president has identified a grave problem for the world, and his country in particular. The consumption of illicit drugs—particularly cocaine and synthetic opioids like fentanyl, often in combination—kills roughly 600,000 people every year. Many of those deaths are from opioid overdoses. These occur disproportionately in the United States, where people fall victim at about ten times the rate in the rest of the world.

Cocaine and synthetic opioids generate staggering profits. A kilogram of cocaine might fetch 120 times its laboratory-door costs; for synthetics like fentanyl the figure is closer to 1,000. The fight to own those profits causes another 100,000 deaths each year. The cashflows corrupt weak states, ruining the economic prospects of tens of millions of their citizens. And the problem is growing. Consumption is booming in Europe and rising fast even in Africa and Asia. When traffickers carve out new routes to serve new markets, violence and death follow.

As we report, surging demand and those huge profits are powering a revolution in drug-sellers' way of doing business. Forget Pablo Escobar. His style of command and control, with vertically integrated operations linking Andean coca-leaf farms to the streets of Miami, has been replaced by fluid, competing networks of specialist subcontractors. Big brand-name gangs often own the drugs, but they operate only one part of the chain. The rest belongs to logistics experts, thugs-for-hire, chemists, brokers who trade precursors and digital financiers. The profits are recycled by cross-border Chinese money-laundering groups with expertise in cryptocurrencies.

This distributed and outsourced model is adaptive and resilient. Its specialisation favours innovation—witness the narco submarines crossing the Pacific packed with drugs. Changing routes is easy. If one way is blocked, gangs simply use a different subcontractor somewhere else. The result is that trafficking and violence spread quickly and widely.

Apparently immune countries have come under threat from the trade. In sleepy Uruguay traffickers recently attacked the public prosecutor's home. Gang violence is surging in some European port cities, such as Antwerp. In the Pacific, on the expanding route to Asia, Fiji has called in the armed forces to fight drug-smugglers. The layering of contracts makes it much easier for bent politicians and business people, known as "invisible narcos", to take a role in the trade. For every case in which this is uncovered, scores more remain hidden.

The most effective single way to reduce the death, violence and corruption would be to legalise and regulate the production and consumption of cocaine. This would eliminate the price premium that motivates the world's most violent criminals. Consumers could be sure of dosage and quality—an incentive to shun dangerous illegal concoctions. Prisons would be emptier and the criminal-justice system could focus on deadlier synthetics. Alas, in most consuming countries neither voters nor politicians are interested.

That limits governments to a set of weaker tools. On the demand side, addiction programmes and public-health campaigns pay back twice. They lower drug deaths and harm, and cut demand. That is important. Without such cuts, reducing the supply by, say, eradicating fields of coca plants, just pushes up the price. And that calls forth more supply.

On the supply side, although pulverising small boats in the Caribbean is popular with Mr Trump's supporters, it is almost certainly illegal and ultimately unlikely to make much difference. Little of the hard drugs brought to the United States come via the Caribbean, as they did in Escobar's day. Any that do can easily be rerouted up the Pacific coast. Destroying boats does not much raise drug-owners' costs.

Instead, governments should focus on gathering intelligence about every link in the trafficking networks and then prosecuting each of them—especially the most powerful. Bombs may scare boat crews, but the paymasters worry about the police appearing at their infinity pool, or freezing their accounts. Investigators must expose the financiers and white-collar enablers. As they raise the cost of doing business, the incentives change, especially if demand is squeezed, too.

This is a task for intelligence officers, police and prosecutors, not the army. Traffickers are entangled with cops, prosecutors, judges and politicians, particularly in Latin America, so infiltration by the villains will be a growing danger. Gangs these days run their own candidates in Mexico's local elections. Peru's parliament has passed a series of laws that protect criminals and cripple investigations. Weak states in the Pacific, Asia and Europe are also at risk.

However, there are also glimmers of hope. Fighting fentanyl in Mexico, the Trump administration mostly uses an intelligence-led approach. It is also urging China to scrub its laundering networks. Elsewhere America's method is less effective. It has imposed sanctions to settle political scores in Brazil, while letting politicians accused of corruption back into its banking system and gutting money-laundering laws at home. Without legalisation, the fight against illicit drugs is uphill. If the immense harm they cause is to be reduced, Mr Trump will have to shift his strategy to reflect the new narconomics—no matter how dramatic Hellfire strikes look on TikTok. ■

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Leaders | Mutually assured disruption

The America v China spat reveals a dangerous dynamic

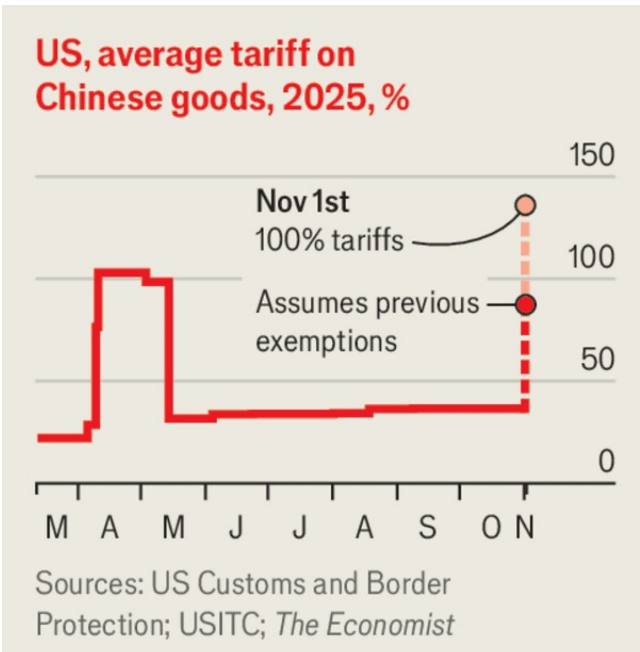
A balance of economic terror is no basis for stability

October 16th 2025

"DON'T WORRY about China, it will all be fine!" President Donald Trump posted on social media on October 12th, days after threatening retaliation for Beijing's new export controls on batteries and rare earths. Don't worry, world, it will all be fine, China's Ministry of Commerce had said, roughly speaking, in a press briefing a day earlier, emphasising how its rules would have a "limited" impact on supply chains.

Many accept these assurances. Markets fell after Mr Trump's initial angry reaction, but have recovered. Observers assume that Mr Trump will butter up his Chinese counterpart, Xi Jinping, supposing that the two meet as planned on October 29th ahead of a summit in South Korea. But even if a truce is re-established, their latest spat is disturbing.

It shows that Mr Trump is happy to contemplate triple-digit tariffs on one of America's biggest trading partners. Many investors and, it seems, Chinese officials do not believe his threats. It is true that the president is sensitive to financial markets, and that he backed down earlier this year. But he hates appearing to be pushed around. At some point, he may decide that enough is enough.



As in his first term, Mr Trump could switch from a dealmaker to a China-basher, with more dangerous results. America's president has threatened to cripple China's semiconductor industry by withholding critical software. Hawks in his team talk of sanctions against Chinese tech and financial firms. For its part, China has scope to harry American firms, as shown by its new investigation into Qualcomm, an American chipmaker.

The latest rupture also demonstrates that America and China still misunderstand each other. Scott Bessent, America's treasury secretary, says China's economy is in a depression. Its growth is indeed soft, but that is not because of tariffs. In the 12 months to September China's goods exports grew by 8%, as sales to other markets replaced those to America. The White

House is furious that China introduced its new rules weeks before their leaders' planned meeting in South Korea. China counters that America broke the ceasefire when it modified its export controls in a way that could have blacklisted thousands of Chinese firms.

Even if China's new rules were partly retaliatory, they have raised the stakes. Its battery-makers, the world's best, will need permission to share many products, ingredients or kit with foreigners. Firms in foreign countries, outside China's jurisdiction, will need a licence to export products with trace amounts of Chinese rare earths.

Mr Trump hopes to persuade Mr Xi to abandon these controls. He will be disappointed. They are part of China's effort to build a regulatory framework for its best economic weapons. China has offered an olive branch by suggesting it will implement its rules with a light touch. But that rings hollow. Bureaucrats at its commerce ministry, who will sign off on licences, will fear appearing soft. China will have a tool to raise or lower the pressure as needed.

The hope is that neither side really wants to have a trade war. The world's two biggest economies depend on each other. Yet that also means they have the ability to inflict grievous harm on each other. America has long had limits on semiconductor exports; China now has more control over rare earths. The threat of mutually assured disruption is hardly a good basis for relations. It is inherently unstable; both China and America have a chokehold, but both are wriggling to break free. The behaviour of each causes its rival to tighten its grip—a cycle that, for now, seems destined to get worse. ■

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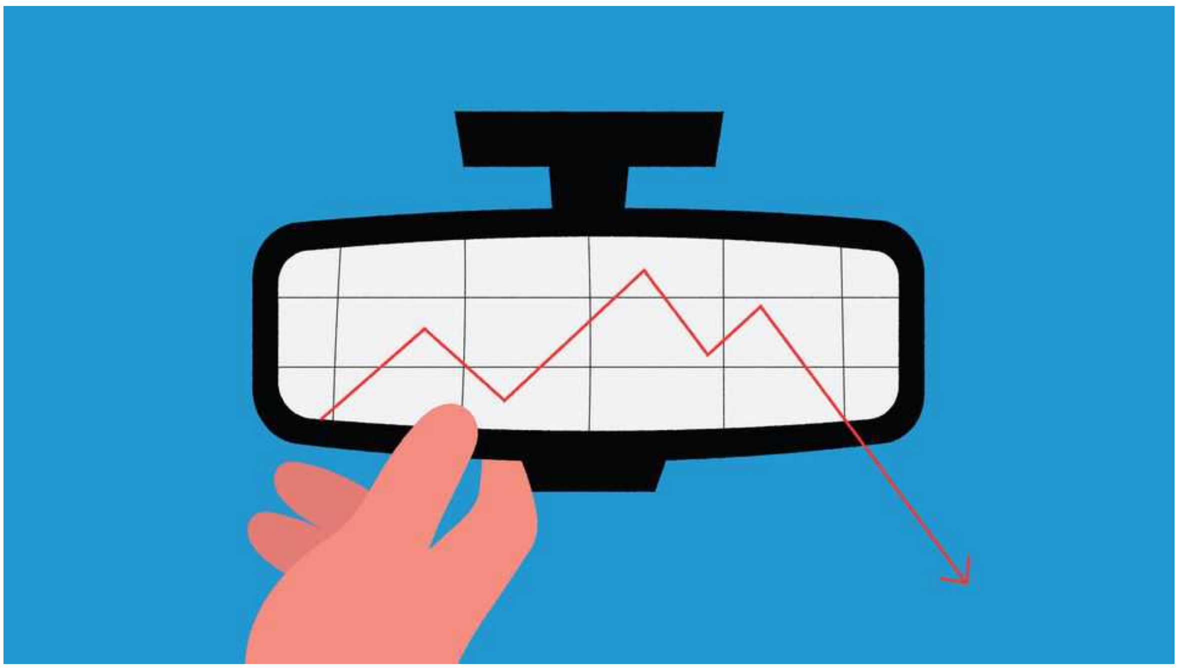
Leaders | Crash testing

First Brands is a painful but necessary warning for Wall Street

Lessons from a $10bn panic on the prairie

October 16th 2025



In court the firm's lawyer described it as tremendous. That may have been true once, but today First Brands is a disaster. On October 13th Patrick James, its chief executive, resigned; America's Department of Justice is poring over its accounts. Exactly how the small Ohioan maker of windscreen-wipers and spark plugs borrowed more than $10bn is not yet fully understood. Already, though, the firm's rapid collapse in September, and the fallout since, has shocked Wall Street.

This time, America's financial system was strong enough to cope. But there are reasons to worry about what could happen next time. The First Brands debacle shows why.

First Brands is hardly a capital-markets backwater. Look at the roll call of institutions affected by its blow-up. Shares in Jefferies, which had raised money for the company, fell by a fifth as the investment bank disclosed its losses. A fund owned by UBS, which the Swiss bank had been in the process of selling, is exposed to the firm's debt. So is an entity connected to Norinchukin, a Japanese farmers' bank, and Millennium, a hedge fund in New York.

However, investors have become complacent. First Brands' borrowing against inventory and money owed to it by customers looks excessive. True, such "receivables" are difficult to monitor; lawyers are also investigating whether it borrowed against the same assets more than once. Yet First Brands would be far from the only meltdown to occur as a result of problems with this sort of credit. The collapse in 2021 of Greensill Capital, a financial-services company based in Britain that made similar loans, ought to have put investors on their guard.

Worse, investors also failed to spot the danger signs in more straightforward corners of First Brands' business. Most of the debt is ordinary by the standards of modern capital markets, and the firm should have been heavily scrutinised. Loans were arranged by respectable banks and rubber-stamped by accountants, lawyers and rating agencies. The risk was then held by various funds charging investors fees on the basis of careful diligence they claim to perform. Such investors appear to have been in a rush to lend. Their lax behaviour is a warning that markets are overheating.

Most worrying, First Brands illustrates the difficulty of tracking risk in the financial system. Sweeping changes to credit markets since the financial crisis of 2007-09 have made diligence harder. First Brands' creditors range from complex financial structures such as collateralised-fund obligations and business-development companies—which hold risky loans—to all manner of hedge funds and trade-finance lenders.

The diversity of the financial system has its strengths. Had First Brands' creditors been exclusively banks, they might have been vulnerable to runs by their depositors. But rapid changes have obscured the role played by each firm. Alarm over First Brands was raised when Apollo, a giant lender and insurer, reportedly took a short position against its debt. Risk-taking by banks has been curtailed since the financial crisis, yet UBS and Jefferies house risky funds that suffered. Millennium, better known for trading stocks and government bonds, took a $100m loss by financing First Brands' inventory.

The combination of all these factors appears to be leading to more collapses. Bonds issued in December by Saks, a department store, have already been restructured. The fall last month of Tricolor, which makes car-loans, was also troubling. So far markets are weathering the loss of confidence. Indeed, the struggling share prices of business-development companies and private-market firms, which compete with bond markets and bank lending to finance companies, are the first sign that investors are waking up. The hope must be that other institutions now pay closer attention, too. ■

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Leaders | Half-baked Alaska

Why Trump is looking the wrong way in the Arctic

Forget Greenland; worry about Alaska

October 16th 2025

SINCE 2020 foreign military aircraft have buzzed North American airspace 95 times. Of these incursions in the "air-defence identification zone", 91 were in the north-west, around Alaska. Russia and China are probing Arctic regions near Alaska ever more intensely, with everything from Chinese dual-purpose research ships (five visits this year) to joint patrols by Chinese and Russian coastguards, navies and air forces. A special shock was the appearance last year of Chinese and Russian nuclear-capable bombers.

Remote and forbidding, the Arctic has been a region of diplomatic tranquillity. Now it is the flashpoint of geopolitical rivalries and, as in the cold war, fast becoming a zone for potential confrontation. The shortest routes for nuclear missiles and bombers from Russia and, increasingly, China, pass mostly over the top of the world. In contrast to the cold war, the contest is also economic, as the ice cap melts. This year's minimum ice cover was 39% less than in 1980. Global warming will draw more shipping, mining, fishing and tourism into the Arctic.

President Donald Trump says he is alarmed about security there. He says that is why America must take Greenland from Denmark and why he trolls Canada, his northern neighbour, with talk of making it America's 51st state. Mr Trump is looking the wrong way. America's gravest security threat in the Arctic emanates not from the Atlantic side around Greenland, but from the Pacific side, around the approaches to Alaska. Worse, his delusions about imperial expansion, whether for land or minerals, deflect attention from that threat.

America has much to do to make its north-western flank secure. Although it has lots of advanced fighters and other forces in Alaska, its surface fleet doesn't venture into the Arctic. Its coastguard has just two icebreakers in the area, compared with Russia's 40 or more. The nearest American deepwater port to the Bering Strait, a vital passage, is more than 700 nautical miles (1,296km) to the south. Air bases sit far back. To intercept planes in the air-defence identification zone, American fighters must often fly 1,500 nautical miles or more, refuelling repeatedly in mid-air. That is like taking off from London to check on a plane over Tenerife.

America needs better infrastructure. It should rebuild its disused base on Adak and refurbish the current one at Shemya, both in the Aleutian Islands. It should also expand the airport at Deadhorse in the north and accelerate improvements to the port at Nome near the Bering Strait. It gains from knowledge about the changing Arctic. Mr Trump's cuts to research on climate change are self-defeating.

Mr Trump has taken some useful steps. The proposed Golden Dome missile-defence shield will, if it does nothing else, improve awareness of incoming threats. He has just struck a deal with President Alexander Stubb of Finland to buy icebreakers. Yet this welcome example of "ally-shoring" in defence production is an exception. Too often, Mr Trump alienates allies rather than working with them. Nato members make up seven of the eight countries bordering the Arctic—Russia is the eighth. Allies help defend against rising

Russian threats on the Atlantic flank of the Arctic. That makes it easier for America to fend off China and Russia on the Pacific side.

In the Arctic the case is clear-cut. Allies are a boost, not a burden. Mr Trump's dream of an Arctic manifest destiny in Greenland and Canada is manifest folly: it will lead allies to suspect that danger in the Arctic comes not only from Russia and China, but also from America itself. ■

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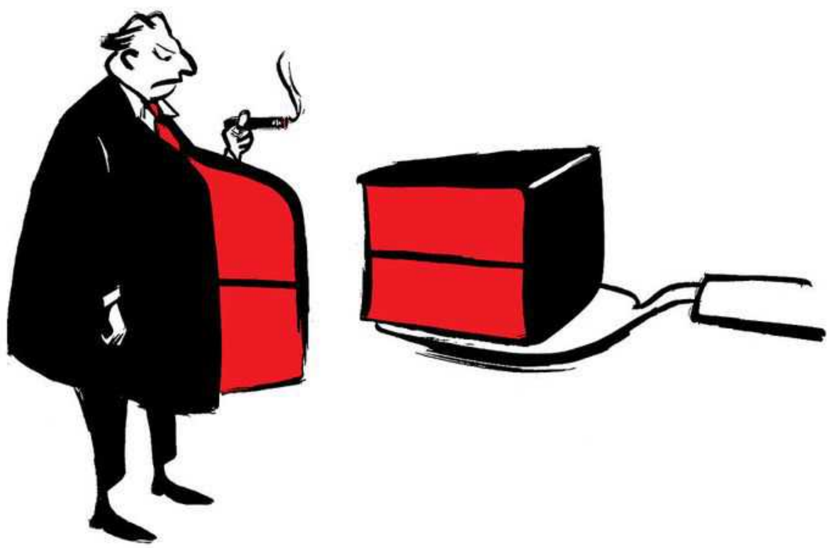
Letters

Letters | A selection of correspondence

Should wealth be taxed?

Also this week, extremism on social media, splitting investments, lift operators, Kevin Keegan, opera singers

October 16th 2025



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Free exchange put forward elegant arguments about why wealth shouldn't be taxed (October 4th). But the objections to a wealth tax were weak. The "durability" observation, that public support for the tax may change, could be true of any policy and is hardly a reason for inaction. The "utility" point sets up a false test. A wealth tax does not need to raise enough money to offset required cuts elsewhere to be worthwhile. If it can soften those cuts economically and signal shared sacrifice, it serves a useful purpose.

And the claim of “naivety”, that people don’t understand that the wealth tax could ultimately become punitive, is a generic, slippery-slope warning. Actually, if a tax works and proves popular, then expanding it may in fact be desirable.

Sky LeeSingapore

You listed the failures of wealth taxes in the past. But the economy of the future will be different. As machines and AI come to do more work and humans less, income will flow ever more to capital rather than labour. Fairness aside, a widening inequality and wealth gap is not sustainable. If redistribution does not come through policy, it will arrive in less polite ways. History suggests that when wealth concentrates too heavily it eventually gets redistributed, sometimes by legislation, sometimes by revolution. A wealth tax may be a blunt instrument, but it is cheaper and safer than pitchforks and guillotines.

Lucas FlynnCherry Hill, New Jersey

I am not exactly sure why your rather compelling analysis of the flaws of wealth taxes does not also apply equally to property taxes. The one obvious difference is that real property cannot easily be moved to a Swiss bank. Wealth tax, property tax, unrealised capital gains; all are taxes on assets that one day could be, but are not now, liquid and spendable.

Andrew WilsonPortland, Oregon

Ten Years After had a hit song in 1971 with “I’d Love to Change the World”. The lyrics included the line, “Tax the rich, feed the poor, 'til there are no rich no more.” Interestingly, the song did not say 'til there are no poor no more. One problem with wealth-tax proposals is that they are more focused on eliminating the rich than actually feeding the poor. And on that point, the chorus of that song is also telling: “I’d love to change the world, but I don’t know what to do, so I’ll leave it up to you.” Enough said.

Paul GreenbergBrookline, Massachusetts

Sir David Omand rightly highlighted the need to strengthen social cohesion in the face of extremism (By Invitation, October 11th). Yet he sidestepped the algorithmic elephant in the room, which is the very architecture of social-media platforms. Outrage, division and amplification on the extremes are not incidental to the business models of Facebook, TikTok or X, they are the business model. It is not enough to appeal to individual restraint or civic virtue. As long as engagement-driven algorithms remain optimised for fury, the public sphere will continue to erode beneath us. The real task ahead is not merely to teach users to “pause and reflect” before posting, but to ensure that the platforms that shape public discourse are subject to democratic oversight and transparency.

Oliver BottStromberg, Germany

The 25/25/25/25 investment portfolio described by Buttonwood as “eccentric” (October 4th) is, in fact, a special case of an ancient and surprisingly durable rule: invest 1/N in each of the N available assets, in other words split your total investment equally among all your assets. The principle goes back at least to the 4th century, when Rabbi Issac bar Aha advised that wealth should be divided equally into land, merchandise and cash.

Modern investors follow it, too. In an article for the American Economic Review in 2001, Shlomo Benartzi and Richard Thaler showed that participants in defined-contribution savings plans often allocate their wealth this way, regardless of how many of the funds are equity or bond funds. And in our “Optimal Versus Naive Diversification” for the Review of Financial Studies in 2009, we found that 1/N often beats sophisticated mean-variance strategies, including those pioneered by Harry Markowitz and Robert Merton. That is because the difficulty of forecasting expected returns swamps any theoretical gains from optimisation.

What Harry Browne, an investment adviser, grasped in the 1980s, long before quants admitted it, is that simplicity provides robustness. By refusing to lean on fragile forecasts, equal-weighted portfolios hedge against our inability to know the future. Browne’s “permanent portfolio” is not an eccentric curiosity; it is merely another reminder of those rules in finance.

Raman UppalProfessor of financeEDHEC Business SchoolLorenzo GarlappiVictor DeMiguelLondon

Your article on the economics of self-driving taxis was overly optimistic in its prediction that new technologies raise overall demand and so can limit job losses ("Way more", October 4th). Robotaxis will create more work for taxi drivers, you said. The history of another technology offers a differing view. A paper published in 2017 by Robert Atkinson and John Wu showed that when automatic (or self-driving) elevators spread in use in the 1920s, elevator operators did not vanish at once. Rather their numbers grew, peaking at 114,473 in the 1950s and only then falling through the following decades, shrinking to almost zero by 1990 (though some luxury buildings still retain an operator). In that instance technology expanded demand for a service, but eventually eliminated an occupation.

If you're not convinced, just ask your building's elevator operator.WILLIAM STEPHENSONMontreal

Bagehot (September 27th) omitted the most obvious thing Sir Keir Starmer, Britain's prime minister, has in common with Kevin Keegan, a legendary footballer and manager. Mr Keegan's Newcastle United team during the 1995-96 season were known, with good reason, as The Entertainers (they should have been champions that year). Mr Starmer‘s front-benchers are every bit as entertaining, albeit for all the wrong reasons.

PETER CAINTrier, Germany

Regarding your piece on whether Dietrich Fischer-Dieskau or Luciano Pavarotti was the better singer, bear in mind that the heroic tenor always gets the girl and also probably a heroic end (“Pitch battle”, September 27th). The light tenor only gets to be a servant or a sneaky creep, such as Mime in “The Ring of the Nibelung”. A baritone/bass gets to be the villain, the king or the faithful friend.

Murray MarshallSalisbury, Wiltshire

You gave advice on “How to spot a genius” (September 27th). Jonathan Swift provided the answer more than 300 years ago: “When a great genius appears in the world you may know him by this sign; that the dunces are all in confederacy against him.”

Avinash DixitPrinceton, New Jersey

By Invitation

By Invitation | A meltdown like no other?

Gita Gopinath on the crash that could torch $35trn of wealth

The world has become dangerously dependent on American stocks, writes the former IMF chief economist

October 16th 2025

THE AMERICAN stockmarket has see-sawed lately amid a flare-up in trade tensions, but remains near its all-time high. The surge, fuelled by enthusiasm around artificial intelligence, has drawn comparisons to the exuberance of the late 1990s that culminated in the dotcom crash of 2000. Though technological innovation is undeniably reshaping industries and increasing productivity, investors have good reasons to worry that the current rally may be setting the stage for another painful market correction. The consequences of such a crash, however, could be far more severe and global in scope than those felt a quarter of a century ago.

At the heart of this concern is the sheer scale of exposure, both domestic and international, to American equities. Over the past decade and a half, American households have significantly increased their holdings in the stockmarket, encouraged by strong returns and the dominance of American tech firms. Foreign investors, particularly from Europe, have for the same reasons poured capital into American stocks, while simultaneously benefiting from the dollar's strength. This growing interconnectedness means that any sharp downturn in American markets will reverberate around the world.

To put the potential impact in perspective, I calculate that a market correction of the same magnitude as the dotcom crash could wipe out over $20trn in wealth for American households, equivalent to roughly 70% of American GDP in 2024. This is several times larger than the losses incurred during the crash of the early 2000s. The implications for consumption would be grave. Consumption growth is already weaker than it was preceding the dotcom crash. A shock of this magnitude could cut it by 3.5 percentage points, translating into a two-percentage-point hit to overall GDP growth, even before accounting for declines in investment.

The global fallout would be similarly severe. Foreign investors could face wealth losses exceeding $15trn, or about 20% of the rest of the world's GDP. For comparison, the dotcom crash resulted in foreign losses of around $2trn, roughly $4trn in today's money and less than 10% of the rest of the world's GDP at the time. This stark increase in spillovers underscores how vulnerable global demand is to shocks originating in America.

Historically, the rest of the world has found some cushion in the dollar's tendency to rise during crises. This "flight to safety" has helped mitigate the impact of lost dollar-denominated wealth on foreign consumption. The greenback's strength has long provided global insurance, often appreciating even when the crisis originates in America, as investors seek refuge in dollar assets.

There are, though, reasons to believe that this dynamic may not hold in the next crisis. Despite well-founded expectations that American tariffs and expansionary fiscal policy would bolster the dollar, it has instead fallen against most major currencies. Although this does not mark the end of the dollar’s dominance, it does reflect growing unease among foreign investors about the currency’s trajectory. Increasingly, they are hedging against dollar risk—a sign of waning confidence.

This nervousness is not unfounded. Perceptions of the strength and independence of American institutions, particularly the Federal Reserve, play a crucial role in maintaining investor confidence. Yet recent legal and political challenges have cast doubt on the Fed’s ability to operate free from external pressures. If these concerns deepen, they could further erode trust in the dollar and American financial assets more broadly.

Moreover, unlike in 2000, growth faces strong headwinds, whipped up by America’s tariffs, Chinese critical-mineral export controls and growing uncertainty about where the global economic order is heading. With government debt levels at record highs the ability to use fiscal stimulus, as was done in 2000 to support the economy, would be limited.

Compounding the situation, and adding to the overall risk, is the escalation of the tariff wars. Further tit-for-tat tariffs between America and China would damage not just their bilateral trade but global trade too, as almost all countries are exposed to the world’s two largest economies via complex supply chains. More generally, avoiding chaotic or unpredictable policy decisions, including those that threaten central-bank independence, is critical to prevent a market collapse.

Meanwhile, it is important for the rest of the world to generate growth. The problem is not so much unbalanced trade as unbalanced growth. Over the past 15 years productivity growth and strong returns have been concentrated in a few regions, primarily America. As a result, the foundations of asset prices and capital flows have become increasingly narrow and fragile.

If other countries were able to strengthen growth, that would help redress the imbalance—and place global markets on a firmer footing. In Europe, for instance, completing the single market and deepening integration could unlock new opportunities and attract investment. This year’s Nobel laureates in economics provide a valuable recipe for innovation-led growth. There are encouraging signs that capital is beginning to flow back into emerging markets and other regions. However, this trend may stall unless those economies can show they are able to generate consistent growth.

In sum, a market crash today is unlikely to result in the brief and relatively benign economic downturn that followed the dotcom bust. There is a lot more wealth on the line now—and much less policy space to soften the blow of a correction. The structural vulnerabilities and macroeconomic context are more perilous. We should prepare for more severe global consequences.■

Gita Gopinath is the Gregory and Ania Coffey Professor of Economics at Harvard University. She was the first deputy managing director of the IMF from 2022 to 2025 and its chief economist from 2019 to 2022.

Briefing

Briefing | Of passion fruit, narcosubs and stablecoins

The traffickers are winning the war on drugs

New decentralised networks are even harder to disrupt than the hierarchical gangs they have replaced

October 16th 2025

THERE WAS nothing obviously amiss, even when inspectors began opening the tubs of passion-fruit pulp about to be shipped out of Callao port in Peru. A chemical test for illicit substances did not produce a red flag. Yet mixed into the sticky gloop was roughly nine tonnes of cocaine. It had been chemically masked to thwart testing kits, explains General Nilton Santos Villalta, the head of Peru's anti-narcotics police. Only once the shipment had reached its final destination, in Belgium, would the traffickers have reversed the process and extracted anything that could easily be identified as cocaine.

Neutralizados, as Peruvians call such disguised drugs, are a growing scourge. In Cartagena port, in Colombia, cocaine has been found infused into recycled plastic, mixed into ground coffee and dissolved inside hundreds of carefully resealed coconuts. Such stashes can evade detection not only by chemists, but also by the giant X-ray scanners that are used to hunt for drugs at many container ports. And it is not just smuggling methods that are evolving fast: the entire drugs business is changing in ways that are making it even harder to stem the flow of narcotics around the world.

Global production, seizures and consumption of cocaine are all at record highs, despite 50 years of the war on drugs—a fight that President Donald Trump is now intensifying by bombing alleged Venezuelan smuggling-boats in the Caribbean . This is in part because prohibition makes a cheap commodity, cocaine, enormously lucrative. When it can fetch on the street in Europe 125 times what it does at the laboratory door in Latin America, someone will always be willing to fight to sell it, often literally.

Over the past 15 years the business has evolved rapidly. Whereas drug gangs used to be vertically integrated, with a single kingpin supervising production, transport and distribution, they now rely heavily on outsourcing. This more fragmented, distributed system, in turn, has fuelled specialisation and innovation. Traffickers no longer focus almost exclusively on the United States: smuggling has gone global. The result is a system that is more dangerous to the world and more difficult to disrupt.

Estimating global cocaine sales is, naturally, extremely hard. Global Financial Integrity, a think-tank, valued the market at between $84bn and $143bn in 2014, making it a bigger business than chocolate. Whatever the true figure in 2014, it is now higher: cocaine production (which is easier to track) has more than tripled since.

That partly reflects cocaine's spread. Demand in America remains high, but has stagnated with the rise of fentanyl and other drugs. Cocaine consumption in Europe, however, is thought to have risen by 60% in the decade to 2022. In 2023, for the seventh year in a row, seizures in Europe hit a record. It is probably a bigger market now than the United States.

Australia seems to consume more cocaine per person than any other country. Snorting is also on the rise in Asia, where seizures grew five-fold between

2013 and 2023. Consumption has soared in Latin America, too: Brazil may be the second-biggest single-country market (see map).

This globalisation has been driven by traffickers chasing high prices. In America a kilo of wholesale cocaine is worth about $30,000 but in western Europe it fetches between $39,000 and $45,000. (Retail prices are more exorbitant still.) Even higher prices are now prompting traffickers to target Asia and Australia. In Hong Kong a kilo goes for $65,000 and in Australia it can reach over $250,000.

As it has globalised, the industry has been transformed. Whereas Colombian and Mexican kingpins used to try to monopolise every facet of the business, from the coca farm to the nightclub bathroom, even today's biggest gangs, such as the Sinaloa and Jalisco New Generation cartels in Mexico, First Capital Command (PCC) in Brazil and the 'Ndrangheta, an Italian mafia, often directly operate only one part of the supply chain. Drug trafficking is instead a fluid network of subcontractors and service-providers, including chemists, hitmen and money-launderers. Each service-provider charges a fee. Sometimes big outfits, such as the PCC, try to integrate more tightly, pushing service-providers into semi-permanent alliances. Yet often these freelancers work simultaneously for several gangs or for white-collar investors, known as "invisible narcos", who finance and orchestrate drug shipments.

For the traffickers the new way of doing things has big benefits. It makes the supply chain far more resilient than in the command-and-control model. If a shipment is captured, tracing the owners is fiendishly difficult. Most importantly, as Adam Smith would have predicted, specialisation improves efficiency and breeds innovation.

Consider cultivation. The original coca growers were poor farmers in isolated valleys in the Andes. No longer. In Colombia production is now heavily concentrated in lower-lying border areas, especially near Ecuador, for easier access to the port of Guayaquil. In Peru farming is expanding deep into the Amazon basin for convenient export to Brazil. Coca, traditionally grown almost exclusively in Colombia, Peru and Bolivia, is now also farmed in Belize, Guatemala, Honduras and Mexico.

Yields are rising. In Colombia they have almost doubled since 2005, to about 8.5 tonnes of leaves a hectare. In some areas they reaches 11.7. The savviest farmers test the soil and apply the optimal amount of fertiliser by drone, explains Leonardo Correa of the UN Office on Drugs and Crime: “It’s precision agriculture.”

Processing is also changing—and becoming much more efficient as it does so. More than half of the seizures of exports from Peru are now of “coca base”, a less refined product than pure cocaine. Some of that is made into cocaine in laboratories in Bolivia and Brazil, and then sent on to Europe, but the latest trend is nearshoring, in which the final processing takes place in the destination country. Last year police in the Netherlands, for instance, destroyed 24 cocaine labs.

The rationale is economic. Chemists are easier to find in Amsterdam than the Amazon. A seized shipment of coca base constitutes a smaller loss than pure cocaine. European gangs also want to increase their margins. In cocaine, as in much else, Latin America risks becoming only a commodity exporter.

Smuggling and distribution, too, are being subcontracted. A European gang might send an envoy to Los Lobos, a big Ecuadorean gang, to buy cocaine. Los Lobos will then contract a Colombian outfit to bring the goods across the border. The Colombians, in turn, may deal with lots of small suppliers. Both Los Lobos and the Colombians will probably also pay smaller gangs to smooth the route across the border and through Guayaquil. “Everyone is subcontracting absolutely everything,” says Elizabeth Dickinson of International Crisis Group, a think-tank, likening cocaine production to that of an iPhone.

Subcontracting has spread to smuggling, too. A single seized shipment will sometimes have cocaine from many different producers and belonging to multiple owners, often distinguished by marks of different sorts on the packaging. That provides accountability for quality and tracking for ownership, says General Santos Villalta, who points to a confiscated press used to stamp “PF2” into bricks.

To confuse the authorities, drugs often go via a transit country such as Costa Rica. There the drug-owners will contract a local gang to receive, store and send on the drugs. Even in Mexico cartels sometimes ship drugs owned by other groups across the American border for a fee, says a trafficker for Los Chapos, a faction of the Sinaloa cartel.

Given all the subcontracting, technology is used to build trust and traceability. "When they put the drugs on the ship, part of those drugs will be tracked by GPS," says Lincoln Gakiya, a Brazilian prosecutor who lives surrounded by bodyguards. Trackers allow buyer and seller to follow a shipment's progress and to locate it on arrival. In Mexico cars used to transport drugs over the American border may also have a microphone for monitoring, explains the trafficker.

The innovation in smuggling is mind-boggling. Divers weld "parasite" pods of cocaine onto the hulls of ships so often that in Cartagena port watchmen are paid to sit in a tiny boat about 50 metres offshore all day and night to look for telltale bubbles. (To keep this lonely job they must pass a polygraph test every six months.)

Then there are the "narcosubs". In July Ben Maenu'u was fishing off the Solomon Islands when he spotted an abandoned 25-metre craft that had been used to ship cocaine underwater. These are startlingly common: about 240 have been seized over the past two decades. The rate has increased sharply since 2018, according to InSight Crime, an investigative outfit. Last year some 25 were seized, a fraction of the hundreds that are probably out there.

Most narcosubs cannot fully submerge, but protrude only very slightly from the water, making them hard to spot. They used to take mainly short trips, close to shore. Nowadays, however, they are being used to cross the Atlantic and Pacific. Some genuine submarines are also being built, capable of carrying as much as 10 tonnes of cocaine. None has ever been captured at sea, but several have been discovered half-built in clandestine shipyards. The Colombian navy, meanwhile, recently seized a narcosub drone equipped with a satellite link to transmit live images.

Such high-tech trafficking requires specialist skills. The result is narco business travel. In 2020 two Peruvian divers stashed 72 kilos of cocaine in the underwater vents of a ship in Callao, a tricky undertaking. Later that month they flew to Spain, donned their scuba gear and retrieved the haul. Narco chemists are frequent flyers, too. The person who makes a neutralizado is often flown to Peru, says General Santos Villalta, and then on to the destination port. “They have to send him because he is the only one who knows the formula to convert it back.”

Laundering drug money is another fast-evolving business. One popular option is to use the cash to finance other criminal enterprises. In Mexico it helped pay for diversification into fentanyl, now America’s biggest narcotic scourge and a business that has evolved along similar lines to cocaine. In Peru drug money often funds illegal gold-mining.

Often, however, the cash is in rich countries and gangs want to bring it back to Latin America. They used to send home wads of cash, but that is becoming rarer. Instead, laundering is often outsourced to Chinese specialists.

Most Chinese citizens cannot take more than $50,000 out of the country each year. That is far too little for many of them, which creates an opening for the launderers. The system uses mirror transactions; no money crosses borders, because that might draw the authorities' attention. In supermarket carparks in America Chinese laundering groups receive bags of cash from drug dealers. Their affiliates in Mexico then forward the equivalent sum in pesos to the cartel's Mexican account, minus a fee of about 2%. Wealthy Chinese in America buy the dollars from the Chinese gangsters. The Chinese buyers pay for the dollars via a domestic transfer to the launderers' accounts in China. If the launderers need cash in Mexico, they can always export electronics or other goods from China, taking payment at the destination.

The system is fast and cheap: laundering used to cost almost ten times as much. And the innovation continues, especially with cryptocurrencies. Chainalysis, a crypto-research firm, estimates that in 2024 some $41bn of crypto linked to illegal activities changed hands around the world. Chinese laundering groups can operate as before, but repay drug gangs with cryptocurrency. Stablecoins are the most popular. These are pegged to a real asset such as the dollar but, unlike international cash transfers, they can be sent from one wallet to another with very little scrutiny.

"In financial crimes one of the biggest problems today in Brazil is USD Tether stablecoin and how easily they buy and sell it anonymously," says Guilherme Alves de Siqueira of the Brazilian police. Stablecoins sent to Brazil can easily be converted into cash by doleiros, blackmarket money-changers. Brazilian drug gangs also use stablecoins to pay suppliers. A laundering group known as the Criptoboys converted 19.4bn reais ($3.6bn) into crypto between 2017 and 2023 for numerous clients, many of them traffickers.

Fintech firms have also supercharged money-laundering in Brazil. In 2024 it boasted 1,600 of them, only about a fifth of which were regulated by the central bank. "Many criminal organisations have their own fintech," says Alexandre Custódio Neto, who is also with the Brazilian police. According to Fernando Haddad, the finance minister, such firms laundered 52bn reais over the past four years. The authorities are supposedly now cracking down.

The dispersed, outsourced business model is creating mayhem for governments. Payments to subcontractors are often made in cocaine, breeding addicts and fuelling violence. Small gangs hoping for work compete to show big ones how ruthless they are. The bigger outfits, in turn, resort to torture, beheadings and other grisly displays to punish thefts by subcontractors and thus send a message to other would-be thieves. Such trends helped spur a doubling of the murder rate in Costa Rica in the decade to 2023.

To lubricate business, gangs also try to capture the regulator. In Brazil, Ecuador and Mexico drug gangs regularly run their own candidates in elections. In Peru the parliament has recently passed a barrage of laws that make it harder to investigate crimes, including a requirement for defence lawyers to be present when search warrants are executed, which in effect gives suspects a warning to destroy evidence or flee. “We have already entered a black hole in which illegal economies, mainly cocaine and illegal gold, are taking control of strategic points of the state,” says Rubén Vargas, a former Peruvian minister of the interior.

The huge price premium for cocaine in Asia and Australia spells trouble for those places. Peru, where crime is surging and Asian gangs already have a foothold, is a likely point of origin. A giant new Chinese-owned port in Chancay, north of Lima, intended to dominate trade between South America and China, is a particular worry.

When returns are so vast, crackdowns do not curb trafficking and violence but rather spread it around. When Brazilian authorities declared they would force or shoot down any suspicious plane over the Amazon in late 2004, cocaine trafficking shifted from the air to rivers. A study by Leila Pereira of Insper, a Brazilian university, and colleagues, finds that over 1,400 murders between 2005 and 2020 can be attributed to this shift in trafficking patterns. That is more than a quarter of all murders in the area during that period.

This same logic explains why drug violence, which used to be concentrated in just a few countries in Latin America, now torments the whole region. Six years ago Ecuador was about as safe as the United States. It now has the world’s highest murder rate, as cocaine trafficking has shifted to Ecuadorean ports from more heavily policed ones in Colombia. Even safe havens are no longer safe. In September gangsters attacked the house of Uruguay’s chief public prosecutor with guns and grenades after police seized two tonnes of cocaine.

No matter how many drug boats are blown up, cocaine smuggling is not going to disappear. On the contrary, it is probably coming to a port near you. ■

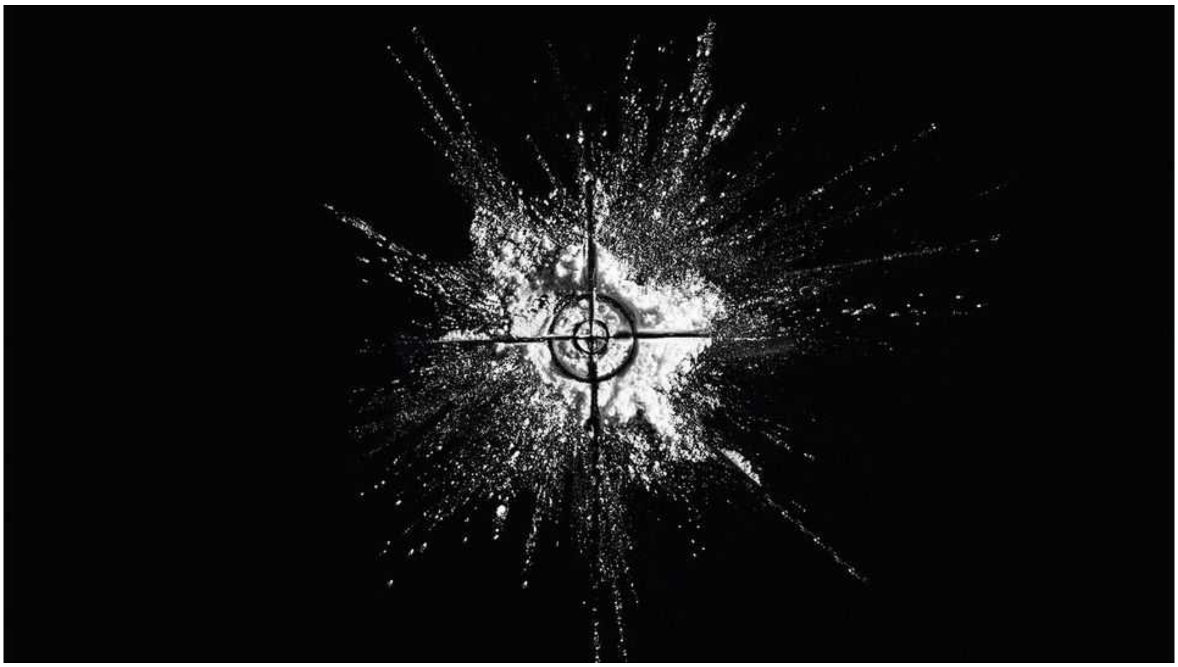
United States

United States | Kill on sight

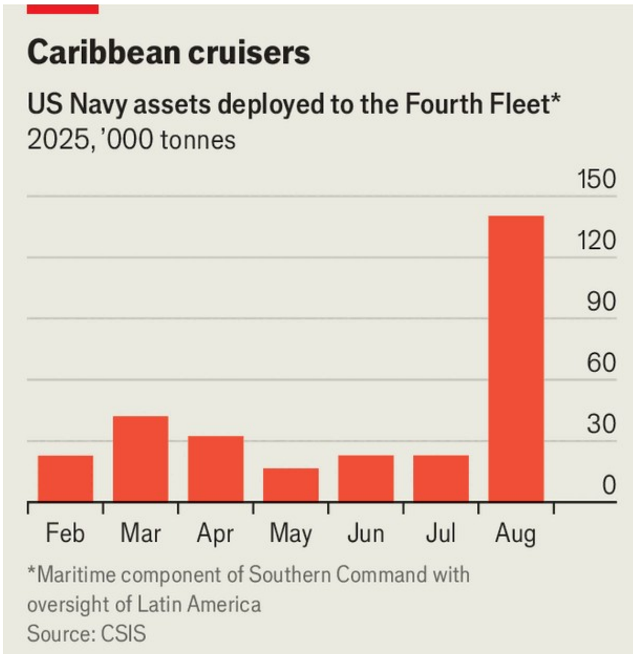
The new war on drugs

Bringing tactics from the war on terror to America's backyard

October 16th 2025



FOR TWO decades Roosevelt Roads, a sprawling American naval base in Puerto Rico, stood abandoned. Now the roar of fighter jets and whirring of helicopters have returned to fill the humid air. Over the past month air-force personnel have laboured to restore the airstrip's control tower and decrepit infrastructure, while hulking cargo planes ferry in crateloads of supplies and equipment.



America is reviving the base as a staging ground for its expanding war against Latin America's drug gangs. Since August it has moved assets to the Caribbean (see chart). A naval flotilla now sits off the coast of Venezuela, boasting three destroyers, a guided-missile cruiser, an attack submarine and amphibious assault ships. F-35 fighter jets, MQ-9 Reaper drones and a handful of advanced spy-planes have also deployed to nearby air bases. Drone strikes have blasted away five speedboats in the southern Caribbean and killed at least 27 people so far. American officials allege they were all "narco-terrorists" from Venezuela, a claim based on intelligence.

That combination of high-tech intelligence gathering and aerial strikes is emblematic of America's new war on drugs. Since returning to office in January, Donald Trump has vowed to smash the drug gangs and traffickers. Curbing the trade was previously a matter of law-enforcement. Now Mr Trump is throwing the armed forces at it, and riding roughshod over the law. "The cartels are waging war in America," the president told Congress in March. "And it's time for America to wage war on the cartels."

In recent years America's armed forces and spy agencies have concentrated on being prepared to fight a war against China or Russia. Now they are being asked to focus on closer threats. An assessment published in March by America's 18 intelligence agencies elevated the threat of drug gangs over that of jihadists. Reports suggest that the Pentagon's forthcoming National Defence Strategy may prioritise "homeland defence" missions like counter-narcotics, above threats like China. "The government is finally using all the tools of national power to go after our greatest threat," says Derek Maltz, who led the Drug Enforcement Administration from January to May. "The handcuffs are off."

This is not the first time America has adopted a muscular approach to the region's drug traffickers. President George H.W. Bush deployed thousands of troops to invade Panama in 1989 and arrest Manuel Noriega, the country's president, who had been indicted on drug-trafficking charges. Throughout the 1990s and early 2000s, America supported unsuccessful Colombian efforts to eradicate coca, by providing signals-intelligence and offering ride-alongs in its Black Hawk helicopters. A recent investigation by Reuters, a news agency, found that the Central Intelligence Agency (CIA) has for years helped run covert operations with Mexican military units to hunt down drug bosses.

But Trump officials believe America has gone soft in recent years. They point to uncontrolled illegal immigration and record overdose deaths during the Biden administration as evidence of the drug gangs running riot. The gangs are extremely unpopular in America, not least because more than 80,000 of its citizens died of overdoses last year. Polls show that about half of Americans would support military action against the gangs in Mexico. Mr Trump has characterised his fight against "savage drug cartels" as a moral imperative. "They're the enemies of all humanity," he told the United Nations in September.

The administration's plan seems inspired by the war on terror, when America hunted and destroyed jihadist groups across the Middle East. On the first day of his new term, Mr Trump signed an executive order branding the drug gangs as "foreign terrorist organisations" (FTOs) and called for their "total elimination". "We've built a finely tuned machine since 9/11 to find, fix and finish terrorist targets," Michael Ellis, the deputy director of the CIA, explained on a recent podcast. "Now we're turning it to the cartels—it might mean the Arabic speakers need to learn Spanish."

Parts of the armed forces are supportive. "Many in the Department of War are absolutely vying to take this fight to the cartels," enthuses a recently retired special-operations commander. A former Pentagon official, who worked on counter-narcotics under Joe Biden, notes that a faction of officers who made rank during the era of counter-terrorism "have convinced themselves that the war on drugs is a similar fight". The next stages depend on whether American strikes stay limited to picking off boats in international waters, or move to juicier targets deep inside Latin American soil. The Pentagon is reportedly drawing up strike options on potential targets, such as drug labs and gang leaders, inside Venezuela.

The president mused more than once during his first term about firing missiles at Mexican drug labs. Supporters argue that strikes on gang leaders, drugmaking facilities or depots could interrupt the flow of drugs over the border. "It may not completely solve the supply problem," concedes Jack Devine, who led the CIA's counternarcotics programme in the early 1990s. "But boy, you can make it really, really difficult for the cartels."

For now, however, the Trump administration has taken a less bombastic approach to Mexico, the main source of the drug threat facing America. Mr Trump has pressed President Claudia Sheinbaum both to step up action against the drug gangs, and to break collusion between officials and narcos. Mr Trump can claim a win: Mexico is seizing more fentanyl on its side of the border, while seizures at the border have edged down. Bilateral co-operation is often tense, but joint intelligence gathering—including from America operating more surveillance drones over Mexican territory, with Mexico's permission—are helping map financial and logistics networks. A string of arrests have netted mid-level gang members. Mexico's dispatch of 55 alleged kingpins to America could yield further intelligence. Ms Sheinbaum is, broadly, a willing partner.

Focusing on Mexico makes sense. America's deadliest drug problem is not cocaine but fentanyl, which kills tens of thousands of its citizens each year. Almost all of it is synthesised in Mexico and trafficked up north over land. Blowing up boats in the southern part of the Caribbean may create viral images that project toughness, but it does nothing to reduce opioid overdoses. At any rate, over three-quarters of Latin America's cocaine is actually shipped through the Pacific, and most of it is made in places like Colombia, Peru and Bolivia.

Eliminating low-level drug mules may also be tactically unhelpful. During its counter-terrorism wars, America often resorted to killing al-Qaeda and Islamic State operatives when local governments would not, or could not, arrest and prosecute them. Busting the drug gangs is different. It is better to capture traffickers and then question or recruit them to prosecute their bosses. Killing potential informants destroys a valuable source of information.

America's chosen hardware seems unsuited to the task of drug interdiction, too. Using Reapers and pricey Hellfire missiles and destroyers to blast drug boats is like "trying to cook an egg with a blowtorch", says James Storey, a former American ambassador to Venezuela. The logistical cost of maintaining the navy's flotilla in the Caribbean, which currently runs at about $7m per day, will only rise. Where this was tried before, the use of strategic surveillance assets like U-2 spy planes and RC-135 Rivet Joints never proved particularly effective in tracking down drug labs or leaders, admits an official familiar with past operations.

A show of military force may temporarily deter smugglers, but narcos will adapt. Many are already using stealthier delivery methods, like unmanned submarines, and stashing drugs on container ships. Even strikes on land targets may fail to deliver a decisive blow. The gangs would probably hunker down, dispersing and concealing more of their facilities in cities. In fact they could literally go underground: they have extensive experience digging tunnels. That blunts America's preferred way of war, which relies on whacking targets from the air. The war on drugs requires the consent of allies. And that is pretty easy to blow up with a missile. ■

United States | Build, baby, build

California tries to fix its housing mess

The YIMBY movement wins a big victory

October 16th 2025

ONE OF THE most contentious and consequential housing reforms in California’s history was almost sunk by a former reality-TV star. American millennials might remember Spencer Pratt as the blonde bad boy they loved to hate on “The Hills”, an MTV show that chronicled the life of hot, young Angelenos in the noughties. More recently Mr Pratt has taken to podcasting from the empty lot where his home once stood. It burned in the Palisades Fire this year. He spreads the blame around. Gavin Newsom (the governor of California) and Karen Bass (the mayor of Los Angeles) are frequent targets. Mr Pratt also gets wonky. In a recent Instagram video he told fans to call Mr Newsom’s office to urge him to veto a housing bill: SB 79.

SB 79 rezones state land around busy public-transport stops to allow for taller residential buildings. It also slaps hefty fines on cities that try to deny such buildings a permit. It was amended more than a dozen times to appease rural lawmakers, unions and tenants-rights groups—and it still barely passed the legislature. The bill spent weeks on the governor's desk, which gave his pro-housing allies the willies and Mr Pratt some hope. But on October 10th Mr Newsom signed the law and delivered a huge win to the ascendant YIMBY (Yes In My Backyard) movement. The passage of SB 79 and more than 40 other housing reforms this year could be a turning point for a state that is crippled by its self-inflicted housing shortage. "The cost of inaction is simply too high," wrote Mr Newsom upon signing the bill.

He is right. Housing policy is not just a topic that "abundance bros"—Democratic thinkers who say their party needs to be more growth-friendly—debate on podcasts (though they do a lot of that). Building more homes is integral to California maintaining its political heft and again becoming a place where people want to live. The median sale price of residential properties in California is higher than in any other state. People are moving to cheaper places, and that exodus has become a political problem for Democrats. The Golden State could lose at least three congressional seats (and electoral votes) in the next reapportionment after the 2030 census. "Democrats need to be willing to say no to NIMBYs and to city councils that are yelling at them," Scott Wiener, the bill's author, told The Economist earlier this year.

Mr Newsom, a Democrat, was also surely aware that he would have been labelled a hypocrite had he given in to pressure to veto the bill. The governor has consistently pushed to streamline the permitting process and to build more homes. (He even invited some of those abundance bros on his own podcast.) Mr Newsom's record in California will be subject to intense scrutiny should he run for president in 2028. If things improve on his watch, it will be harder for Republicans to paint California as a hellscape with rampant homelessness and high costs (though they will certainly try).

There are still plenty of details to be worked out. Housing wonks are already finding potential loopholes in the law that will need to be fixed. But it will be phased in over several years and allows for a lot of flexibility. Cities that don't want to build where SB 79 tells them to can propose different locations—so long as the housing gets built somewhere. Daniel Lurie, San Francisco's moderate mayor, is using the threat of state intervention to convince local NIMBYs that his plan to increase housing density is tame by comparison.

Elsewhere, the state may need to be a bully. Contrary to Mr Pratt's prattling, neither Pacific Palisades nor Altadena, another neighbourhood razed by fire, has transport stations big enough to trigger the law. Yet Ms Bass urged Mr Newsom to veto the bill so as not to "erode local control"—while still claiming that LA is a "pro-housing city". The lack of progress the city is making on housing is clear. LA has only approved 13% of the units it says it needs to permit by 2029. "State intervention has been really the only pathway through which we've been able to make real progress on this issue," says Nithya Raman, a rare YIMBY city-council member in Los Angeles. Now state intervention is coming. ■

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United States | Cracking up

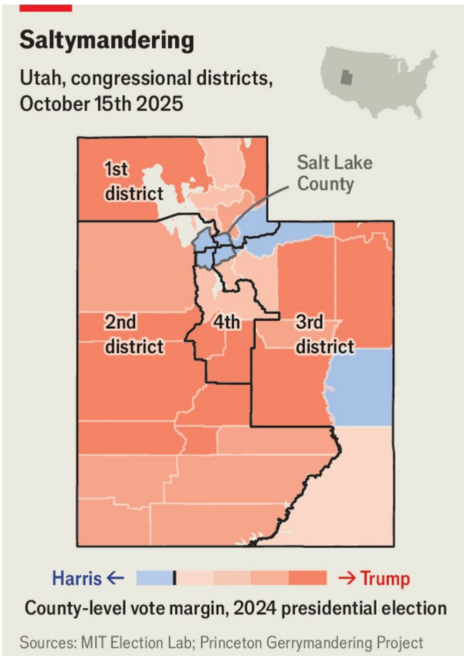
Utahns are fighting for fair maps

While other states race to enact partisan gerrymanders

October 16th 2025

WHEN VISITORS wander through Temple Square they admire the Salt Lake Temple, a landmark of the Mormon faith, even while it is ensconced in scaffolding. In October the only visible parts of the gothic-revival building are two spires and the statue of the golden angel Moroni on top. Bees buzz around lavender stalks in the church's gardens, and the foothills peek through the buildings downtown. This is the heart of Salt Lake City. Since 2021 it has also been the border between Utah's 1st and 2nd congressional districts.

When Utah's Republican-dominated state legislature drew a new congressional map after the 2020 census it "cracked" Salt Lake County into four pieces. That diluted the voting power of the state's Democrats, who are mostly concentrated near the capital city (see map). Good-governance groups and a handful of local residents, Democrat and Republican, sued. After years of litigation, in August a state judge struck down the map and ordered the legislature to try again. The ruling has pitched Utah—and its years-long battle for fairer maps—into America's redistricting wars.



The saga began in 2018 when Utahns passed a ballot measure to establish a citizen redistricting commission that would advise the legislature. The measure barred lawmakers from using partisan political data to draw maps or configure districts to purposefully favour or disfavour a party or candidate. Instead of complying, in 2020 the legislature passed a bill that rolled back parts of the measure. The 2021 map that cracked Salt Lake County into pieces and secured four safe seats for Republicans was made possible by that law.

Lawmakers offer two main arguments in their defence. First, they reckon each district should have rural and urban voters to reflect the makeup of the state. "The urban-rural thing is a bit of a figleaf for cutting up Salt Lake City," says Sam Wang, who runs the Princeton Gerrymandering Project, which analyses the fairness of state maps. Second, they allege that the legislature alone can decide electoral districts. The Utah Supreme Court disagreed and sent the case down to a lower court to be adjudicated. Dianna

Gibson, a trial court judge, was unequivocal in her ruling. The 2020 law, she wrote, “infringed the people’s fundamental constitutional right to reform their government”.

The race is on. On October 6th lawmakers, back at the state capitol “under protest”, put forward a new map. Elizabeth Rasmussen, the head of Better Boundaries, the group that sponsored the initial ballot measure, admits it is an improvement but says the map was “the least competitive” option. Democrats can maybe contest one seat. The legislative shenanigans did not end there. During the special session, lawmakers also passed a bill requiring the use of three specific tests to probe the partisan balance of Utah’s maps, whereas the citizen commission had allowed for “the best available data and scientific and statistical methods”. Aseem Mulji, a lawyer for the groups that challenged the 2021 map, argues that lawmakers “cherry-picked” statistical methods that will “green light biased congressional maps”.

To prepare for the mid-terms next year Judge Gibson will need to approve the legislature’s map or choose from one of the others submitted by parties to the lawsuit by November 10th. Even that deadline will not end things. Utah’s Republican Party is campaigning to repeal the ballot measure that started this whole process. It is the latest of several attempts by conservatives to limit direct democracy in the state.

Politicians around the country are watching Utah closely. After Texas Republicans gave Donald Trump the five seats he asked for, California Democrats decided to ask voters to approve a partisan gerrymander of their own. The redistricting rodeo is spreading. If lots of liberal Salt Lakers are packed into one district, Democrats could pick up a seat. But Ms Rasmussen is wary of Utah being dragged into the redistricting wars. She wishes Utah’s power brokers would ask themselves a question. “If it were flipped and Democrats were doing the same thing”, she offers, “would you still be on the same side you are now?”■

United States | Motown’s revival

A billionaire has rebuilt downtown Detroit

But might Dan Gilbert’s project finally run out of steam?

October 16th 2025

In the 1950s Hudson’s, on Woodward Avenue, the heart of downtown Detroit, was the second-largest department store in America (after Macy’s in New York). Through the 1960s and 70s, as the city began its long hollowing out, those who had left would drive back into the city at Christmas to shop there and gawp at the window displays and the lights. It was not enough to keep the place going. In early 1983 Hudson’s closed. For nearly 16 years the building sat empty, another corner of blight in a blighted city. When it was demolished in 1998, it was the tallest building ever to have been blown up.

On October 9th a new skyscraper, 681ft (207m) tall, was finished on the site. It, too, is called Hudson’s, though it is not a department store: it contains offices, apartments, a hotel and a conference centre. Its owner is Bedrock, a developer, in turn owned by Dan Gilbert, who made his fortune with Quicken Loans, a mortgage provider (now Rocket Mortgage). The new Hudson's is perhaps Mr Gilbert's most celebrated project yet. With the possible exception of Mike Duggan, the mayor for the past 11 years, nobody has had as large an impact as he has on Detroit. Other billionaires want to build cities in space. Mr Gilbert practically has his own on earth.

In 2007 Mr Gilbert made the then remarkable decision to move Quicken Loans' suburban headquarters downtown. Mr Gilbert says that the initial thinking was humdrum—the firm's lease was expiring, the business was growing, and he didn't want to build a new greenfield campus. But he also had a bigger idea in mind. "We needed to keep young people here [in Michigan] and make sure they weren't going to places like Chicago," he says. "We knew that young people did not want to work in suburbs."

In the 18 years since, Mr Gilbert has acquired some 130 properties in Detroit (he is not sure of the exact number). Many were derelict when he bought them. Initially, as the financial crisis and then, in 2013, the city's bankruptcy crushed Detroit, he was buying buildings defensively. "It just takes one bad landlord to screw up the whole block, right?" he says. By 2015 Mr Gilbert not only owned property. His firm employed teams of security guards and operated a system of 500 CCTV cameras.

Downtown Detroit is transformed. Spectacular skyscrapers, such as the Book Tower, which had lain derelict for decades have been restored. Woodward Avenue features expensive fashion retailers. Mr Gilbert did not do this alone, of course. City tax breaks introduced by Mr Duggan helped make regeneration financially viable. But he put in the capital. He has also tried to kick-start bigger projects: he helped pay for the creation of the "Q-Line", a tram, in the (so far, forlorn) hope it might help attract more federal investment in public transport. "Dan has changed the course of the city in the last five years," said Mr Duggan in a speech earlier this year.

Does it matter that one man, a white billionaire in a majority-black city, has so much power? Mr Gilbert says he is not uncomfortable with it. He intends to give away almost all of his money before he dies, mostly to projects in his region, such as a scheme helping homeowners get out from property-tax arrears. Unusually for a billionaire, Mr Gilbert gives the impression that

Detroit—and Cleveland, where he owns the Cavaliers, a basketball team—are his entire world. When asked about other cities he is inspired by, he mentions New York and Chicago tentatively. He says he has visited London twice and liked the London Eye, a Ferris wheel.

His next project is to buy and renovate the Renaissance Centre, an iconic but near-empty collection of skyscrapers on the Detroit river. Yet even as he works on that, General Motors, its main tenant, is moving—into the new Hudson's. Building more office buildings can only go so far without growing firms to fill them. Much space remains empty, and some fancy new condos are struggling to sell. The economy of the whole region is under pressure, as the car industry struggles with tariffs. Attracting firms to Detroit from farther afield than the suburbs is still a hard task. ■

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United States | Justice for some

The Department of Revenge

A second federal office is overdue a Trumpian rebrand

October 16th 2025

SOME YEARS ago a noted defence lawyer claimed that all Americans could be considered criminals. Federal laws are so vague, wrote Harvey Silverglate, that everyone unwittingly runs afoul of them at some point. Armed with the power of the state, an overzealous prosecutor could build a case against practically anyone, making good on that Stalin-era line: “Show me the man and I’ll show you the crime.”

Or show me the woman. On October 9th a grand jury indicted Letitia James, New York’s attorney-general and a longtime foe of Donald Trump, on two felony counts related to a mortgage application. The indictment follows perjury charges filed against James Comey, a former FBI director who also antagonised the president. Mr Trump had demanded that both be investigated. Together the indictments—and there will almost certainly be others—are turning the Department of Justice (DoJ) into a tool for Mr Trump's score-settling.

The president has targeted Ms James after she sued him successfully for fraud at his real-estate business. Now prosecutors allege that she lied on a mortgage application for a property she bought in Virginia. According to the DoJ, Ms James attested that it would be her second home when in fact she rented it out. This alleged deception supposedly got her a better interest rate. Prosecutors will need to prove both her intent and that any misrepresentations were material, meaning the bank would not have offered the loan had it known. Ms James has called the charges "baseless".

The rationale for Mr Trump's revenge tour is that Democrats started it. The DoJ under Joe Biden indicted him twice. Democratic state prosecutors indicted him twice more. Ms James brought her civil suit. Some of the criminal cases against Mr Trump relied on speculative legal theories, including the only one that went to trial and produced a conviction, bolstering Mr Trump's claim that prosecutors were playing politics. In 2018 Ms James even campaigned on the promise to be a "real pain in [his] ass", saying "he's going to know my name personally."

The president's revenge-seeking is as explicit. Judging by the charges against Ms James and Mr Comey it may also be more tenuous. This politicisation of the law will change how the DoJ operates. More prosecutors will be forced out or will quit over ethical objections, adding to what has already been an exodus. Ideologues or less experienced staff will fill the ranks.

Selective prosecutions are just one way that Mr Trump has personalised the DoJ. The other is special treatment of his supporters. That started on the president's first day back in office, when he pardoned almost everyone convicted of storming the Capitol on January 6th 2021. The DoJ has also stopped pursuing most foreign-bribery cases and gutted the Public Integrity unit, which specialises in political corruption. Several of its targets have since had investigations dropped, charges dismissed or sentences expunged.

They include the case against Eric Adams, New York's mayor, and a probe of Tom Homan, Mr Trump's border tsar. Since January Mr Trump has also erased the convictions of one donor and the son of another who spent $1m to attend a fundraising dinner at Mar-a-Lago. Both men were spared prison. One more donor, the former boss of Fatburger, a fast-food chain, had his tax-fraud charges dropped. Still other defendants with well-connected counsel have had pending cases closed. Brad Bondi, a lawyer and the attorney-general's brother, represents two.

Nothing stops a president from using the pardon power however he wants, even if it looks like self-dealing. But abuses have tended to come at the end of a term since presidents feared the blowback, notes Gregg Nunziata, a conservative lawyer. When Bill Clinton pardoned Marc Rich, whose ex-wife was a Democratic donor, he did it on his last day in office. Mr Biden likewise waited to pardon his son Hunter. By contrast Mr Trump has telegraphed early on that "pardons are for sale" and thus established an "ongoing and expanding market", says Mr Nunziata.

The upshot of all this is that some fraud will never come to light. The pardons and the reduced enforcement of anti-bribery laws are "tacit permission to engage in that sort of behaviour", says Michael Romano, a former prosecutor in the Public Integrity section. The other effect may be a cycle of reprisal lasting for years. It stands to reason that the next Democratic president will pardon enemies of Mr Trump who get convicted and may also target the president's allies. A ceasefire will only come when outrage builds and both parties "feel the sting", says Saikrishna Prakash of the University of Virginia. "It may have to get worse before it gets better."

In the meantime jurors can provide a check. Already they have refused to indict when prosecutors brought flimsy cases against protesters and people arrested in Mr Trump's crime crackdown. That is rare since prosecutors' burden of proof—probable cause—is much lower at that early stage. To win a conviction against Ms James, Mr Comey or indeed any defendant at trial, the DoJ needs to convince juries beyond a reasonable doubt. The misgivings of some prosecutors suggest that this may be difficult in these two cases. If they fail, Mr Trump's revenge agenda will end up looking like a series of nuisance lawsuits. It is a strategy he knows well from his experience as a serial plaintiff. ■

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United States | Lexington

Donald Trump should love Ken Burns's new documentary

It can remind all Americans what ought to unite them, and make them proud

October 16th 2025

"Nothing was ever quaint," mused Ken Burns in a New York film studio last spring, as he made some last edits to his latest documentary, a chronicle of the American revolution that debuts next month. And indeed "The American Revolution" is not an ode to plucky Yankees clinging to their principles and tricorne hats during valorous midnight rides. It is instead a bloody epic of cruelty, rape, betrayal and dispossession, along with heroic deeds and the dawn of an idealism that would change the world.

Over six two-hour episodes Mr Burns portrays not a tax revolt but a years-long, multinational clash of imperial ambitions and a civil war. In one battle

John Peters, an American loyalist serving with the British, recognised “an old school fellow and playmate, and a cousin of my wife’s”, as the man cried “Peters, you damned Tory!” and attacked him. “Though his bayonet was in my body,” Peters wrote later, “I felt regret at being obliged to destroy him.”

Watching the film, one feels regret at being obliged to ask the wearying question that haunts any development these days, of practically any importance, whether political, economic or cultural: what will Donald Trump think? Will he attack the documentary as “woke” and encourage half the country to dismiss it? Or will he recognise how deeply patriotic it is—even, at times, sentimentally so—how inspired by the genius of what it calls “the most consequential revolution in history”? Could he even derive some satisfaction from its recounting of the ruthlessness and imperialist instincts of the founding fathers, along with some lessons from how they tempered such qualities? He should. America, riven and aggrieved on the eve of the 250th anniversary of the signing of the Declaration of Independence, would benefit from watching this film together.

Having made it his mission by executive order to stamp out “divisive narratives” about America’s past at federal parks and monuments, Mr Trump could choose to cavil. Mr Burns does not flinch from describing the flaws of the founders. As, at 33, Thomas Jefferson wrote the Declaration, supplied with cups of tea by an enslaved 14-year-old boy, he had the nerve to list among the charges against King George III his participation in the Atlantic slave trade. (The Continental Congress did not adopt that charge).

Some 15,000 black Americans, including slaves who escaped from Jefferson and George Washington, joined up with the British in hope of ensuring their freedom. Only about a third of that number served with the patriots. (Still, the film notes, their service, alongside Native Americans whom the revolution would betray, made the American forces more integrated than they would be again for almost 200 years.) After the British surrendered, Washington demanded the return of slaves, including his own.

Yet as it does with Jefferson’s words, the film reveals with Washington’s deeds how he transcended his flaws to set an example for the ages. Recounting his mistakes in battles, the bevy of historians Mr Burns relies upon for analysis make clear Washington was no great field commander. His zeal for expansion and capacity for cruelty are shown in orders for “the total destruction and devastation” of certain Native American towns and “the capture of as many prisoners of every age and sex as possible”. And yet Washington’s strength of character made him indispensable. “God, I can’t believe I’m saying this, because I’m not a huge fan of great-man theories of history,” remarks Christopher Brown, a historian at Columbia University. “But let’s put it this way: It’s easy to see the American effort for independence failing without Washington’s leadership.” Annette Gordon-Reed, of Harvard, says simply, “We would not have had a country without him.” That both historians are black lends further force to those judgments.

What else might bother Mr Trump? Possibly the reminder that Washington ordered troops be inoculated against smallpox. Mr Trump might take umbrage at the film’s reminder that the founders feared a demagogue could hack the constitutional system. In Alexander Hamilton’s words, such a person might “mount the hobby horse of popularity” and “throw things into confusion”.

Mr Trump might also sense a rebuke to his vice-president, J.D. Vance, who argued at the Republican convention last year that America was “not just an idea”. As he put it, “People will not fight for abstractions, but they will fight for their home.” The starving, freezing, seldom-paid soldiers of the Continental Army could have fled home any time—some did—but enough believed “abstractions” also mattered to stay in the fight, and the Americans’ ideas would go on to matter in liberation movements up to today. Mr Burns ends his film with words from Benjamin Rush, another founder, who exhorted patriots, when the war was over, to continue fighting for the American abstraction. “In her governments, in her finances, in her trade, in her manufactures, in her morals and in her manners,” Mr Rush wrote, “the revolution is not over.”

Those words are not hard to reconcile with Mr Burns’s vision, though “consistent” could be a sticking-point. In addition to various donors of the right and left, the Corporation for Public Broadcasting (CPB) helped finance this film, as it has past work by Mr Burns, a monument to the value of such support for exacting, public-spirited programming. In July Mr Trump signed a budget “rescissions” bill that eliminated the CPB’s financing, and it plans to close its doors in January. ■

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The Americas

The Americas | Uneasy in Caracas

Venezuelans wonder if America will bring down Nicolás Maduro

By speaking openly about authorising a "covert" CIA operation against the regime, Donald Trump is fanning the flames

October 16th 2025

Some believe October 19th is the date to watch, when two Venezuelan saints will be canonised. Others think the order will come just before Christmas. Posters and graffiti that proclaim "It is happening!" persuade some that the United States' Green Berets are now in position.

The Venezuelan rumour mill is brimming with the idea that America may soon mount a military operation to overthrow the country's unelected president, Nicolás Maduro. Most of the speculation has been fuelled by the United States government itself. In recent weeks American officials have been adamant that Mr Maduro, who stole an election last year, is an entirely illegitimate leader, a "narco-terrorist", and a "fugitive from American justice". They claim he sits at the top of a drug-smuggling organisation—he denies all the allegations. In August the Department of Justice doubled the reward for information leading to his arrest to $50m.

A formidable American military force has been gathering in the Caribbean. The flotilla, including warships and F-35s, is purportedly to combat drug-trafficking. It has attacked and sunk at least five boats which were allegedly running drugs, killing 27 people. But many believe that Mr Maduro is the ultimate target. On October 15th, three American B52 bombers circled within 150 miles of the capital, Caracas. At almost the same time, a flight carrying deportees from the United States was refused permission to land in Venezuela. Later that day Donald Trump announced that he had authorised "covert" CIA action. Asked if the CIA has "authority to take out Maduro", Mr Trump said it was "not really a ridiculous question, but wouldn't it be a ridiculous question for me to answer".

The regime, which initially dismissed the ships and planes at its doorstep as theatrics, is getting worried. On October 10th the New York Times reported Mr Maduro had tried to appeal to Mr Trump's transactional instincts by offering the American government a large stake in Venezuela's oil and other mineral wealth, in return for good relations. The approach seemed to fail, with Mr Trump ordering his special envoy for Venezuela, Richard Grenell, to break off all contact with Caracas.

Since then, missile launchers have popped up at the city's military airport and along the Caribbean coast. Mr Maduro, on his occasional outings, surrounds himself with civilians, perhaps hoping that will deter a drone strike. His television shows are no longer usually filmed inside the Miraflores Palace, as they used to be, but in various hotels. "He's using human shields in a very obvious way," says Phil Gunson, of International Crisis Group, a think-tank.

On October 9th, saying it feared an "armed attack" in "a very short time", Venezuela requested and was granted an emergency meeting of the UN Security Council to discuss the crisis. The timing of that gathering turned out to be unfortunate. It was held hours after the opposition leader, María Corina Machado, who has been in hiding in Venezuela since she proved that the elections in July last year were stolen, was awarded the Nobel peace prize. Western envoys to the Security Council took the opportunity to congratulate Ms Machado, while Venezuela's glum representative, Samuel Moncada, was forced to listen.

Ms Machado, a former congresswoman whom the regime blocked from seeking office herself, last year masterminded the campaign of a stand-in candidate, former ambassador Edmundo González. Millions who would have voted for her, voted for him. She set up a system whereby thousands of volunteers collected original election receipts from almost every polling station on election day. The paper trail proved that Mr González won by a huge margin. "Maduro and his clique betrayed us and we should not forget it. They stole our vote," says a psychology student in Caracas. "They deserve whatever is coming."

It seems like Mr Trump has not decided what that will be. On October 5th he expressed his frustration at not being able to find any more boats to attack (his flotilla destroyed another on October 14th), and said that his administration would "have to start looking about the land".

That could indicate a strike, perhaps on an alleged drug base in a remote part of Venezuela. Mr Maduro has indicated such a move would lead him to declare a heightened state of emergency, which could involve the detention of yet more opposition activists. Hundreds are already in jail.

From her hiding place, Ms Machado has been reassuring her supporters that the end of Mr Maduro's rule is near. "I have no doubt that Maduro is going to leave," she told the Free Press, a news website, on October 12th. "The cracks and fractures within the regime are growing."

A divided regime with shaky military support is the opposition's best hope. But there is little evidence it is true. "This country is ruled like a mafia, and one which makes few mistakes when it comes to its own survival," says a diplomat in Caracas. For years, any discontent in the lower military ranks has been swiftly snuffed out by counter-intelligence teams.

But if Ms Machado is right, and the regime is on the brink of collapse, what next? She says there would be a renaissance, a trillion-dollar investment opportunity and a historic homecoming for a diaspora forced to escape destitution under Mr Maduro. Her supporters dismiss talk of a civil war as nonsense, saying the election proved that the country is of one mind.

Mr Gunson and others urge caution. Those most invested in the status quo who might resist change are few in number, but they are dangerous: militia groups, drug gangs, armed rebels from Colombia. History, he says, warns that "it really does not take very many people to create terror." ■

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The Americas | Go big or go home

America doubles down on Javier Milei

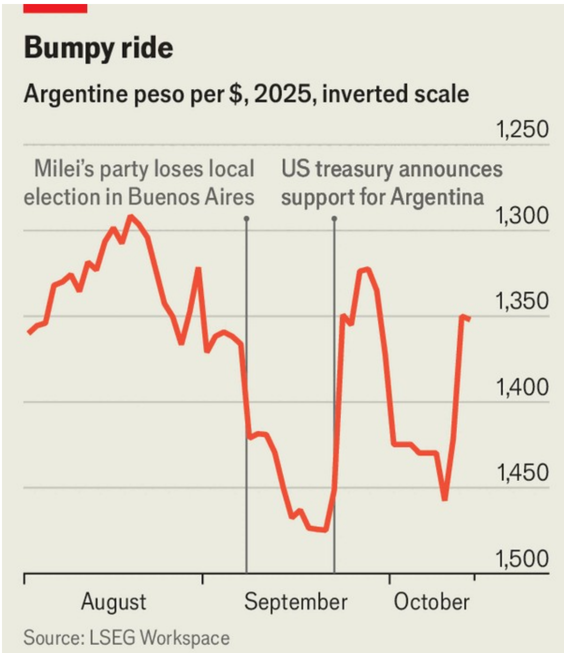
But there's a catch

October 16th 2025

The Trump administration is raising the stakes in its unprecedented bet on President Javier Milei of Argentina. Last week Scott Bessent, America's treasury secretary, finalised a $20bn swap line and the direct purchase of Argentine pesos. Then, on October 15th, he said the Treasury is also working on a "private-sector solution" that would funnel another $20bn to help with Argentina's "upcoming debt payments" and announced it would buy even more pesos. Both governments hint that a trade deal could be announced any day.

These extraordinary actions have bolstered Argentine bonds and propped up its currency, which has been under heavy pressure (see chart). But the broader aim is, unashamedly, to help Mr Milei win the midterm election on

October 26th. The United States is apparently making the measures conditional on his success. In a meeting in the White House with Mr Milei on October 14th, Donald Trump said that "If he doesn't win, we're gone." Argentine stocks and bonds immediately plunged.



Mr Milei's team hurriedly tried to calm markets by claiming that what Mr Trump really meant was that he would walk away only if Mr Milei lost his re-election bid in 2027. Yet it is far from clear that spin is correct. The next day Mr Bessent sought to soothe markets, saying that support is "not election-specific, it is policy-specific". That, along with the new peso purchases, bought some calm. Still, it is Mr Trump, who famously dislikes losers, who will ultimately decide whether the support continues. Markets are confused at best. The uncertainty limits the calming effect of the purported $40bn in backing, none of which has yet been used.

That puts Mr Milei under extreme pressure to win. Though he has sharply reduced inflation and poverty since he came into office in late 2023, his party could easily get fewer votes than the Peronist opposition. A series of corruption scandals have alarmed voters. His dogmatic approach has alienated potential allies.

Attempts to keep the peso strong even after floating it within a band with the backing of a $20bn IMF bailout in April have had mixed results. It helped to lower inflation, but hamstrung efforts to accumulate foreign reserves. In recent weeks Argentina has spent about $3bn of precious reserves trying to stop the peso crashing out of the band. Those efforts have also sent overnight interest rates soaring past 100%, a huge drag on economic activity. A big electoral loss could trigger a bloodbath in markets, which fear Mr Trump will walk away.

Wonks also worry that all this risks wasting American money, especially as the peso looks overvalued. If it falls the US Treasury, which is buying the currency directly, will face losses. And because the Treasury presumably wants its swap line to be paid back in dollars, it is really an emergency loan to a serial defaulter, points out Brad Setser of the Council on Foreign Relations, a think-tank.

Details of the new $20bn initiative to help with debt payments are scant. Mr Bessent suggested that private banks and sovereign funds are interested. Perhaps, but probably only at the entreaty of the Trump administration. Sovereign-wealth funds usually avoid bonds classed as "junk", as Argentina's are.

Mr Trump could still win his bet. If Mr Milei pulls off a strong result in the election, pressure on the peso is likely to ease, at least for a while, as the spectre of the spendthrift Peronists recedes. Markets may regain their appetite for Argentine bonds. This would help the government repay the billions due to creditors in 2026. If the Trump administration were smart it would then push Argentina to fully float the peso. That would help the country to build its own dollar reserves, reducing the need for American support.

First, though, Mr Milei must win the midterms. Posters claiming that he is selling the country to Mr Trump have sprung up. His party is also struggling to explain a late change of its candidate to voters in Buenos Aires province. The ballot papers still bear the name of the old one, Jose Luis Espert, who dropped out over alleged links to drug-trafficking, which he denies. The electoral authority says it is too late to reprint ballots. That is one more uncertainty in an election that is full of them. ■

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The Americas | Zip or zap

After 20 years of left-wing rule, Bolivia is about to swing right

The question is, how fast?

October 16th 2025

By the time Rodrigo Paz arrived at his final campaign event in El Alto, the sprawling city on a plateau that overlooks the Bolivian capital of La Paz, the crowd had spent hours under the hot sun. Luckily it came prepared with crates of beer and potato-heavy picnics. “We indigenous peoples are the majority—and we will win again,” roars one well-fortified man, prompting people all around to belt out the Aymara victory cry: “Jallalla!”

For 20 years residents of the Bolivian highlands have voted for the Movement to Socialism (MAS). Not any more. In August they backed Mr Paz, a centrist senator, in the first round of the presidential election. He will face Jorge Quiroga, a conservative former president, in a run-off on October

19th. Meanwhile, the MAS received so few votes it almost lost its legal status. That means Bolivia is sure to swing right and liberalise its economy. What is not yet clear is just how much Bolivia will change, or how the economic mess the MAS leaves behind can be fixed.

In early 2023 the central bank all but ran out of dollars. Bolivians can no longer freely access saved American currency. On the black market dollars sell at almost twice the official exchange rate. The government flogs gold to pay for fuel imports, but shortages are still constant. Inflation has soared, hitting 18% for the year to September. After 11 consecutive years of deficits, public debt now amounts to 92% of GDP.

As the economy burned, current president Luis Arce and former president Evo Morales, a charismatic leftist who led Bolivia from 2006 to 2019, wrestled to lead the MAS into this election. When polls showed that just 2% of voters intended to vote for Mr Arce, he withdrew his candidacy. And when a court ruling stopped Mr Morales from running, he called for voters to spoil their ballots. About 20% of them did.

But many more backed Mr Paz, who surged from under 10% in polls to take 32% of the vote in the first round. Mr Paz, 58, is the son of Jaime Paz Zamora, a former president, and has been in politics for decades. But his running partner, Edman Lara, is a straight-talking outsider who became a popular hero after being fired from the police for denouncing corruption in viral TikTok videos. Together they crisscrossed the country promising new politics—neither those of MAS nor its established opposition—and “capitalism for all”, which would protect MAS social programmes while liberalising the economy and cracking down on corruption. It worked, especially in the highlands, where they took almost 50% of the vote.

Mr Quiroga, 65, represents that established opposition. A former vice-president, he briefly held the presidency in 2001 after his boss stood down. This is his fourth try at getting elected. Mr Quiroga describes the reign of the MAS as “20 lost years” and promises radical change. His support is strongest in the agri-business hub of Santa Cruz, Bolivia’s most populous and economically dynamic department, which has long opposed the MAS.

Ahead of the run-off, polls have Mr Quiroga leading Mr Paz by between four and eight points. Given that pollsters missed the support for Mr Paz in the first round, many are sceptical. “Here in El Alto, it’s widely believed that the surveys are manipulated to favour Quiroga,” says Pablo Mamani, an Aymara sociologist.

Whoever wins will have to dig Bolivia out of an economic crisis. First on the agenda is to source dollars and keep the fuel imports flowing, or their government might be short-lived. Mr Quiroga has said he will go straight to the IMF to ask for a loan. Mr Paz claims a loan won’t be needed after his government cuts corruption and restores confidence, prompting people to pull dollars out of mattresses. Nonetheless, both have already made a trip to Washington to start discussions.

With or without the IMF, Bolivia will need big changes, particularly to its fuel subsidy, which cost $2bn in 2024, or almost 4% of GDP. Much more will be needed to bring the fiscal deficit down from over 10% of GDP. Bloated ministries and loss-making state companies will be on the block. Boosting agri-business exports may pull in much-needed dollars. Reforms could entice foreign investors into mining, oil and gas. But an independent judicial system will need to be rebuilt after years of abuse by the MAS. At some point, the fixed exchange rate will have to be loosened.

What will Bolivians tolerate? In 2010, when Mr Morales tried to remove the fuel subsidy, protests forced him to backtrack. Now people grasp the need for change. But the next president faces a dilemma: move too slowly and you squander political capital while the economy degrades; move too fast and Bolivia spirals into recession. To each other’s voters, Mr Paz and Mr Quiroga embody these risks. “That’s the debate,” says Daniel Agramont, an economist. “Gradual, or shock?” ■

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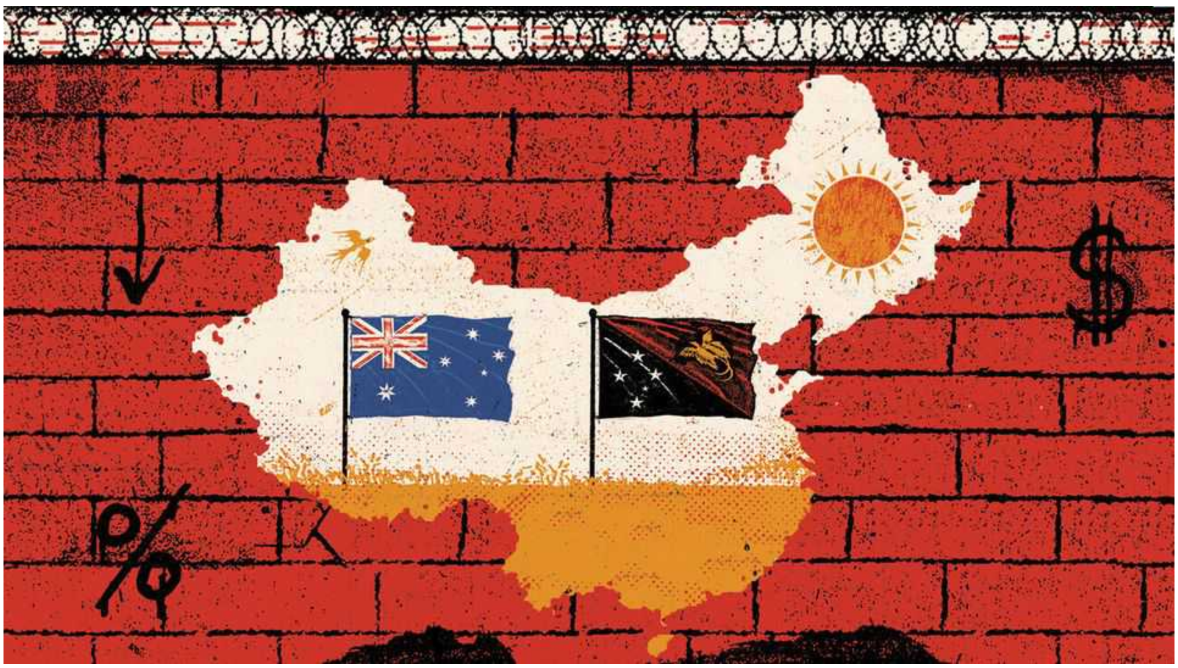
Asia

Asia | Southern exposure

Australia's ambitious new push to counter China

It has signed the first new military alliance in Asia since the cold war

October 16th 2025



On October 6th the prime ministers of Australia and Papua New Guinea stood side by side, buffeted by gusts of westerly wind in Australia's capital, as they announced the first new military alliance in the Asia-Pacific region since the cold war. Under the deal the two neighbours are obliged to come to each other's defence; to that end, up to 10,000 Papuans could join the Australian armed forces. But most importantly, the agreement includes what amounts to an Australian veto on Chinese access to Papua New Guinea's territory and critical infrastructure.

For several years China has been deploying police officers and seeking preferential access to deep-water harbours and airstrips among the island chains surrounding Australia. The fear is that these arrangements, supposedly focused on ensuring domestic stability and economic development, could turn into a military threat over time. To avoid that fate, Australia is opening its chequebook and talking more openly about its wish to limit China's presence in its near-abroad. The deal with Papua New Guinea is just the latest in a series of treaties—and several quieter agreements—in which Australia is taking on greater responsibility for security in the Pacific and South-East Asia.

Australia's new and more ambitious diplomacy is also a hedge against growing doubts about America's commitment to the region. Increasingly officials in Canberra, the capital, are asking each other whether President Donald Trump will persist in the hawkish approach to China that defined his first term in office. Some fear that Mr Trump will be tempted to offer President Xi Jinping concessions as part of a trade deal that would leave countries in the region, including Australia, exposed to the whims of Chinese power. And anxiety is building over reports that the Pentagon is working on a new defence strategy that will put the western hemisphere ahead of Asia in its list of priorities.

To guard against both Chinese ambitions and American abandonment, Australia's Labor government, which came to office in 2022, has committed more than $1bn to new security agreements in its neighbourhood. Treaties last year with Tuvalu and Nauru gave Australia the right to veto any security deals they might make with China. But these are tiny places. Papua New Guinea is both the largest and the most populous of the Pacific-island countries. Its newly announced alliance with Australia is therefore a big setback for China's efforts to extend its influence throughout the region.

It hasn't all been smooth sailing, however. In September Anthony Albanese, the Australian prime minister, flew to Vanuatu, an archipelago to Australia's north-east, to sign a $324m deal much like the one with Papua New Guinea. He came away empty handed, with one minister in Vanuatu saying that the country did not want to give up the option of Chinese investment in its critical infrastructure.

In South-East Asia, a different kind of diplomacy is required. It is impossible to imagine a South-East Asian country signing up to a treaty giving Australia a veto over its relations with China, so the Aussies dare not try. Instead Australia has portrayed itself as the region's steadiest friend among democratic powers, untroubled by differences over human rights or political systems. This has won it, alongside Japan, greater trust than America enjoys among the region's authoritarian regimes. No outside power has closer relations with Indonesia, the region's giant. Last year the two signed a defence treaty that commits them to closer co-operation.

Farther afield Australia is well positioned to try to sustain the Quad, an informal club in which Australia had joined America, India and Japan to work on maritime security, among other things. That work has ground to a halt because of a recent falling out between Mr Trump and Narendra Modi, India's prime minister. But some of it may continue as bilateral projects between Australia and India. This month Rajnath Singh, India's defence minister, made a rare visit abroad to review co-operation with Australia.

To some extent, Australia's deep involvement in the security of Pacific-island countries and South-East Asia is nothing new. American and Australian officials have long divided the region into overlapping areas of responsibility, with Australia taking on a greater share in its own neighbourhood. But the latest moves go beyond traditional burden-sharing, says Rory Medcalf, the head of the National Security College at the Australian National University. "Security ties with Australia's close neighbours make sense for their own sake, but they are no substitute for the power that only the alliance with America can bring."

That will be on Mr Albanese's mind as he flies to Washington on October 20th, when he will be one of the last leaders of an American ally to meet the president since he returned to office in January. Since then, Mr Trump's administration has announced a review of the AUKUS submarine-building agreement that the two countries made with Britain under President Joe Biden, and Mr Trump's Pentagon has pushed Australia into nearly doubling its defence spending. Several experts expect that a deal will be done that trades a big boost in Australian defence spending for Mr Trump's renewed support for the AUKUS pact. Australians must hope that Mr Albanese can keep the American president happy. If he cannot, all their ambition in Asia will be for naught. ■

Asia | Daggers drawn

Border clashes erupt between Pakistan and Afghanistan—again

Pakistan blames terrorists in Afghanistan for surging violence in the country

October 16th 2025

A worrying pattern has emerged. The Tehreek-e-Taliban Pakistan (TTP), the Pakistani version of the Taliban, ramps up attacks inside Pakistan. In response, Pakistan's government demands that its equivalent in Afghanistan, headed by the Taliban, attack TTP sanctuaries along the border. The Afghan Taliban demur. Exasperated, Pakistan's armed forces launch air strikes against the TTP in Afghanistan. The Afghan Taliban retaliate against Pakistan's armed forces. Fighting erupts and then subsides—that is, until the next round.

The latest skirmish was the fiercest yet. On October 11th attacks between the TTP and Pakistan's armed forces broke out along the 2,600km Pakistan-Afghanistan border in at least seven places (see map). Border posts on both sides were overrun. Artillery and small arms were used. Pakistan deployed fighter jets. It says it killed more than 200 members of the TTP. Over 20 Pakistani soldiers died.

The trigger was an attack, four days previously, by the TTP that killed 11 Pakistani soldiers, including a lieutenant colonel. Pakistan responded with air strikes on Kabul targeting Noor Wali Mehsud, the leader of the TTP. Mr Mehsud's presence in Afghanistan's capital hints at deepening ties between the TTP and the Taliban.

On October 15th, after Pakistan's state TV claimed further air strikes in Kabul and fighting broke out along the border again, a 48-hour "temporary ceasefire" was agreed. Khawaja Asif, Pakistan's defence minister, had previously warned that hostilities could resume "at any time". Pakistan has good reason to be angry. According to the Centre for Research and Security Studies, a think-tank in Pakistan, this year is on track to be deadlier than last year, in terms of number of fatalities in the country—and 2024 was the most violent in a decade.

For now, much of the violence from the TTP is concentrated in the former tribal areas and the southern districts of Khyber Pakhtunkhwa. But Pakistan's attempted assassination of the TTP leadership could change that. This may lead the group to "set its sights on civilian targets in urban centres," says Elizabeth Threlkeld at the Stimson Centre, an American think-tank.

That would evoke terrible memories of the period between 2007, when the TTP was founded, and 2014, the peak of militancy in Pakistan. Spiralling urban violence could push the Pakistan armed forces to strike deeper into Afghanistan. Fearing a conflagration, friendly countries are rushing in to counsel restraint. Saudi Arabia and Qatar have urged dialogue. China's foreign ministry has weighed in, issuing a statement that: "China is willing to continue to play a constructive role in improving...Pakistan-Afghanistan relations."

But new complications are emerging. Much of the fighting last week took place along the border in eastern Afghanistan, in strongholds of the Haqqani network, a faction of the Afghan Taliban with longstanding ties to the ISI, Pakistan's spy agency. Now Pakistani officials accuse the Haqqani network of double-dealing.

Pakistan's messy politics makes matters worse. Last week Ahmed Sharif Chaudhry, the military spokesperson, demanded that the provincial government of Khyber Pakhtunkhwa, led by the Pakistan Tehreek-e-Insaf, the party of Imran Khan, stop "begging Afghanistan for security". And while Pakistan and Afghanistan were fighting, the Afghan foreign minister, Amir Khan Muttaqi, was in India on a six-day visit. India has announced that it will reopen its embassy in Kabul, which was shut when the Taliban came to power in 2021. The media wing of Pakistan's armed forces acerbically "noted with concern" that the fighting along the border occurred during the visit to India, which it called "the biggest sponsor of terrorism in the region". ■

Asia | A messy divorce

Takaichi Sanae’s path to power in Japan grows more complex

The break-up of the long-time ruling coalition dents her ambitions

October 16th 2025

THE MARRIAGE was an unlikely one. Komeito, a pacifist party backed by a big Buddhist organisation, and the Liberal Democratic Party (LDP), the dominant conservative force in post-war Japan, had been open adversaries before forming a coalition in 1999. To some, it looked like little more than an electoral marriage of convenience. Yet they stayed together—until October 10th, when Komeito told the LDP it had finally had enough.

The divorce had many causes and will have far-reaching consequences. The trigger was the election on October 4th of Takaichi Sanae (pictured), a hardline conservative, as the LDP’s new leader. Following Komeito’s exit, her road to becoming prime minister has grown more complicated. A pathway has opened up for an opposition coalition to unseat the LDP for only the third time in its 70-year history.

Komeito was founded in 1964 to represent Soka Gakkai, a lay Buddhist movement with millions of members. The party positioned itself as standing for pacifism, social welfare and clean government. Over time Komeito shifted from the far left to the centre, becoming a small but consequential force in the Diet—helping in 1993, for instance, to unseat the LDP for the first time ever. Later, as a new electoral arithmetic took hold, the former foes decided there was more to gain by joining forces. In their coalition, Komeito checked some of the LDP's more hawkish impulses. It has also been a key backchannel to China.

Komeito's relationship with the LDP had become strained in recent years. With the LDP mired in fundraising scandals, Komeito's core supporters, the 8m households that belong to Soka Gakkai, grew frustrated. The group's longtime spiritual leader, Ikeda Daisaku, who favoured the coalition, died in 2023. Komeito's showings at the ballot box deteriorated: in upper-house elections this year, it won just 9% of the vote, down from 13% in 2019.

During her first days as party leader, Ms Takaichi, a former drummer in a heavy-metal band, chose to butt heads rather than build bridges. Behind Komeito's back, she began courting Tamaki Yuichiro, the head of the Democratic Party for the People (DPP), a rising opposition force. She filled her LDP leadership team with party elders on bad terms with Komeito.

Even when Komeito demanded substantial reforms to campaign finance, Ms Takaichi elevated a lawmaker who had been at the heart of fund-raising scandals. Komeito also recoils at her revisionist views on wartime history. Saito Tetsuo, Komeito's leader, opted for rupture.

For the LDP, the implications are stark. In the Diet's lower house, which selects the prime minister, the LDP has 196 of the 465 seats (Komeito would have added an additional 24). The three largest opposition parties—the Constitutional Democratic Party (CDP), the Japan Innovation Party (Ishin) and the DPP—control 148, 35 and 27 seats respectively, enough to band together to outvote the LDP. The three have never co-operated before, but Noda Yoshihiko, the leader of the centre-left CDP, calls it "a once-in-a-decade chance for a change of government." He has signalled a willingness to back Mr Tamaki as prime minister.

Yet forming a coalition will require bridging vast policy differences between the three parties and would result in an unstable minority government. A meeting between their parties' leaders on October 15th ended without agreement. The LDP is a more natural partner for centre-right Ishin; a meeting between Ms Takaichi and Ishin's leaders the same day seemed to go more smoothly. The Diet could vote on a new prime minister on October 21st.

Without Komeito, the LDP's centre of gravity will shift rightward. That may mean faster movement on security-policy reforms, which Komeito has often opposed, but also slower progress on improving social policy. The electoral map will also change. The LDP and Komeito co-ordinated to support each other's candidates, but may now compete. Their break-up makes Japan's messy politics even messier. ■

Asia | Code of misconduct

India’s bankruptcy laws are hobbling the country

Can a raft of changes help?

October 16th 2025

Soon after India’s bankruptcy code was introduced in 2016, it was hailed as the end of the “defaulter’s paradise”. The World Bank estimated that bankruptcies in the country dragged on for 4.3 years on average, more than twice as long as in China. The new regime promised to cut that to 270 days. Creditors, who at that time clawed back just a quarter of their dues, were meant to recover twice as much.

Nearly a decade on, the results are mixed. Of 8,000 firms that were admitted into the insolvency programme, over three-fifths were successfully dealt with. But three out of four cases exceed the deadline. Of the 1,900 ongoing cases, 78% are overdue beyond 270 days, up from 68% in June last year, according to CareEdge Ratings, a research outfit. Recoveries, at 32%, are only marginally better.

Part of the problem is judicial delay. “Our courts are not in a hurry”, says Abizer Diwanji of NeoStrat Advisors, a financial advisory firm. In theory, lenders can trigger insolvency proceedings for defaults over 10m rupees ($113,600). In practice, admission can take up to two years.

Infrastructure is rickety, too. Courtrooms are cramped, with broken air-conditioning and nowhere for litigants to sit. Judges are often incompetent and sometimes corrupt, grumbles one lawyer. “Retired bureaucrats are appointed rather than experts from the industry,” says Sumant Batra, an insolvency litigator. Such delays hurt failing firms and their would-be rescuers. Genuine bidders are put off by terms that no longer make economic sense.

Liquidation is no less painful. Even voluntary closures with clean paperwork and no legal disputes take around 4.3 years, nearly three of them to chase government clearances. Courts add their own twists. In May India’s Supreme Court scrapped JSW Steel’s $2.3bn takeover of Bhushan Power and Steel, citing procedural lapses—only to reverse its verdict in September following industry backlash.

The government proposed a raft of fixes in August. Cases are to be fast-tracked once a default is proven, to stop them languishing in courts. A “clean-slate” rule would wipe out old claims upon approval to deter litigious parties. A new out-of-court route aims to speed up settlements of genuine failures. M.S. Sahoo, a former chair of a bankruptcy watchdog, reckons that these amendments will fulfill the code’s “intended purpose”. About time. ■

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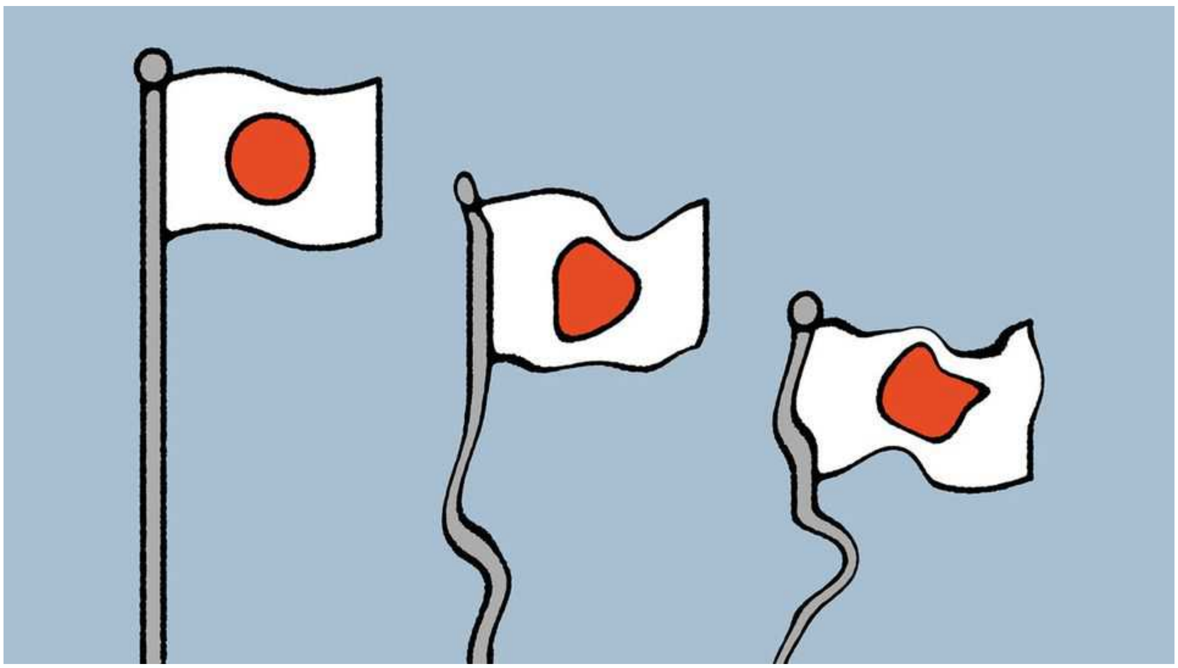
Asia | Banyan

Japan’s wartime history causes contemporary problems

Politicians are at loggerheads over how to remember the past

October 16th 2025



ISHIBA SHIGERU’S time as Japan’s prime minister is coming to an end. His party, the Liberal Democratic Party (LDP), is in crisis: following the departure of its long-time coalition partner, it risks losing control of the government. It might seem odd that, in such circumstances, Mr Ishiba recently chose to spend a precious day expounding his views on Japan’s 20th-century wartime history. But memories of the imperial past remain a flashpoint in Japan’s culture wars, influencing both foreign policy and domestic power struggles.

Battles over how to remember the second world war began almost as soon as the shooting stopped. While some in Japan saw imperial expansion in Asia and the decision to wage war with America as grave mistakes, others viewed it as an act of self-defence, or even heroic resistance against Western colonialism. In 1995—the 50th anniversary of the end of the second world war—Murayama Tomiichi, a socialist who led a short-lived coalition government with the LDP, issued the first official statement marking the occasion. He offered a “heartfelt apology” to the victims of Japan’s “colonial rule and aggression” in Asia.

Ahead of the 70th anniversary, Abe Shinzo, who was then prime minister and known for his revisionist views on history, assembled a panel of experts to help draft his statement. In a display of the pragmatism that characterised his second term in office, he defied his own right-wing supporters and again mentioned Japan’s “aggression”. At the same time, he sought to make his apology the last official one on the matter.

But Mr Ishiba, a long-time rival of Abe, wanted to reopen the issue this year, on the 80th anniversary. Facing resistance from within the LDP, he refrained from issuing a formal statement on the actual day, August 15th. But after being pushed out as LDP leader earlier this month in favour of Takaichi Sanae, a hardline conservative, he decided to have his own final say after all.

Presenting his ideas as personal reflections rather than a government directive, Mr Ishiba focused on a question previous statements had sidestepped: why were Japan’s leaders unable to avoid war? He focused on three factors: the lack of clear civilian control over the armed forces; a limp and divided government and parliament; and a media that fuelled nationalism. While Mr Ishiba’s treatise leaves much to be desired as a work of historical analysis, it resonates as a striking rebuke of his party’s choice of successor—and a trenchant warning about the risk of succumbing to illiberal nationalism today.

Ms Takaichi has diametrically opposite views of the past. She was among those who urged Abe not to use terms such as “aggression”. In a recent book of interviews Ms Takaichi argues that contemporary politicians have no right to condemn the wartime leadership. “Would it have been better if Japan had simply become a colony without any resistance at that time?” she says. “I doubt any politician today could definitively state what ‘other correct choices’ Japan could have made back then.” She has been a regular visitor to the Yasukuni Shrine, which commemorates Japan's war dead, including war criminals. The problem, she suggests, is not what those leaders chose to do, but that they failed: "If Japan had won the war, Japan probably wouldn't be blamed by anyone now, and those who started the war would be heroes."

Such revisionism is key to her appeal to conservative voters. The LDP chose Ms Takaichi in part to win back supporters who abandoned it for Sanseito, a hard-right populist upstart. While Sanseito's xenophobic rhetoric about foreigners has attracted the most attention, that goes hand-in-hand with ultra-conservative views on the wartime past. The party's leader posts wide-ranging "history lessons" on a popular YouTube channel; one lecture on wartime history promises to explore "the true history not found in history textbooks". Sanseito issued its own statement on the 80th anniversary—which, in keeping with the nomenclature of the wartime regime, it calls the Greater East Asian War.

Such debates are not academic. When historical revisionism in Japan rises, contemporary relations with South Korea and China, both victims of Japanese imperialism, tend to suffer. Among the main reasons that Komeito, a pacifist party, suddenly abandoned its alliance with the LDP is Ms Takaichi's stance on such issues. Whoever emerges as Japan's next prime minister will find that the battles over the past continue to shape the country's future.■

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China

China | Autonomous driving

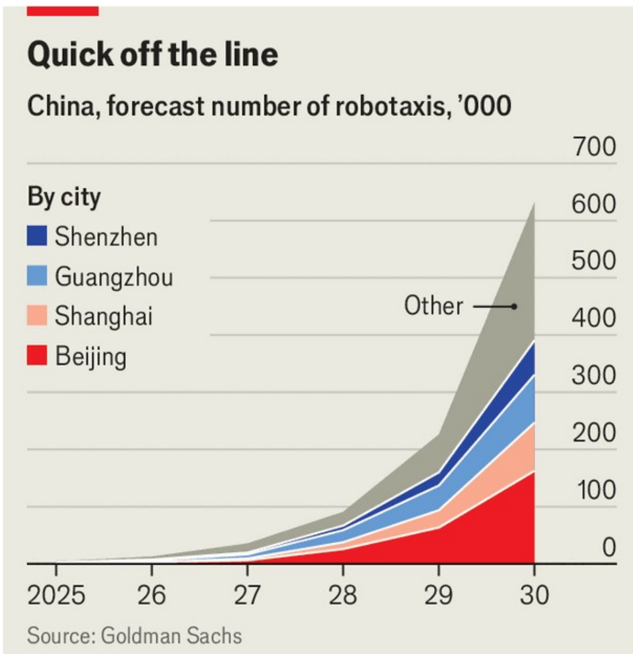
The secret fuel powering China's self-driving cars

Responsive regulation—and lots of experiments

October 16th 2025

IN MARCH THIS year a student driving down a motorway in the Chinese province of Anhui turned on an autopilot system built into her car which is designed to assist—not replace—human drivers. Her SU7 electric vehicle (made by Xiaomi, a Chinese tech giant) reminded her to keep her hands on the wheel; eight minutes later, it warned of an obstacle ahead. She took control but the car crashed within seconds, killing all three of the people inside. Images of the wreckage spread across China. They sparked heated discussion about China's fast-and-furious roll-out of self-driving tech, and the pros and cons of the way it is governed.

China is building a decisive global lead in getting cars with autonomous features on the road. Motoring nerds divide cars into six categories. A vehicle at level zero has no automation; those at level five do everything by themselves. In the consumer market, much of the attention at present is on tech that matches level two or level three. An L2 car can steer, accelerate and brake by itself, but requires a human driver's sustained attention. A driver in an L3 car can check e-mails and watch TV, so long as he or she is ready to take over swiftly in an emergency.



These days more than half of new cars sold in China are classed as L2. Morgan Stanley, a bank, estimates that by 2030 China alone will account for half of the world's L2+ cars, an especially clever subset. But China also looks ahead of other countries in its roll-out of "robotaxis": driverless cars classed at L4 that are permitted to ferry around passengers, albeit within limited areas. Goldman Sachs, another bank, expects China will have 5,000 of these on the road by the end of this year and 632,000 by 2030 (see chart)—far outpacing America's 1,800 and 35,000, respectively.

How has China moved so fast? In autonomous driving, as in so many spheres of technology, hyper-competition and strong supply chains enable the "China speed" foreign firms covet. China's self-driving dreams have also been brought closer through strong government backing, censorship of news related to accidents and a population optimistic about technology. But there is another factor which, though crucial, tends to get less attention: differing approaches to regulation. In China, myriad low-risk local pilot schemes have helped engineers and policymakers gain experience. Regulators watch carefully to see where the technology is going before they cement national rules.

China's road-traffic safety law still assumes that all cars have fully active human drivers. But leaders in Beijing, the capital, have pulled plenty of other levers to give the industry room to develop. They have set gutsy targets for adoption of autonomous features and also pumped out much useful guidance. National standards that will apply to L2 and L3 systems are still in draft form (even though lots of L2 cars are already on the road). But piecemeal standards on software updates and data recording take effect in January.

If the national government sets the direction of travel, it is in local pilot schemes that the rubber meets the road. By 2024 more than 32,000 kilometres of road across China had been approved for testing autonomous driving of some sort. In Beijing, by the end of 2023 techies had clocked up 39m kilometres of testing, mostly on the capital's outskirts. Wuhan handed out its first licences to fully driverless robotaxis in 2022; now passengers are able to hail them on one-third of its streets. This kind of real-world experience is crucial for ironing out kinks before technology goes national. "There's more room for trial and error. If problems arise, you can reverse course quickly," says Zheng Lin, a law professor at Dalian Maritime University, who studies autonomous driving.

The pilot schemes are not just a test bed for engineers. They promote innovation in rule-making too. Local officials in China are keen to make their hometowns hubs for new technologies, so as to attract investments and boost their own careers. To enable this, more than 50 cities have written their own competing policies on things such as liability in accidents, guidelines for responsible testing, and what subsidies they will make available to firms that test in their neighbourhoods. Even boosters admit that this has become a touch confusing. But it is nonetheless providing plenty of good and bad examples for lawmakers to learn from.

All this contrasts with the more cautious approach in Europe, where carmakers grumble about the obstacles to testing on public roads. In China a “‘test first, regulate later’ model helps regulators and industry learn together and speed up innovation”, says a spokesperson for Volkswagen Group. The comparison with America is a little less stark: use of L2 systems, such as Tesla’s “Autopilot” and “Full Self-Driving”, is rising. But American automakers face a higher risk of costly lawsuits, public protests and government investigations than do their peers in China.

Will China slow down? Since the start of the year, regulation of L2 systems has been tightening. In February officials said automakers would have to do more testing and get approval before sending remote updates to systems that are already out in the wild. This ruling aims to reduce the risk of bad fixes, and give carmakers more incentive to ensure their technology is top-notch when first sold. The well-publicised accident in Anhui has given sceptics ammunition (even if its precise causes do not yet seem to have been clearly ascertained). The deaths should “force all car companies to stop their fanatical promotion of intelligent driving”, read a headline from Vista, a Chinese magazine.

Weeks after the crash, China’s industry ministry gathered 60 automakers and sector representatives to warn them against marketing their L2 driver-assistance systems as “autonomous driving”, for fear of misleading drivers into thinking they can stop paying attention. Executives scrambled to comply before a big auto show. In September regulators published draft national safety standards that all L2 cars will soon have to meet; it may require cars to turn off the driver-assistance system if they detect the driver has become disengaged. That same month Xiaomi recalled 117,000 SU7 cars because, according to regulators, the driver-assistance system “may not be able to adequately recognise, warn against, or handle extreme scenarios”.

The Communist Party is navigating a narrow pass. It is adamant that China must dominate the world’s most important new technologies. But it also worries that attention-grabbing accidents will threaten faith in the party, which it prizes above all else. Its approach has been to give automakers more than the usual space to innovate, but also to have regulators ready to hop into the driver’s seat if things look like they are veering off course. ■

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China | Scammers

How Xi Jinping's war on corruption has driven more of it

Crooks impersonating party officials promise safety for cash

October 16th 2025

China's Communist Party likes to crow about its efforts to protect the public from scammers. Hundreds of thousands of them have been arrested in a sweeping crackdown this decade on rackets that are conducted online and by phone. But Chinese leaders also worry about another kind of swindle: one that primarily targets the powerful. In recent years, senior officials have often been exposed as dupes of "political scammers". State media says that the problem is rife.

Under Mao, calling someone a political scammer was a way of insulting a rival. The term referred to someone who was feigning loyalty to the chairman. In recent years the label has been revived with a different meaning. It is now used to describe con artists who pretend that they are politically well-connected in order to make money. They often promise that they can help gullible officials get promoted, in exchange for some combination of gifts, favours or cash. Cases are said to surge when the party conducts its five-yearly leadership shake-ups—a process that involves hundreds of thousands of jobs being shuffled at every level. China will enter such a period next year in the build-up to the party's 21st congress, which is likely to be held in the autumn of 2027.

According to state media the party chief, Xi Jinping, first mentioned political swindlers publicly in 2023 when he demanded a "severe strike" against them. The party's anti-graft agency described the scammers as "rampant", calling them "parasites on the chain of corruption". That year the party introduced a new rule threatening punishment not just of the scammers but of the officials they hoodwink. One cannot be conned by a swindler—the thinking goes—unless one has been trying to gain a more senior job, or other benefits, by underhand means.

But some officials are clearly not getting the message. On October 9th a former chief of the party's Organisation Department in the eastern city of Anqing was expelled from the party for various offences, including "making friends with political scammers". He would have been a useful friend to make: the job he used to hold controls local appointments.

The people who have been targeted by scammers even include a few who are close to the very top. One example is Fu Zhenghua, a former justice minister who had also served as China's second highest-ranking police official. He was given a suspended death sentence in 2022 for corruption. Mr Fu's offences allegedly include conducting years-long relationships with political scammers. One of these crooks was a retired police officer who had falsely claimed to have connections who would be able to advance Mr Fu's career. Another was masquerading as a senior adviser to Chinese leaders. And according to state media, both of the fraudsters used the reputations they had themselves gained from being seen as chums with Mr Fu to facilitate their own business deals.

Stories such as this hint at the insecurity of senior cadres as they try to navigate a murky political system where cultivating good guanxi, or personal relations, is seen as vital for success. In May Wang Yilin, a former boss of China National Petroleum Corporation, a state-owned energy firm, was sentenced to 13 years in prison for accepting millions of dollars in bribes. Some of the money was in return for jobs he secured for others. He was also alleged to have been taken in by a scammer who claimed to have inside knowledge of Mr Wang's own likely promotions.

Mr Xi's battle against the con men is part of his relentless war against all forms of corruption; so far millions of officials have been punished. But this has created new opportunities for the scammers. State media say that fraudsters are banking big sums by promising frightened officials that they will use their purported connections to get graft-busters off their backs. "Some leading cadres…regard political scammers as a comfort and a lifeline," wrote two Chinese scholars in an academic journal in August. Some scammers end up so well connected that they come to wield genuine political clout.■

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China | Streaming services

China is rounding up Christian leaders

It is desperate to squish online worship

October 16th 2025

BEFORE MIDNIGHT on October 10th the electricity to Wang Cong's flat in Beijing was cut. Ms Wang, a pastor in one of China's unregistered Protestant churches, was at home at the time with her husband and three-year-old daughter. Plain-clothes police officers posing as repairmen forced their way in. The men turned her apartment upside down and eventually dragged her off. She is one of about 30 pastors and other leaders associated with the Zion Church who have been detained this month in operations that spanned nine cities. Bob Fu of ChinaAid, a religious charity, calls it the most expansive crackdown on a single church for some 40 years.

Since pivoting away from Mao's ruthlessly oppressive policies in 1979, the Communist Party has allowed some religious worship in state-run congregations. But most of China's Christians balk at following state-approved clergy; many choose to join unregistered churches. Efforts to disband those groups have repeatedly backfired: rather than bringing churches under party control they have pushed them online, which in turn has helped spread the churches' teachings more widely around the country. That seems not to have chastened frustrated officials, who are only expanding their crackdown.

Unregistered churches inhabited a legal grey area until 2018, when new rules more explicitly confined the faithful to government-sponsored pews. This reform was part of efforts by Xi Jinping, China's president, to "sinicise" religious groups of all types. He has called on Communist Party members to be "unyielding Marxist atheists" and to seek "spiritual baptism" in the party's historic achievements.

At the time the laws were tightened, Zion Church had a congregation of around 1,400 people in Beijing. Jin Mingri, its founder (pictured), refused to let the government place cameras inside the building. The premises was closed, the church's property seized, and Mr Jin was forced from the capital. He moved to the southern city of Beihai, where he recorded sermons and distributed them online, says Mr Fu. This kind of material is useful to Christians who meet in underground "house churches" hosted in believers' living rooms. They listen together to sermons, as one would to a podcast.

These days Zion operates a "hybrid" model—in which services are live-streamed to a network of small congregations. That has helped it expand, says Sean Long, its acting lead pastor (Mr Jin was also taken by authorities on October 10th). Its membership is now split across some 100 small groups located in over 40 cities. Its followers have found creative ways to worship together, including listening to sermons while walking in public parks, or conducting services on rented buses as they circle the city. Each day its pastors broadcast a morning prayer at 6am to 7,000-10,000 worshippers.

Detention notices given to Zion pastors' families and seen by The Economist cite "illegal use of online networks" as the cause of the arrests, a crime that carries a maximum punishment of seven years in prison. That suggests the round-up is enforcing an edict published by the government's religious-affairs department only in September, which in effect forbade clergy from preaching online, unless their sermons "love the motherland, uphold the leadership of the Communist Party of China, [and] uphold the socialist system". Zion is far from the only church now coming under pressure. Earlier this year, ten members of a different Protestant group were sentenced to prison, including one pastor who was given 15 years in jail.

Last year officials of China's state-run Protestant church passed resolutions that grumbled about the limited progress they had made in Mr Xi's campaign to bring religious groups under their control. Mr Xi seems unimpressed, too. In September he convened the elite Politburo for a study session on the matter. During the session he demanded "strict law enforcement" and urged officials to help religious types "establish a correct view of the country". China's Christians are unlikely to buckle. They recognise a higher power. ■

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China | Chaguan

Consequences be damned. China loves its own economic model

Foreign concerns about a deluge of Chinese goods fall on deaf ears in Beijing

October 16th 2025

THE BIG debate about the Chinese economy has long pitted those who see it as a bubble waiting to burst against those who judge it a sustainable success. A new debate is now emerging, which is potentially far nastier. Much of the world falls into one camp: admiring China's accomplishments, but also reeling from a deluge of Chinese exports. In the other camp is China, utterly convinced of the rightness of its economic model.

This debate is not so much about what the future may bring but about defining the economy's basic condition today. The external view, held by many foreign officials and economists, is that China is beset with challenges, from persistent deflation to a collapsing property market and anaemic consumer spending. Exporting the fruits of industrial overcapacity to the rest of the world is seen as a lifeline. The official Chinese view, by contrast, is that these problems are sideshows to the main event: an economy breaking through to new technological frontiers.

This is not an abstract disagreement. It helps explain the ferocity of the trade war between America and China. Prominent members of the Trump administration believe China's economy is so weak that tariffs and export controls will have it crying for mercy. Mr Trump himself flirts with this: on October 12th he posted that Xi Jinping, China's leader, does not want a "depression for his country". Chinese officials, by contrast, project total confidence in their economy. It is as if each side inhabits a different reality.

A recent set of articles in the People's Daily, the Communist Party's main newspaper, offers a window onto the Chinese view of this debate. Over eight days, from September 30th to October 7th, it ran editorials about the economy—a prelude to a meeting later this month when senior cadres will draw up the country's latest five-year plan. They appeared under the pen name Zhong Caiwen, indicating that they represent the views of the party's main body for setting economic and financial policy. Put simply, the editorials were authoritative. And they were uncompromising.

The various arguments, played out over more than 10,000 characters, boil down to four messages. First, contrary to naysayers, the editorials say that China's economy is in great health. It is in the midst of a transition from traditional sources of growth—a reference to labour and heavy investment—to new ones, especially innovation and green tech. The fact that China leads the world in international patent applications (70,160 in 2024, 30% more than America in second place) is furnished as evidence.

Next, the editorials insist that China is profoundly resilient. They note risks, including American protectionism and weak consumer demand at home, but treat them almost as inconveniences. One editorial repeats Mr Xi's line that "China is an ocean, not a pond"—big enough, that is, to cope with anything.

Third, the editorials portray China as providing certainty to the rest of the world in the form of policy continuity and a vast market. China has long been an engine of growth but now it is also a “stabilising anchor”. That provides an obvious contrast with America’s new love affair with tariffs.

A final argument is that China’s systemic advantages are what has made it so competitive internationally. The editorials reject the accusation that China has subsidised its firms in order to dominate global supply chains. Rather, export strength is a testament to its governance, its sheer scale and its hard-working people. It is a “contribution, not a threat, to the world”.

It would be a mistake to dismiss these editorials as empty propaganda. China, of course, has much to be proud of after four-plus decades of rapid development. Its capacity for innovation is extremely impressive, as is its industrial strength. China is in a better position to withstand American pressure today than just five years ago, during Mr Trump’s first trade war. Moreover, the editorials matter because they appear to reflect the deeply held beliefs of Mr Xi, judging from his speeches and writings over the years.

Yet that makes their blind spots all the more alarming. It is pure hubris to brush aside China’s domestic weakness as a mere squall buffeting a giant economy. For years property (broadly defined) accounted for about a quarter of China’s GDP. Its malaise is painful and will probably be long-lasting; by weighing on both economic activity and wealth, it has become a drag on incomes and consumer spending. An obvious solution would be to use the tax and benefits systems to boost consumers’ incomes. But that runs up against Mr Xi’s aversion to “welfarism”. It also does not square with his belief that innovation has picked up China’s growth baton from heavy investment. Alas, the income gains benefit a narrower slice of the population. You cannot eat patent applications.

Even more worrying for the rest of the world is China’s refusal to grapple with industrial overcapacity. It does not matter whether Chinese intentions are defensive (blunting American pressure) or offensive (controlling global choke points). High production of cars, solar panels and the like is the result of an economic model predicated on excessive investment in these targeted sectors, especially when so many other policies also restrain consumption. Supply is bound to outstrip demand. Struggling foreign companies can expect little sympathy from China.

One boast in the editorials was telling: that China is the only country that hosts every category of industry, as defined by international standards. This, in the official view, makes China the ultimate guarantor of global supply chains and economic development. But a guarantor also has blocking power, as seen in the way China has wielded its dominance in rare earths to gain leverage in its trade war with America. China wants to present itself as a force for stability. It often looks more like a force for itself. ■

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Middle East & Africa

Middle East & Africa | Embrace the chaos

What Donald Trump gets right in the Middle East

It's not what you think

October 16th 2025

Many american presidents try to ignore the Middle East. Barack Obama wanted to pivot to Asia; Joe Biden told advisers to keep the region off his desk. But it is not so easily ignored. The chaos of the Arab spring defined Mr Obama's first-term foreign policy, while the effort to negotiate a nuclear deal with Iran did the same in his second. Mr Biden's legacy will forever be shaped by his response to Hamas's massacre in Israel on October 7th 2023.

Donald Trump could not ignore the region: Gaza demanded his attention. Nine months into his second term, he has done a creditable job of handling it. The truce he negotiated in Gaza is not quite the "eternal peace" he makes it out to be. But it is a real achievement, one that eluded his predecessor, to be added to the Abraham accords, in which four Arab states normalised ties with Israel during his first term. It is one of three big decisions of late where Mr Trump broke with the usual American consensus and achieved what seems, at least in the short term, like success.

Supporters argue that he has brought a unique approach to the Middle East. They are right—but for the wrong reasons.

One argument is that Mr Trump succeeds because he prefers "deal guys" to traditional diplomats. Where the pointy-headed experts from Foggy Bottom get bogged down in details, the Wall Street wheelers and dealers get things done. That is only partly true. Months of meetings by his dealmaker-in-chief, Steve Witkoff, were crucial in building trust with the Arab states. But he could only deliver a ceasefire in Gaza when his boss decided to raise the pressure on Binyamin Netanyahu, the Israeli prime minister. Nor was he able to negotiate a nuclear deal with Iran.

Another claim is that Mr Trump gets results by being unpredictable. Inconsistency is not always a virtue in foreign policy, though. If he had held Israel to the previous ceasefire, in January, the Gaza war might have ended seven months ago. Instead he proposed turning the enclave into a beach resort. Mr Netanyahu took that as a green light to resume fighting in March.

What Mr Trump gets right in the Middle East is not his choice of personnel or his chaotic personality. It is that he seems to understand the limits of American power there. That may sound paradoxical. The president likes superlatives. He talks about America as if it were a world-bestriding colossus. In the Middle East, however, he does not act that way. He is willing to tolerate uncertain outcomes in a way that few other American policymakers would be.

Take the strike he ordered on Iran's nuclear facilities in June. America's allies in the Gulf—most of them no friends of Iran—opposed that decision because they worried about the consequences. So did many of Mr Trump's voters. What was meant as a one-off strike could have snowballed into a bigger war: after decades of messy American interventions in the Middle East, mission creep was a valid fear.

Mr Trump pre-empted that possibility. He declared that Iran's nuclear programme had been "obliterated" even before the Pentagon had time to conduct a damage assessment. Then he forced Israel to wrap up its own unfinished bombing campaign. Iran made do with perfunctory retaliation against the American air base in Qatar. The war was over before anyone knew if it had really achieved its goals.

He embraced similar uncertainty in Syria. America imposed sanctions on that country to punish Bashar al-Assad's regime for its brutality. When rebels overthrew the dictator last year, those sanctions became an obstacle to rebuilding. Some in Washington wanted to leave them in place, however, until Ahmed al-Sharaa, the interim president, fulfilled a litany of conditions.

That would have been a conventional American policy, cautious and commanding. But it would have left America in charge of supervising a messy democratic transition, something it has not done well elsewhere in the Arab world. Mr Trump, to his credit, decided America should simply get out of the way. "It's their time to shine," he said in May, when he announced that he would lift the sanctions altogether. "Good luck, Syria." The job of shepherding the transition would fall to countries in the region with a greater stake in the outcome.

The Gaza truce followed the same pattern. Both Israel and Hamas rejected large parts of Mr Trump's peace plan. He could have haggled for months to overcome their objections. Instead he overlooked them: he rammed through a narrow deal and left the tricky details for another day.

For decades American presidents have tried to impose sweeping change on the Middle East. They pursued regime change through force of arms in Iraq, Libya, Syria and Yemen; pushed for democratic reforms elsewhere; and sought comprehensive solutions to the Israeli-Palestinian conflict. Even Mr Trump, in his first term, took a maximalist approach towards Iran and went on a quixotic quest for the "deal of the century" in the Holy Land.

His second term seems to have brought a more hard-headed view of what America can and cannot do in the Middle East. He also has the braggadocio to sell it. No other president would portray a half-baked ceasefire as peace in our time.

Historians may judge it was not. Perhaps the strike in June will turn out to be the moment Iran decided to build a bomb in secret. Mr Sharaa could prove to be a visionary democrat, or a bearded version of Mr Assad. A tolerance for messiness could prove to be the strength of Mr Trump's Middle East policy—or its weakness. ■

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Middle East & Africa | The start of peace

Fighting flares in Gaza as Donald Trump says "The war is over"

Clashes between Hamas and armed gangs threaten his peace plan

October 16th 2025

IT TOOK donald Trump less than 12 hours on the ground to bring peace to the Middle East. At least this is how his whirlwind visit to the region on October 13th was framed. It began with his arrival in Israel as the last living hostages were being released from Gaza and ended with him on a stage in Sharm el-Sheikh, in Egypt, flanked by a choir of Arab and Western leaders, with the slogan "Peace in the Middle East" as his backdrop.

But during his short time in Israel and Egypt, the president and his counterparts failed to provide any new details on how the next stages of his 20-point plan, which are meant to guarantee the stability, security and reconstruction of the devastated strip, are to be achieved.

Perhaps the most important thing Mr Trump did during his visit was to make clear to Israelis that the war has ended. In a long and at times rambling speech to the Knesset, he told Israeli parliamentarians that it was "not only the end of a war, this is the end of the age of terror and death".

The Israeli public hardly needed to hear that. In surveys, over 70% of Israelis support Mr Trump's plan. But since it was agreed, hard-right members of Israel's ruling coalition have openly expressed their hope that the ceasefire will collapse and that Israel will resume fighting with the aim of establishing a permanent Israeli presence in Gaza. Even Binyamin Netanyahu, the prime minister, despite fully endorsing Mr Trump's plan, has been reluctant to spell it out to his partners, repeatedly telling Israelis that "the battle isn't over". But Mr Trump is determined to claim this ceasefire as a personal victory and has no intention of allowing Israel to break the truce, as it did in March.

And yet even as he was celebrating his victory lap, Hamas was trying to reassert its control over Gaza. The first challenge to the truce came as Hamas handed over only nine of the 28 bodies of deceased hostages. There are fears that Israel could use this as a pretext to resume fighting. Israel Katz, the defence minister, accused Hamas of "a clear infringement" of the deal and warned it would be "answered in kind". Mr Netanyahu is unlikely to cross the president by going back to war, but Israel could again limit the flow of aid to Gaza.

The Islamist militants are already busy trying to create a post-war reality in Gaza. Hamas has deployed thousands of armed men to patrol the streets. Details are patchy, but over the past few days they have been involved in fierce clashes with other Palestinians.

Hamas claims it wants to do two things: secure the distribution of aid in Gaza, and crack down on Israeli-backed militias, to which it has issued an ultimatum to surrender their arms. It is struggling with the former. Hundreds of lorries have entered Gaza since the ceasefire began on October 10th but are sometimes then mobbed and looted. Palestinians had hoped that the ceasefire might bring a swift end to months of hunger. But so far, many say it remains a struggle to find food.

As for the latter, Hamas has detained several people linked to the so-called Popular Forces, a militia run by a gangster named Yasser Abu Shabab. The Popular Forces have received weapons from Israel, which allowed them to operate unmolested in parts of Gaza during the war.

Yet the existence of some bona fide collaborators has given Hamas an excuse to target anyone who might oppose its rule. The Sahm ("Arrow") unit, an internal-security force, has murdered and tortured Hamas's critics throughout the war. It has redoubled its efforts since the ceasefire took effect. The group has circulated videos of masked gunmen shooting bound captives.

The heaviest fighting in Gaza city in recent days has been between Hamas and the Doghmush clan, an influential family that has long resented Hamas's control of Gaza—but refused recent Israeli offers of support. Sources in Gaza say dozens of members of the clan have been killed or detained; their homes were set ablaze. Naim Bassem Naim, the son of a prominent Hamas leader, was reportedly killed in those clashes. So was Saleh al-Jafarawi, a well-known propagandist for Hamas.

Mr Trump seems unbothered. At an event at the White House on October 14th he suggested that Hamas could not yet disarm because it needs to "take out a couple of gangs that were very bad". He did, however, go on to insist that "if they don't disarm, we will disarm them. And it'll happen quickly and perhaps violently."

Palestinians are less sanguine. Anwar Rajab, a spokesman for the Palestinian Authority's security forces, said Hamas was trying to show that there could be no stability in Gaza unless it was in charge. "It is laying the foundation for civil war in the Gaza Strip," he said on television.

All this points to the urgent need for a post-war security force, as Mr Trump's plan envisions. Gaza is awash with guns and desperate people, and Hamas has no interest in relinquishing its own weapons. Unless the world comes up with an alternative, what lies ahead is probably more repression and chaos. ■

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Middle East & Africa | After Hamas

The new players who could run Gaza

Tycoons, gunmen and politicians are eyeing the enclave

October 16th 2025

Such is the desolation there seems little left to fight over. “Worse than Hiroshima, worse than Dresden,” says a Palestinian in Gaza. And yet no sooner had a ceasefire been declared than the battle for control of post-war Gaza began. It has started on the ground, where Gaza’s clans are fighting turf wars with Hamas, killing scores in a day. But far beyond Gaza’s borders a host of politicians, contractors and foreign consultants are jostling for influence, too. They are eyeing up the $70bn that the un says is needed to rebuild the devastated strip, and seeking the regional and Western backing required to run it.

For Palestinians in Gaza all this has echoes of Israel’s withdrawal in 2005. Their leaders promised to turn the strip into Singapore. Instead, it swiftly descended into what Palestinians call falatan amni, or security chaos. Rival factions and clans looted, kidnapped and shot at each other. Hamas seized control in the end, tossing their rivals from rooftops. Two decades of mostly uncontested rule followed.

Despite ostensibly agreeing to cede control, Hamas is, again, now the strongest contender. With fewer high-rises in Gaza today, its preferred deterrence is summarily executing rivals in public. The largest clan can muster 200 fighters; Hamas claims to have sent 7,000 onto the streets since the ceasefire. The Mujayda clan killed 11 Hamas fighters on the eve of the ceasefire, but abandoned by Israel, it gave up its weapons to the Islamist militants on October 14th. Criticism of Hamas, increasingly common in Gaza during the war, has faded as fear of retribution returns.

Like Israel, Hamas has so far only signed up to the first phase of President Donald Trump's 20-point plan for peace. And in this conflict, interim arrangements have a habit of sticking. "Until we agree on the second phase, Hamas continues to rule," says a negotiator. Even Mr Trump appeared to accept this. "We gave [Hamas] approval for a period of time," he said on his flight to the Middle East.

Some in Israel, too, might see benefits in seeing their enemy retain control of Gaza, as they did after 2007. As before, they might argue that Hamas's rule prevents the resumption of a political process towards a Palestinian state. It might also give Israel a good reason to keep pummelling Gaza.

Yet the war has changed the calculations for Hamas. In 2007 Gaza had cities, universities and hotels. It is now a wasteland. If it is not rebuilt, the group will lose what little popular support it still has. But those who might pay for that reconstruction are unlikely to do so if Hamas is in charge. Suhail al-Saqqa, a Gazan construction magnate says he won't shift "a stone" if they are running things.

That might just persuade Hamas to cede power to "a technocratic, apolitical Palestinian committee" overseen by an international "board of peace", as set out in Mr Trump's plan. Hamas, Israel and their mediators have agreed on at least 14 names for the Palestinian committee.

They have yet to be released, but Majed Abu Ramadan, a doctor and minister of health in the Palestinian government of President Mahmoud Abbas in the West Bank, has been mentioned. He comes from Gaza, and one of his brothers runs Gaza's chamber of commerce. Nasser al-Kidwa, the nephew of the first Palestinian president, Yasser Arafat, was expelled from Fatah, Mr Abbas's political faction, in 2021. He reconciled with Mr Abbas in October and has also been tipped as a Palestinian representative on Mr Trump's board. Their appointments "would be like Fatah coming back to Gaza", says an official (Hamas ousted Fatah in Gaza in 2007). The ageing Mr Abbas himself may yet hanker after a role. Mr Trump snubbed him by denying him a visa to the un General Assembly in New York last month. But in Sharm el-Sheikh he seemed to have reconsidered; the two men shook hands and chatted.

The success of any new governing body will depend in large part on the security situation. That will rely on a new Palestinian police force backed by an "international stabilisation force" (isf). Egypt is training the force and will commit the bulk of troops to it, says a Palestinian close to deliberations. Yet in this, too, Hamas's role will be crucial. If the isf provides a buffer against Israel, Gaza's armed groups, including Hamas, could accept it, says one of the leaders of a group that fought alongside Hamas. But if the force's focus is on disarming Hamas and destroying its military infrastructure, including its tunnels, as set out in the Trump plan, Hamas and others have many ways to act as spoilers.

Get-arounds have been suggested. Britain has offered to help find a middle path with its experience of decommissioning in Northern Ireland. Weapons could be handed over to a third party, not Israel, says a Western diplomat. Hamas's fighters could be trained and integrated into the new police force. And like the Irish Republican Army and Sinn Féin, Hamas might reinvent itself as a new political body. "You can't afford to leave them out," says the diplomat. Some gunmen seem amenable. "Gaza needs a break and a respite," says Jamil Mazhar, the deputy leader of the Popular Front for the Liberation of Palestine, another armed group, and one of those negotiating with Hamas.

Behind the gunmen and the politicians, the contractors are scrambling for advantage. Several have already set up shop in Cairo, the gateway for Gaza's reconstruction efforts. Some remain sceptical of international efforts to rebuild Gaza. "We'll oppose the international trusteeship unless they go through us Gazans," insists Zaher Kyle, a civil engineer from Gaza now in Cairo. Other contractors welcome the clout Mr Trump brings to raise funds and cut through the politics. "Don't talk to me about Jerusalem or statehood. It's about how to be a human being again in Gaza," says Mr Saqqa. ■

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Middle East & Africa | Between the fire and the sea

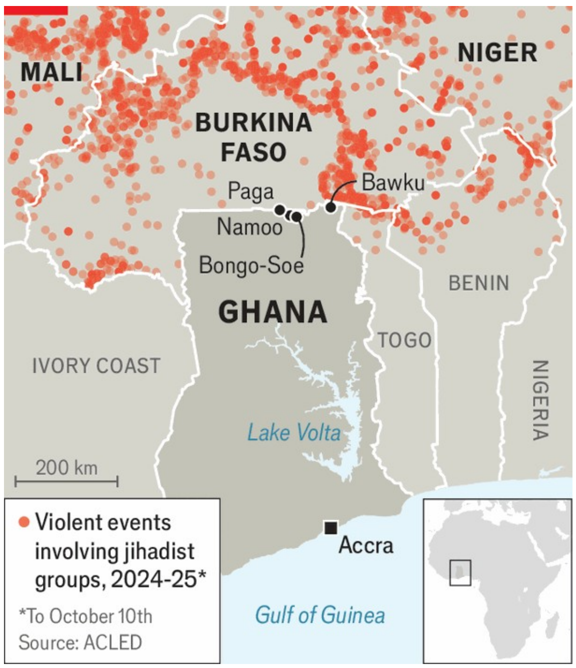
Why Ghana is safe from jihadists, for now

A mix of luck, competence and indifference has deterred Sahelian militants

October 16th 2025

Bongo-Soe, explains the town’s chief, is “the end of Ghana”. No more than four kilometres of lawless scrub lies between his palace and the border with Burkina Faso (see map). Few places in the west African country are more exposed to attacks from jihadists running rampant in the Sahel to the north. Yet the last time Chief Naba Amaltinga sensed a serious threat was about three years ago, when he says the militants used his district as a base for raids across the border. As soon as he raised the alarm the army stormed the forests and forced the fighters to retreat. No jihadists have bothered the area since then.

It is not just Bongo-Soe. Jihadist rebels have in recent years swept through Burkina Faso, Mali and Niger and are menacing their coastal neighbours. But Ghana remains unscathed. More than half of all terrorism-related deaths globally in 2024 were in the Sahel; not one was in Ghana. This makes it a vital bulwark against the jihadists' march across west Africa. But it raises the question why the country has been spared, and how long that can last.



"We've been on high alert for quite a long time," says Wisdom Lavoe, deputy police chief of Ghana's Northern Region. Ghana shares a 600km-long border with Burkina Faso; the junta there controls barely half the country. A year ago a leader of Jama'at Nusrat al-Islam wal Muslimin (JNIM), a jihadist group linked to al-Qaeda and the most powerful in the Sahel, said it aimed to expand into Ghana, Togo and Benin. This year Benin experienced two of the deadliest attacks in its history, while Togo counted a record number of attacks in 2024. Even Ivory Coast, the region's most prosperous economy, was attacked as recently as 2021.

One possible reason for Ghana's stability is geographic luck of the draw. The borderlands straddling Togo, Benin and their Sahelian neighbours consist of vast, ungoverned forests that have become a hideout for militants and smugglers. Nowhere in Ghana is that inaccessible to the state.

Another is the relative professionalism of Ghana's security forces. The army has recently built new bases in the north and stepped up border patrols. Local residents, by and large, trust the soldiers and are willing to help them. "Everybody's eyes and ears are alert," says another local chief. In all areas The Economist visited, interviewees told stories about locals discovering suspected militants and handing them over to the army or police.

Yet the most important reason Ghana has not been attacked is that JNIM has chosen not to, perhaps preferring it as a market and safe haven. "This is the place where the bad guys come to regroup, grab some resources, gain some respite—and go back," says Castro Senyalah, a local journalist. Some are said to own houses in Ghana where their families live; profits from cattle theft, a big source of JNIM's income, depend on Ghana's livestock markets. A ten-kilometre stretch of road south of the border town of Paga had 25 fuel stations. Locals say motorbikes loaded with petrol cross into Burkina Faso every day.

Local leaders and the government largely let the fighters be as long as they do not cause trouble in Ghana. "We are very diplomatic…we will only attack them when they are violent," says Chief Amaltinga.

The calm may not last forever. Eliasu Tanko, a local security expert, notes that there have recently been attacks on the Burkinabé side of the border near Bawku, a town notorious for its violent local conflicts and illegal arms trade. In September Ghana's army said it had ramped up patrols in Bongo-Soe in response to reports of cross-border infiltration. The outlook is "unpredictable", says Lieutenant Colonel Kakra Sasu-Antwi of the 11th Mechanised Division, which patrols the area.

Though Ghana is richer and better governed than its neighbours, conditions in the far north are similar to those across the border. Local conflicts of the sort jihadists are often skilled at exploiting are common. Your correspondent drove past the remains of a devastated and deserted village. "We don't have serious internecine wars," says Vladimir Antwi Danso, dean of the Ghana Armed Forces Command and Staff College. "But we are getting there."

The Fulani, a minority ethnic group scattered across west Africa, are not killed by the army for allegedly supporting insurgents, as is common in Mali and Burkina Faso. But nor are they well integrated. “If there was an attack in Ghana, the Fulani would probably be singled out,” reckons James Courtright of the Clingendael Institute, a Dutch think-tank. That could prove a boon to JNIM recruiters, who so far have failed to attract many Ghanaians.

Compared with neighbouring Ivory Coast, the government has invested less in infrastructure or job-creation programmes to discourage young men from joining militant groups. The north is home to legions of unemployed youngsters “who feel their lives to be useless”, worries Thomas Kwelese Bayeriwe, a local assembly member in Kayoro district.

Ideally, countries in the region would band together to tackle the crisis. But since 2020 military juntas have seized power in Mali, Burkina Faso and Niger. In January the three countries quit the Economic Community of West African States, the main regional bloc.

John Mahama, Ghana’s new president, has tried to patch things up with them to make common cause against the jihadists. His security advisers say that Ghanaian soldiers co-operate closely with their counterparts in Burkina Faso, sharing intelligence and sometimes allowing them to cross the border to retrieve suspects. They would also like to establish a joint operations centre on Burkinabé soil.

Here, though, lurks a dilemma. Until now the jihadists have spared Ghana. A less hands-off approach to their presence could change that. Yet in the long term doing nothing may strengthen them. Adongo Veronica, a mother in Namoo, believes that “God is chasing the terrorists away.” Eventually Ghana’s government, however reluctantly, may need to do that job. ■

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Middle East & Africa | Malagasy mayhem

Gen Z revolution or military coup in Madagascar?

Men with guns now run the country

October 16th 2025

"This is not a coup," said Michael Randrianirina, after launching a coup in Madagascar on October 12th. A colonel in an elite military unit known as CAPSAT, Mr Randrianirina appointed himself interim president on October 14th, saying that he was answering the "incessant call of the Malagasy people". Over the past few weeks protesters have taken to the streets of Antananarivo, the capital, to demonstrate against Andry Rajoelina, hitherto the president. Mr Rajoelina fled the country in a military aircraft belonging to the former colonial power, France. He is now reportedly in Dubai, pledging to return to power, but his chances appear slim.

Events in Madagascar can be seen as exemplifying two trends. One is the rise of self-styled Gen Z protests globally. Last month demonstrators in

Nepal, whose iconography was copied by Malagasy and Indonesian protesters, forced their prime minister's resignation. Young people in Kenya, Peru and Bangladesh have also taken to the streets over the past two years. The other is the spate of coups in Africa. Madagascar's is the tenth successful African putsch of the 2020s, a decade that has already seen more coups than the 2000s or the 2010s. For though the youth with slogans exposed the weakness of the Rajoelina regime, it was the men with guns who toppled it. The question is if, unlike in the other cases, the army will relinquish power.

So far many Malagasy seem to be giving Mr Randrianirina the benefit of the doubt. They point to their other political crises of the 21st century to suggest that there will eventually be a return to civilian rule. In 2002 the army helped avert a civil war after a rigged election by eventually siding with the candidate who genuinely won. In 2009, much like today, protests against the government of the time prompted a coup led by CAPSaT, which ultimately ceded power to Mr Rajoelina. He has led Madagascar for most of the time since, helped by some dubious election wins.

The former DJ and his circle soon became widely despised. On the island almost 70% of people live on less than $3 per day, one of the highest shares in the world. Meanwhile, a small elite is fabulously wealthy. "Successive regimes have seen the country and its natural resources as their own property, not that of Malagasy," says Ketakandriana Rafitoson, an anti-corruption campaigner.

Much may depend on Mr Randrianirina himself. The 51-year-old is a little-known figure, even in Madagascar. He played no big part in 2009, but in 2023 was given a one-year suspended sentence for his role in an alleged mutiny. Notably, he is from the dirt-poor south of the country and a member of a tribe with roots in mainland Africa. He is therefore a rare Malagasy leader not from the dominant Merina ethnic group, whose people trace their origins to South-East Asia. His background as an outsider will help him win over the downtrodden (though it may scare the elite).

Upon taking power the new president said, "Power belongs to the people, not to me." He has pledged to hold elections within the next two years. But coup leaders around the world have often made similar promises, only to break them. ■

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Middle East & Africa | Last resort

Sudan’s remarkable mutual-aid groups

They deserved the Nobel peace prize, even though they didn’t win

October 16th 2025

The bookies had them down as the favourite. In the end, Sudan’s Emergency Response Rooms (ERRs) missed out on the Nobel peace prize, which instead went to María Corina Machado, a Venezuelan opposition politician. Yet the network of mutual-aid groups delivering life-saving help amid civil war would have deserved the prize, too.

The ERRs have been labouring on the front lines of Sudan’s humanitarian crisis ever since the civil war began in 2023. They are made up of more than 700 small, decentralised groups of local volunteers. Most are young women. They feed the hungry, restore electricity, fix water wells, evacuate civilians and do “everything else in between”, says Haitham Elnour, a spokesman. As Western aid budgets are being slashed, and belligerents on both sides of the war block aid and terrorise civilians, the ERRs have managed to help more than 3m people. “In many ways, they are the state now,” says Kholood Khair of Confluence Advisory, a Sudanese think-tank.

They also suggest how aid might work in a more sceptical age. Forged from Sudan’s “resistance committees”, autonomous networks of protesters who in 2019 helped topple Omar al-Bashir, the country’s former dictator, ERRs are unlike traditional aid groups. Instead of formal leaders they have a council whose elected representatives serve eight months at most to prevent vested interests from emerging.

They are cost-efficient, with 95% of donations going directly to volunteers on the ground. Yet until now they have received less than 1% of all international aid for Sudan. After American aid was frozen in February that paltry amount shrank by even more; hundreds of their soup kitchens were forced to close.

Their work is vital. Parts of the country, especially Darfur in the west, are ravaged by famine. Cholera, malaria and dengue fever are spreading. The health sector, says Reem Gasim Omer of Mercy Corps, an aid group that now gives cash directly to the ERRs, is “completely destroyed”. Mutual aid is one of the few things Sudan’s beleaguered civilians have left.■

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Europe

Europe | The conservative caretaker

Giorgia Meloni marks her third anniversary in great political shape

Economically, things don't look quite so rosy

October 16th 2025

IT SEEMED AS though a milestone had been reached. "For the first time since 2001, Italy's GDP per capita has overtaken that of the United Kingdom," Giorgia Meloni's Brothers of Italy (FdI) party trumpeted on social media in August. The new World Bank figures did indeed show Italy a nose ahead in 2024, at purchasing-power parity, though in nominal terms Italy's GDP per person last year was still 27% lower.

The Brothers' rejoicing chimed with a widespread perception: that Italy is doing rather well under its first female prime minister, who marks the completion of her third year in office on October 22nd. The other big European states have all endured political instability, if not outright turmoil of late. Italy was once mocked for its dizzying changes of government: since the second world war, it has on average changed governments once a year. Now it has become an island of relative tranquillity and continuity. Only one prime minister has served a full five-year term in the post-war period; but Ms Meloni looks on track to be the second.

The Brothers trace their roots to post-war neo-fascism. So their leader's election victory in September 2022 stirred fears that she might turn her country into an illiberal democracy along the lines of Hungary or Turkey. Yet Ms Meloni's government has pursued an agenda scarcely more radical than that of other democratic conservatives. And there has been barely a hint of Euroscepticism in her public utterances. That, together with her solid backing for Ukraine and her excellent access to Donald Trump, who this week posted on Truth Social that she "is doing an incredible job for the wonderful people of Italy", have combined to give Italy a place in Europe's inner diplomatic circle.

Much of this can be attributed to Ms Meloni's own political skill. Though relatively young, at 48, she has never been anything but a politician. She joined the old neo-fascist party at 15 and rose to become leader of the youth wing of its reincarnation, the defunct National Alliance. By the age of 29, she was a member of parliament. Within two years, the late Silvio Berlusconi had given her a place in his cabinet. She was the youngest minister in any post-war Italian government. After breaking with Mr Berlusconi, Ms Meloni and others from the post-fascist right launched the Brothers of Italy party, which she was elected to lead in 2014.

Italy's stability over the past three years can be attributed to two things. The first is that Ms Meloni's right-wing coalition secured an outright majority at the last election. That was due in large part to her remarkable talents as a campaigner. The second reason is that, unlike so many earlier Italian governing coalitions, hers has held together despite its ideological differences. On one side of the Brothers stands the League. Under the leadership of Matteo Salvini, it has aligned itself with the most radical elements of the Eurosceptic, Russophile hard right. In the European Parliament, the League belongs to the Patriots group, sharing a political bed with the parties of Viktor Orban and Marine Le Pen. On the other side of the FdI is Forza Italia, founded by the late Mr Berlusconi. Defying fears that it would fall apart after his death in 2023, Forza has gained support and moved closer to the political centre.

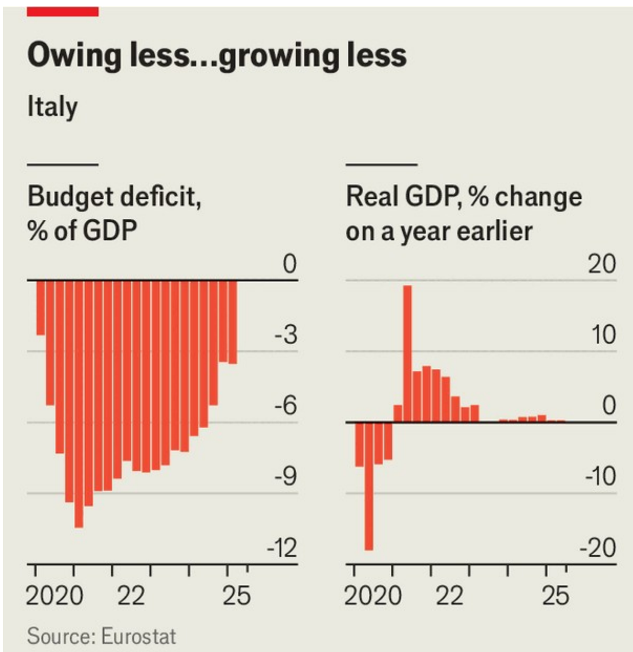
Ms Meloni's ability to hold together such a diverse alliance testifies to her skills as a mediator. But it also highlights a point that is often overlooked in assessments of her government and appreciations of its moderation: were she to pursue more radical policies, she could be toppled by her centre-right allies. The underlying tensions in her cabinet also help explain a defining characteristic of Ms Meloni's government: that it doesn't do—or rather, change—very much. Far from delivering the full-throttle fascism many feared, it offers a kind of caretaker conservatism, long on stability but short on reform.

Thus far, the strategy has served Ms Meloni well. The Brothers of Italy party took 26% of the vote at the general election in 2022. Its poll ratings have since settled at a slightly higher level, bouncing along month in, month out, between 27% and 29%, a rare phenomenon for an incumbent party anywhere in Europe these days. The coalition as a whole still scores around 47%—more than enough for another majority. Lorenzo Pregliasco, director of Youtrend, a polling website, says there is a link between the government's low-key approach and its popularity. "Every time you reform, you take away the benefits or privileges of someone. So doing little has a political upside. Ms Meloni has taken care not to upset anyone other than those who belong to constituencies that would never vote for her anyhow."

Where the government has been active is with respect to justice. A law that restricts the publication of wiretaps and abolishes the crime of abuse of office came into force last year. In June, a security law was introduced that clamps down on disruptive or destructive protests while granting broader powers to the police and intelligence services.

Another of the distinguishing characteristics of Ms Meloni's government is an abundance of luck. Since she took office a tidal wave of money has washed over the economy. Some has come from the state coffers in the form of a ludicrously generous home-improvement subsidy, set up during the pandemic, and another that offsets the cost of renovating facades. By the time the schemes have run their respective courses, they will have transferred an estimated €219bn ($254bn) to the private sector, the equivalent of over 10% of annual GDP.

Yet more euros have rained in from the EU's Recovery and Resilience Facility, also designed to help with the economic recovery from covid. Italy got by far the biggest share of the €750bn package: €194bn in grants and soft loans of which €140bn has been disbursed. "But for the EU funds, it is likely that Italy would now be in deep recession," says Francesco Grillo, director of Vision, a think-tank. Despite all that cash, the EU is expecting the Italian economy to grow by no more than 0.7% this year, and perhaps 0.9% next.



The war in Ukraine and other factors beyond the government's control have undoubtedly contributed to the sluggishness. "But we have not been spending the money fast enough and, in any case, we have been hitting the wrong targets," argues Mr Grillo. Even if he is right, by no means all the blame can be laid at the door of the current government: Italy's reform plans were originally drawn up by Ms Meloni's predecessor but one, then modified under the technocratic prime minister Mario Draghi before being tweaked yet again after Ms Meloni came into office.

The most ominous question that now hangs over her government is how the economy will fare as the money gusher dries up. There are disquieting signs. Flatlining Germany apart, Italy was the only big EU country with an economy that shrank in the second quarter compared with the previous one.

Ms Meloni's government has a good record of enacting the legislative changes demanded by Brussels. But many of the reforms need further action and investment to be effective. Legislation has been passed to speed up the administration of justice, for example. But it requires more judges to be trained and appointed. So far, the government has been reluctant to spend. The EU's funds are tied to a policy of fiscal austerity that the finance minister, Giancarlo Giorgetti, has respected scrupulously. Too scrupulously, says Gustavo Piga, an economics professor in Rome and joint president of a body that monitors the implementation of the recovery programme. "The result is rock-bottom borrowing rates, but abysmal growth."

Another imponderable is whether Ms Meloni can get her immigration policy back on track. She had hoped to show resolve by shipping to Albania migrants from countries deemed safe and having their asylum applications fast-tracked there rather than in Italy. But her plan has repeatedly been thwarted by the courts, most recently the European Court of Justice. The prime minister has railed at the judges—but has respected their rulings.

That points to perhaps the most persuasive argument for believing Ms Meloni and her party have left behind whatever authoritarian yearnings they once harboured. Many Italians nevertheless remain unconvinced. They cite a proposed constitutional reform that could hand her quasi-presidential powers. In June, a bill to implement the change began creeping through parliament. It will almost certainly require a referendum to be approved. Critics also point to Ms Meloni's enthusiasm for taking journalists to court, the government's virtual takeover of the state-owned broadcaster, RAI, and its appointment of like-minded candidates to jobs in the arts.

Ms Meloni, in fact, is often contradictory: breathing populist fire one moment, exuding moderate good sense the next. It is not hard to see why. She needs her hardliners to believe she is still a loyal culture-warring post-fascist. Yet she must also reassure the wider constituency that elected her. She wants to stay on good terms with Mr Trump. But she needs her European peers to think she has ditched her Euroscepticism. It is a tricky balancing act that she is handling rather well. ■

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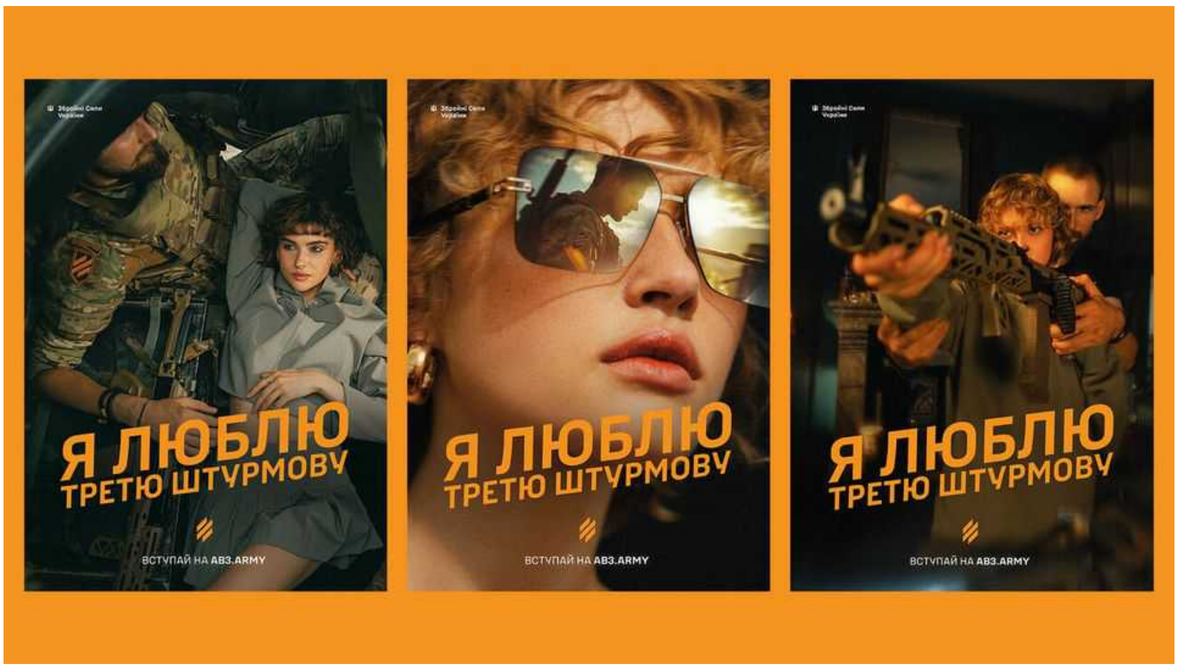
Ukraine’s most prestigious military units are run like businesses

Marketing and human-resources departments are key

October 16th 2025



TWO WOMEN are at the hairdresser. One complains to the other that she wants to go out to a restaurant to celebrate her husband’s birthday, but can’t because he’s worried that if he leaves the house he’ll be picked up by a conscription team. The second woman says that she and her husband are planning a trip to Italy. Amazement: “Seriously! Your husband got an exemption?” says the first. “No!” says the second. “He’s in the Azov.”

The video—mocking draft-dodgers, and reminding viewers that men who join the armed forces are in some cases allowed to travel abroad during their leave, surprising though that might seem—is the latest from the media team of one of Ukraine's three most feted military units: the Azov, the Third Assault and the Khartiia.

All three started life as small localised outfits. The Third and the Khartiia were founded when Russia launched its full-scale invasion in February 2022; the Third by Andriy Biletsky, once a far-rightist but now a carefully spoken former and perhaps future MP and even a presidential contender; and the Khartiia by Vsevolod Kozhemyako, the owner of a big agricultural conglomerate, with large landholdings in the threatened east. The Azov, which Mr Biletsky had initially commanded, is older, dating back to Russia's invasion in 2014 of the eastern Donbas region. It was largely wiped out in the three-month battle for Mariupol in 2022 and had to be rebuilt from scratch.

Relying mostly on their own recruitment drives and fundraising, the three units swiftly grew to battalion then to brigade size. This spring, as part of a wider army reorganisation, they were each given four or five more brigades to run, turning them into full-scale corps. Now boasting over 20,000 men each, the three corps are examples of Ukraine's extraordinary capacity for self-organisation, and of how business skills can be applied to the armed forces. With cult status among the public, they could also become launch-pads for post-war political careers.

Behind their success lie good training and management. It helps, says Mr Kozhemyako, that they have almost no officers from the Soviet-inherited military system. Unlike the old system, he says, Khartiia does not "use people like animals. Our men are involved in planning, they understand what they're doing, they're part of the mission 100%." Just like executives, the battalion commanders are measured against key performance indicators—"price per kill" and "cost per front-line day"—and the corps has a professional HR department, so that promotions don't just go to senior officers' drinking buddies. Mr Kozhemyako says his next project is the introduction of enterprise resource-planning software. Dealing with old-style officers, he says, reminds him of his early days in agriculture, when he had to persuade former collective-farm bosses of the usefulness of newfangled concepts like marketing and accounting.

Equally important to recruitment are the corps' support services for wounded soldiers and their families. A young lieutenant, recently released from three years in brutal Russian detention, is full of praise for Azov Care: "They met me off the bus, they found the best hospital for me and the best prosthetic, and they're on the phone 24/7." Men who want to return to duty are found non-combat roles. For the fallen, funerals are arranged and paid for, and families are helped in getting compensation.

On the back of good management, the corps have built powerful brands. Employing sizeable marketing and creative teams, they are hyperactive on YouTube and across social media. Their websites feature collaborations with music and sports stars, and click-throughs make it easy to donate cash. Khartiia's team, led by the former head of one of Ukraine's best-known marketing firms, has pulled in Ai Weiwei, hoping the celebrated Chinese artist will design them some merch.

Rufty-tuftier is the approach of the Third Assault Corps. For their target audience of 18- to 25-year-olds they have created the KillHouse, a drone school in the outskirts of Kyiv. Anyone is welcome to come, and of those who complete the course a quarter sign up. A "Top Gun"-style billboard campaign last year attracted some criticism for sexism, but worked a treat. Applications topped 200 per day, says the Third's head of media, Khrystyna Bondarenko. Recently the Third also worked with Mstyslav Chernov, winner of last year's Oscar for best documentary, on an harrowing new film featuring helmet-cam footage from the battlefield.

The corps' advertising reflects the war's changing moods. The Third Assault's early billboards bristled with guns and machismo. Later, they leaned into jokiness (a drone pilot lounging in a deckchair, tagline "Summer, FPV, 3rd Assault") and reassurance (men cosily gathered round a campfire). At a particularly low point after the failure of Ukraine's summer counter-offensive in 2023, a zombie campaign featured soldiers facing off against the living dead. The message, says Ms Bondarenko, was "If you don't fight now, darkness will prevail."

Now, with peace talks having fizzled out and no end to the war in sight, the emphasis is on military service as a way of life. Khartiia's latest billboards feature giant unarmed soldiers under the slogan "Grow in Khartiia", and on the Third's they cuddle babies and throw sticks for dogs, tagline "We're Here to Live". They look, in fact, very much like political ads; and that is surely no accident. ■

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Europe | Tweaking the solar system

The high costs of Spain's renewables revolution

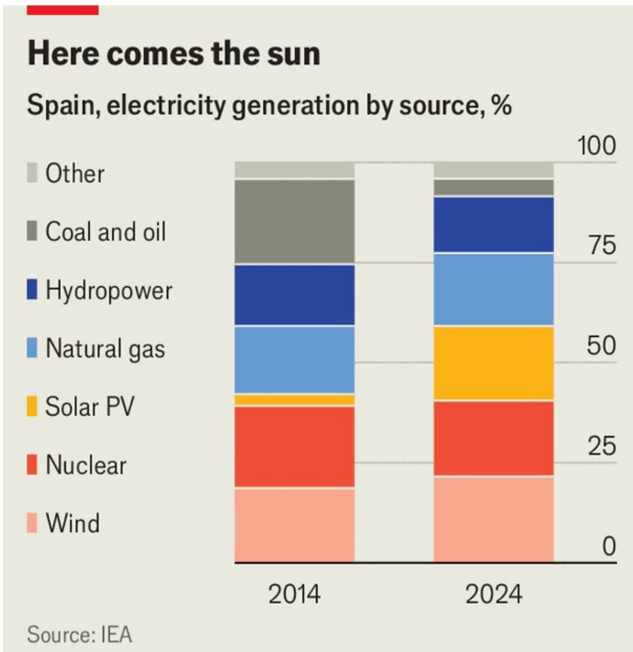
More batteries are needed

October 16th 2025

IT IS A country with almost no oil or gas of its own, which until recently was a disadvantage. But in a decade Spain has transformed its energy matrix. Wind and solar now account for more than 40% of the total electricity supply. In a land of abundant sunshine, the share of solar is set to rise further. Not only has Spain become a world leader in the energy transition but renewables have driven down the cost of generation. Officials in Pedro Sánchez's centre-left government tout cheap energy as a factor in the country's strong economic growth and point to a queue of projects for electricity-guzzling data centres.

Successful though this revolution has been, it is not problem-free. That became blindingly clear in April, when a voltage surge at a solar plant in

Extremadura prompted the entire grid to shut down abruptly, causing a power cut lasting up to 12 hours across the Iberian peninsula. The blame game that followed generated more heat than light. What is clear is that the blackout exposed both technical and regulatory failures. The urgency of fixing these was underlined this month when Red Eléctrica, the state-controlled company that both owns the grid and manages the whole system, reported more voltage fluctuations and said it needed permission to change its operating procedures.



Industry experts say there are two main problems. First, electricity supply has grown much faster than demand, which peaked in 2007 before the financial crisis. On the one hand, Red Eléctrica's regulatory regime encourages it to over-invest in the high-voltage grid, according to one energy economist. On the other hand, Spain's economy is these days more efficient in its use of energy than it was: power-guzzling industries such as aluminium have shut down because of past high costs. Also, electric vehicles have been slow to spread in a country of long distances with a sparse charging network.

The second problem is that the supply of solar power, which tends to be highest in the middle of the day when demand is lower, has not gone hand in hand with sufficient investment in storage and stabilisation technologies, such as batteries. Renewables break the link between the price of electricity and the cost of fuel but ensuring security of supply means other costs are appearing, according to Luis Rouco, an electrical engineer at the University of Comillas. “We are in a learning process.”

Red Eléctrica’s short-term fix has been to increase the use of gas-fired plants, which provide supply that can be quickly switched on and off as needed. The government has also rushed out measures to encourage investment in substations and distribution networks to drive demand.

Thanks to renewables, the wholesale electricity price was 40% lower in 2024 than if the energy matrix had remained as it was in 2019, according to a study by the Bank of Spain. But the price is now rising because of greater use of gas plants. It will rise further unless the government reverses its decision to shut Spain’s nuclear power plants between 2027 and 2035. Accounting for 19% of generation in 2024, they provide cheap, clean and constant power. Far from abandoning its renewables revolution, Spain has plenty more regulatory work to do to complete it. ■

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Europe | Concrete measures

Grid operators in the Baltics and Poland are preparing for Russian attacks

Blast walls, drone fences and special combat units are on the way

October 16th 2025

RUSSIAN ATTACKS have knocked out more than a third of Ukraine's grid capacity (pictured), despite continuous rebuilding. Grid operators in the Baltics and Poland are scrambling. Days after Russian drones were shot down over Poland last month, the four countries hastily requested that the European Union fund half of a €382m ($442m) plan to protect their grids. More will almost certainly be spent. Drone barriers and concrete shielding for substations and other kit "will be everywhere", says Rokas Masiulis, the boss of Litgrid, Lithuania's state-controlled grid outfit. It alone will fork out hundreds of millions of euros on the effort.

Litgrid and its counterparts in Latvia and Poland are being advised by Ukraine's grid operator, Ukrenergo. Most of the blast shielding will be interlocking concrete modules that Zygimantas Vaiciunas, Lithuania's energy minister, calls "Lego blocks". Crucially, the structures are intended to also shelter repair crews from Russia's signature follow-up strikes, says Tomas Jermalavicius, a military analyst in the Estonian capital, Tallinn. Anti-drone fences and nets are also being installed.

Some assets will be buried. The national control room for Poland's state grid operator, PSE, is already underground. The problem, says Daniel Wagner, PSE's security chief, is that its location near Warsaw is known. In addition to outdoor concrete encasements, then, PSE plans to construct underground bunkers at secret locations. These will shelter what Mr Wagner describes as "really big" control rooms.

Some initiatives have teeth. PSE is forming a helicopter-borne combat unit with training in electrical engineering for fighting in and near power plants and substations. If war breaks out, Mr Wagner says 60% of staff will automatically become military personnel unable to quit for safer jobs. And Vilnius, Lithuania's capital, is training police to defend energy sites with jammers, air-defence machineguns and portable missiles. ■

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Europe | Charlemagne

Charles de Gaulle's constitution has failed to shield France from turmoil

Is it time to think about a new republic?

October 16th 2025

"The instability of our governments dismays our friends around the world, and makes us the laughing stock of our enemies." Thus spoke the political leader in a clipped accent and stern tone. A sense of despondency had gripped Paris. France was losing governments with troubling regularity. Foreign headlines mocked the country's political crisis as "surreal"; its people as "incurable". A better future surely beckoned, under a fresh constitution. In a government-sponsored campaign video designed to rally the country to that cause, bright sparks flew from industrial welding tools; scientists in white coats filled test tubes in a modern lab; and—more weirdly—a procession of fit young men vaulted neatly over a gym horse. A new republic held out the promise of stability, prosperity and, apparently, la bonne santé pour tous.

This, of course, was Charles de Gaulle's campaign in 1958 for a Fifth Republic. The words were uttered by Paul Reynaud, who headed the consultative committee that drafted a new constitution, which de Gaulle put to a referendum that year. Dismayed by the antics of the Fourth Republic, which from 1946 went through 24 governments in 12 years, de Gaulle wanted a constitution that would provide France with a powerful, centralised state and stable majority governments that could overcome partisan squabbling. "Party rivalry has a fundamental character for us," the general had declared in a landmark speech in Bayeux in 1946, a year after the guns fell silent across Europe, "under which the higher interests of the country too often fade away." The Fifth Republic was de Gaulle's answer. Strong powers vested in the presidency, shaped to his own towering persona and based then on an august seven-year term, would guarantee stability and the national interest.

What would le général make of French politics today? Were he to step across the cobbled square outside the National Assembly, or pass under the wrought-iron gates of the Elysée Palace, he would find the country's politics in turmoil and its people exasperated by their rulers. Instead of stability, he would encounter fog. Instead of the projection of national strength, he would see fragility and self-doubt. Instead of a president above the fray, he would find one, in the shape of Emmanuel Macron, roundly blamed for all the country's evils. Instead of a constructive debate about how to generate prosperity, he would listen to parties falling over themselves to undo efforts to create greater national wealth (retire earlier!) and instead seeking ways to destroy it (tax the rich!).

It is a sorry spectacle. Mr Macron has gone through five prime ministers since he was re-elected in 2022, and on October 10th re-appointed the fifth, Sébastien Lecornu, for want of a better option. Parliament is split. Government is dysfunctional; its ambition shrunken. The president is the object of derision. For liberal democrats across Europe, Mr Macron once represented centrist hope against the forces of populism; twice (in 2017 and 2022) he kept the hard-right Marine Le Pen from the presidency. His struggle now to hold the centre ground says something about his leadership and the recent choices he has made, and they are not glorious. But it also speaks to weaknesses in the constitution itself.

Under the Fifth Republic the five-year presidential term dictates the political rhythm, channels personal ambition towards a single moment, and transforms the election of one person into a time of extravagant hope, followed by crushing disappointment. Mr Macron's enemies are circling, demanding his resignation. Jean-Luc Mélenchon, a hard-left leader who casts himself as a blend of Bernie Sanders and Che Guevara, wants to go further, getting rid of both the president and the constitution. His proposed Sixth Republic would be a parliamentary system, mixed with direct democracy, designed over two years by a constituent assembly and put to a referendum.

Mr Mélenchon has a point. Would France not be less perpetually disappointed if it had a German-style president: an arbiter rather than an executive? Would a parliamentary system, unskewed by the extra layer of presidential ambition, not help to generate stable majorities, and secure an orderly exit for the executive when things go wrong? Would France not be better off without awkward spells of "cohabitation", when a president and government are of rival political stripes, if the presidency were scaled back to a figurehead? Such questions deserve serious thought. At a time when much decision-making takes place in Brussels, the confusion of a two-headed executive under such periods of cohabitation carries a particular risk for France, and for Europe.

With its dislocated history, France is no stranger to the drafting of constitutions. De Gaulle himself altered the Fifth Republic by making the presidency directly elected in 1962. The seven-year presidential term was shrunk to five in 2000. But such an undertaking would be an ordeal; France is struggling even to find a consensus to pass a budget. Nor is a parliamentary system the guarantor of majority rule. Fragmentation and fragility are the hallmarks of many European parliamentary systems, from Italy to Belgium. De Gaulle turned the page on the Fourth Republic for a reason.

In truth the Fifth Republic is pretty odd, a hybrid system based on a strangely ambiguous constitution. It does not specify, for instance, how the president should pick the prime minister, only that it is his role. De Gaulle, wrote Julian Jackson in his biography of the general, wanted a text "obscure enough to allow it to be adapted to different circumstances". Mr Macron is belatedly learning to shift from a hyper-presidency to the sharing of power. "Even if it is strange," says Mr Jackson, the constitution "still functions and can continue to do so." De Gaulle would be aghast at the deadlock which his constitution has failed to thwart. He would be even more so at the thought that it might be superseded. ■

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Britain

Britain | UK-China relations

Has Britain gone soft on China?

A spying fiasco and a new London embassy feed accusations that Sir Keir is a red softy

October 16th 2025

In 1844 this newspaper reported on a special train that had just pulled into London carrying nine and a half tonnes of silver. The money was a ransom from China's government, paid to Britain as part of a lopsided peace deal in the opium wars, waged—disgracefully—by Britain to allow it to continue the lucrative trade in the drug. The haul would end up at the Royal Mint in central London.

More than 180 years later, China wants to build a giant new embassy on the same site. The government is due to approve or reject those plans by October 21st, but as The Economist went to print, a last-minute delay looked probable. It comes on the heels of the collapse of a trial over Chinese espionage on British soil—an embarrassment for the Labour government that refuses to die down. On October 15th Sir Keir Starmer, the prime minister, tried to put accusations of a cover up, and of being soft on China, to bed by publishing the relevant evidence. Whether this will work is doubtful: in one witness statement Matthew Collins, the deputy national security adviser, says that while there are benefits for trade, "China also presents the biggest state-based threat to the UK's economic security." Both episodes have sparked a larger debate on whether the government is pulling its punches on China.

The embassy saga began in 2018, when China's government bought Royal Mint Court, a set of offices and homes, intending to build the largest foreign embassy in London. Residents objected firmly and the council refused planning permission in 2022. In October 2024 Angela Rayner, then housing secretary, took over the decision, apparently at the behest of China. "You raised the Chinese embassy building in London when we spoke on the telephone," Sir Keir told Xi Jinping, China's president, in November. "We have since taken action by calling in that application."

Critics—including in the opposition Conservative Party, which is using both issues to accuse the government of seeking to "appease" China—warn that the embassy would pose a serious security risk. The purpose of certain rooms has been redacted on plans and the site sits above key fibre-optic cables in the city's financial district. Yet the security services believe that those risks are probably manageable.

The decision is complicated by China having held up progress to rebuild the British embassy in Beijing. But even if the government wanted to give its blessing, a judicial review could overturn any decision.

Legal wrangling also features in the spy trial. On September 15th the Crown Prosecution Service (CPS) dropped charges against Chris Cash, a parliamentary researcher, and Chris Berry, a British teacher in China, both of whom were accused of spying on behalf of China, delivering at least 34 reports with "politically sensitive information" to a Chinese agent. The reasons for that about-face are complicated.

The men were charged under the Official Secrets Act of 1911, which refers to cases involving an "enemy" of Britain. That arcane law has since been superseded by a new and more flexible National Security Act, but that was not in force at the time. The CPS says that, shortly after the charge, a separate trial, about Russian espionage, established a precedent: an enemy state had to be deemed a threat to British national security at the time of the offence.

According to the CPS, despite its best efforts it could not get government witnesses to say this. In the final and strongest of the three now published witness statements by Mr Collins, he writes: "China's espionage operations threaten the UK's economic prosperity and resilience, and the integrity of our democratic institutions." He gives the example of how Britain's electoral commission and MPs' emails were hacked by Chinese "state-affiliated" groups. But even that statement concludes by softening the blow. "The UK Government," he writes, "is committed to pursuing a positive relationship with China."

It is unclear what more the CPS wanted Mr Collins to say. More pressure is likely to fall on its director. Nonetheless, the Tories can smell blood. Kemi Badenoch, the party's leader, insists that Sir Keir has questions to answer and "doesn't have the backbone to stand up to Beijing". (She and other

Tories, the Lib Dems and Donald Trump have called for rejecting the embassy.)

On October 13th Bridget Phillipson, the education secretary, said that neither government ministers nor the national security adviser, Jonathan Powell, had had any role “in either the substance of the case or the evidence in question”. That still leaves the possibility of policy by neglect. Simply put, the government’s unwillingness to give a more candid assessment of Chinese activity might have doomed the case.

This reticence is part of what one UK-based expert on Anglo-Chinese relations calls a “developing-country mindset” among successive British governments in which trade, investment and growth are prioritised over national-security concerns. In the last government, the pendulum swung erratically, but ultimately farther, towards safety. “Where tensions arise between…objectives in relation to China,” wrote Rishi Sunak’s government in 2023, “national security will always come first.” Now it seems to be swinging back.

Noah Barkin of the Rhodium Group, a research firm, says that the public tone towards China is “more openly critical” in Berlin, Brussels and Paris these days than in London. Britain, he observes, appears to be searching for a “niche” that is “less hawkish” than in America or the European Union, though the bloc is itself divided. An internal cross-government “audit” of China policy completed earlier this year concluded that the British government was both confused and too soft in its approach to China. The audit was never published but the problems that it identified have remained, says an official involved. If corporate Britain is naive with regard to Chinese threats, that is in no small part due to the government’s own confusion. The spy saga could be a wake-up call.

Britain's shaky economic position is a contributing factor. Mainland China is its fifth-largest trading partner. But its share of total trade (5.5%) is modest compared with America and the EU (18% and 46% respectively). In January Rachel Reeves, the chancellor, visited Beijing but secured a paltry £600m in Chinese investment.

Even if more capital can be coaxed to come, the challenge is also to ensure that it goes to the right places. In 2022 Britain blocked a Chinese-owned firm from buying Nexperia, a Dutch firm that was the country's largest semiconductor producer. This week the Dutch government took over Nexperia on national-security grounds, a move that has angered Beijing. Another row might be brewing over Chinese plans to build a wind turbine factory in Scotland.

Britain's interests are not just mercantile. As Mr Collins's statements show, diplomats believe that it is essential to co-operate with China on issues like climate change and global health, particularly at a time when America is walking away from those challenges. One priority is how to develop artificial intelligence (AI) in a safe way. As prime minister, Mr Sunak invited China to an AI-safety summit in Bletchley despite American opposition. This government has kept up the dialogue. Co-operation among researchers on the impact of AI on bioweapons and other threats "is already adding value”, note Kayla Blomquist and Sam Hogg, of Oxford China Policy Lab, with China’s AI ecosystem showing signs of absorbing and mimicking parts of Britain’s approach.

The government’s own national-security strategy, published this summer, warns of the risks of “misunderstanding and poor communication”. In April Admiral Sir Tony Radakin, then the chief of defence staff, visited the National Defence University in Beijing, the first such visit in a decade, where he told cadets: “We must continue to talk and to seek to understand one another better.” The witness statements will draw renewed attention to China’s threat, undercutting the government’s aim of softening its tone. If China’s plans for a mega-embassy go up in smoke, there may be a lot less talking and little understanding. ■

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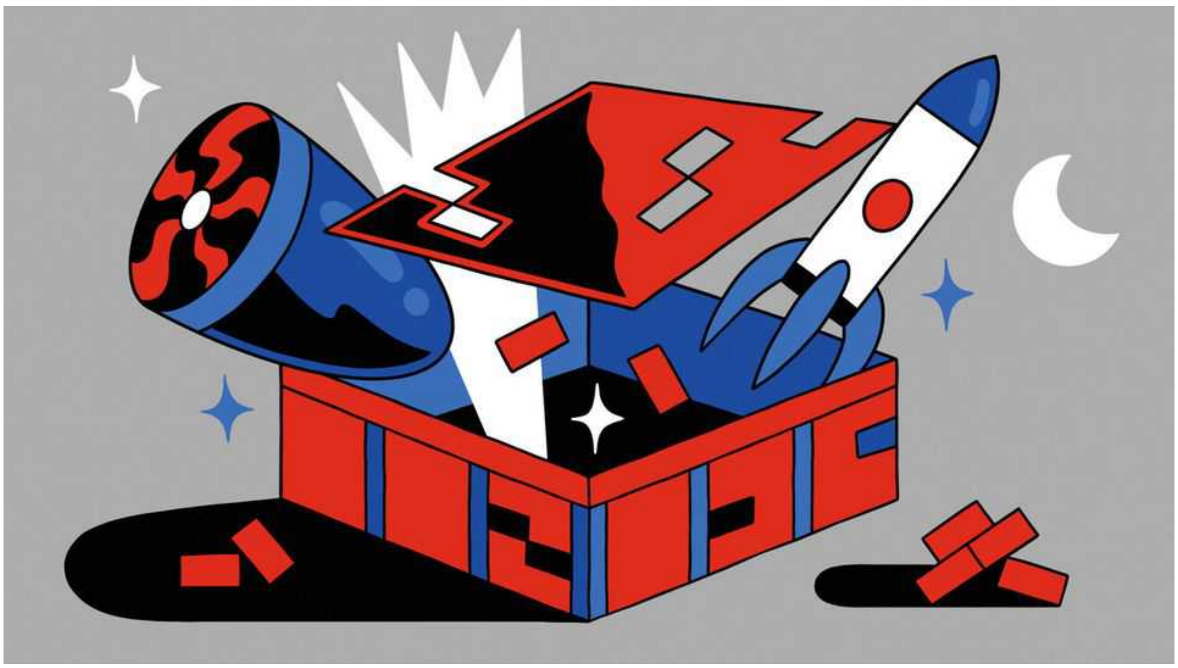
Britain | Thrust and throttle

Why can’t Britain’s leading aerospace lab raise more money?

The Whittle Laboratory is extraordinary—and underfunded

October 16th 2025



A squat brick building on the outskirts of Cambridge is home to an area of science where Britain is still world-class. The Whittle Laboratory refines jet engines, and it is very good at it. Whittle scoops up more industry awards than any of its rivals, in a formidable industry to master. To power flight, a plane’s engine must burn its fuel hotter than would usually melt the materials the engine is made of.

When the lab was founded in 1973 by Frank Whittle, a British jet-engine pioneer, with a government grant, the building no doubt seemed splendid. Now, despite its reputation, the Whittle looks more care-home than cutting-edge. The grey carpets are threadbare and it is too small to house bigger, better equipment. It can take eight years to go from an initial idea to a tested one. If the right machinery were on site, it might only take a fortnight.

That will soon change. Scientists are set to move into a state-of-the-art replacement lab on October 17th. The opening was "on a knife edge" for a long time, says Rob Miller, the lab's director. Expansion plans were drawn up in 2017. Four years later, less than a third of the £58m ($78m) required had been raised. Even after securing the money for construction, the new lab still lacks cash. It has as yet failed to secure a funder for £10m a year for research on high-risk, high-reward "moonshot" ideas.

The Whittle has no shortage of friends. King Charles III is a fan—breaking ground on construction of the new lab was his first official engagement after his coronation. The lab is part-funded by Rolls-Royce, a British jet-engine maker which benefits from the Whittle's research. The government ought to like it too. The lab helps keep Britain as the sole country outside America with the expertise to make, and improve, jet engines capable of powering the largest planes. Aircraft parts are Britain's fifth-most-valuable goods export.

Money has nevertheless proved hard to find. Industry stumped up some. But the business model of aerospace firms means risky ideas can take decades to turn a profit, if they work at all. Rolls-Royce had to be bailed out in 1971, after it overspent developing a new jet engine.

The government was even more hesitant. Partly this is because funding for research is divided into many pots. "Each funding agency would say no no, it's the other one," says Professor Miller. But state bodies also have to be wary, says Robyn Thomas of UK Research and Innovation (UKRI), Britain's main state funder of science. UKRI has more claims on its money than it can dole out, he points out. To avoid waste, research proposals are ranked by groups of peer-reviewers.

That leads to British science being uninspired, complains Professor Miller. "If four expert peer-reviewers agree on an idea, we should not be doing it," he says. Innovation, he believes, comes from taking risks "at the edge of the bell curve", not by following the consensus.

Do-gooders, not the government, are now responsible for a surprising amount of successful British innovation. The founders of DeepMind, Britain's AI darling, met and studied at a computational neuroscience lab funded by Lord Sainsbury, a supermarket tycoon and science enthusiast. He has also stumped up money for the new Whittle laboratory, as has Peter Bennett, a banker-turned-philanthropist, whom Professor Miller credits with saving the project.

A swish metal-and-glass building is replacing the brick one, with plenty of room for top-line equipment. And beyond the Whittle attitudes to risk are changing. ARIA, a sister organisation to UKRI, has since been set up to fund bolder ideas, faster. A new boss of UKRI, Sir Ian Chapman, took charge in August, with the brief of prioritising economic growth. With luck, the engines of innovation are revving up. ■

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Britain | Bonkers about Conkers

The World Conker Championships fosters a quirky English tradition

But a once-ubiquitous autumnal playground pastime is dying out

October 16th 2025

If cricketers' leather on willow is the most English of sounds, there was a time in school playgrounds when conker smacking against conker came close. On October 12th some 250 competitors gathered in a field behind a pub in the Northamptonshire village of Southwick for the 58th annual World Conker Championships. The game involves one person dangling a conker, a golf-ball-sized seed of the horse chestnut tree, from a shoelace, while a rival attempts to break it by swinging a second laced conker.

In schools children would resort to many a ruse to win (not least baking their conkers). At last year's championships a fake steel conker was found in the octogenarian winner's pocket, generating a flurry of viral publicity. This time the organisers gleefully milked more attention by setting up a metal detector.

The game is the fruit of two historical events: the 17th-century introduction of the horse chestnut tree to Britain from the Balkans and the 19th-century push for compulsory education, creating a market for playground pastimes. But that tradition risks dying out. Over the decades conkers has gone from ubiquitous to all-but-extinct in schools. The NAHT, a headteachers' union, says none of the 30-odd schools represented on its national executive plays.

Nor do any of the children vying for the title play conkers in school. "If you rocked up at a junior school with a bag full of conkers on strings they wouldn't let you through the door," laments Gareth Cope, a (grown-up) competitor from York. Natasha Naylor, another adult challenger, notes that "It does genuinely hurt if you get rapped on the knuckles."

Successive governments have insisted there is no national policy against conkers and that decisions are up to schools. A petition to "allow conkers back in schools" was rejected in 2019 on this basis.

Nick Read, a headteacher who oversees the Worstead and Belfry primary schools in Norfolk, hopes to arrest the decline. He introduced his pupils to conkers after he noticed they were drawn to horse chestnuts dropping into the playground but lacked the "folk memory" to know how to play. He blames the decline of conkers on children spending more time indoors with their parents and less running free with peers. No other schools in the area have joined Mr Read's push, however, and he worries conkers would quickly fade again if he stopped teaching his pupils to play.

Hope may come from the upstart Peckham Conker Championships. Held in a trendy South London brewery the week before the Northamptonshire event, it featured anything-goes bouts where more than one conker was ripped to shreds with a competitor's teeth. It's mad, but conkers was always bonkers. ■

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Britain | Giant vegetables

Why is Britain so good at growing giant veg?

Climate, culture and eccentricity make British growers the best in the world

October 16th 2025

Every September the Malvern Autumn Show, a horticultural fair in Worcestershire, plays host to the CANNA UK Giant Vegetables Championship, Britain's most prestigious giant-vegetable competition. Walking in is like going back in time. Only, instead of giant millipedes and Mesozoic lizards, you are confronted by a multicoloured army of gargantuan marrows, onions, potatoes and leeks.

The heaviest pumpkin weighs about as much as a great white shark. The longest cucumber is as tall as an Emperor penguin. The carrots are far from the tidy, supersized specimens celebrated at Tottington Hall (Wallace and Gromit's local tournament). They are sprawling orange monstrosities—

strands of tentacular plant matter melded into one. “We are the best in the world,” declares Lee Herrington, from Stourbridge, whose 276kg squash came second—and had to be lifted into a van with a bobcat (a mini-digger small enough to traverse his allotment).

He’s not wrong: seven world records were set at this year’s competition. And of the 35 recognised by the European Giant Vegetable Growers’ Association (EGVGA), British growers hold 18 (America, in second place, has ten).

Cultivating record-breaking veg is a full-time job. “We plan our life around the growing,” says Peter Glazebrook. The soft-spoken 81-year-old is a 29-time world-record holder and one of the greats of the giant-vegetable world. “It’s a fun hobby, but you’ve got to take it seriously if you want to win.”

The biggest onions and leeks can take 11 months to grow, about twice as long as is standard. Much of that time is spent watering, feeding and tending what are remarkably demanding plants. At night pumpkin-growers tuck their plants under a blanket, lest a sharp change in temperature causes them to split (grounds for disqualification). Joe Atherton, a jolly man who holds five world records, is known as the “King of the Longs”. Three times a day he wets the concrete in his greenhouse in order to keep the humidity up. His carrots, four-and-a-half metres long, are grown in pipes filled with soil—to ensure that they have enough uninterrupted space.

Britain's success in this field is partly down to its climate. One key to growing giant veg is the avoidance of stress. That means ensuring things are never too hot, too cold or too dry. The British weather, mild and wet, makes that job just a little bit easier. Also important is the agreeableness of the allotment.

Surprisingly for such a competitive sport, giant-vegetable growers are a supportive bunch. Shows like Malvern are conventions as much as competitions, giving growers a venue to meet and discuss the season past. Tips are shared, advice is given. On closing day, growers take a knife to their prize-winning veg and hand out parcels of seed to their closest competitors.

All of this creates a positive feedback loop, particularly with regard to the seeds. Every year new records are being set, thanks in part to an ongoing process of genetic selection. Growers will sow several plants at the start of the season. Only a handful will make it to weigh-in day. So part of the skill comes in identifying those with a propensity for gigantism early. The winning specimen then provides the seed for next year's crop. Slowly, the result is a big-boned breed of marrows, turnips or aubergines. And this process increasingly benefits British growers. Since Brexit, European growers have been cut off from British seeds.

Is there something in British culture that lends itself to giant-veg growing? "We are a nation of gardeners," says Helena Dove of the Royal Botanic Gardens in Kew. But a love of gardening gets you only halfway to giant-veg greatness. By some measures Germans have three times as many allotments as Brits and, on average, spend more time in the garden.

Still, "Brits are obsessed with anything that relates to gardening," says Udo Karkos, a German member of the EGVGA board. "We always hear crazy things from Great Britain." Ferdinando Branca, chair of the International Society for Horticultural Science's vegetable division, agrees: giant veg, he says, "is a curiosity" with a long history in Britain. "In Italy we pay much more attention to the taste."

Mr Atherton, a former miner, sees the origins of the tradition as a competitive pursuit in the 19th-century “pot leek” tournaments that sprouted up around mining communities in the north of England, with cash prizes that today’s growers can only dream of. Horticultural flower shows started even earlier. And by the time of the first world war, garden shows were so emblematic of home that British soldiers away from the front lines of the Somme built their own allotments, and held their own vegetable competitions.

Mr Karkos says that gardens are a Brit’s “Traumschloss” (dream castle), something “you build in your dreams”. That was surely so for the miners toiling in the dark and soldiers fresh from the trenches.

In Malvern, today’s spectators are treated to a much wider array of categories than they once were. Alongside the classics—the marrows, onions and leeks—they find enormous red chillies and beetroots longer than a minibus. The competitors have not changed much, however. There are more women than ever, but giant-veg growing remains an old man’s game. “The most important thing”, Mr Atherton notes, standing next to his prize-winning 44-inch cucumber, “is a supportive wife.” ■

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Britain | The wheels on the bus

Labour is reluctant to get off the bus

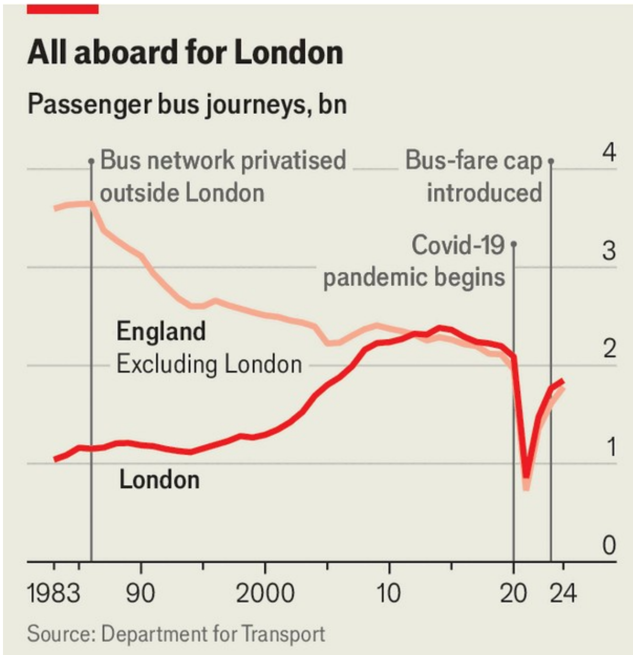
A national bus-fare cap exposes the government's fondness of central control

October 16th 2025

Stroll through Scarborough, a town packed with retirees and tourists on England's north-eastern coast, and it's hard to find anyone with a kind word for the government. Yet linger at the bus shelter next to the Victorian train station and the tone abruptly changes. Those waiting fall over themselves with praise for one particular policy. "Absolutely marvellous," says Barbara, a pensioner. "Definitely good value," chips in Charlotte, who works in a fast-food restaurant. The pair are talking about the bus-fare cap, a nationwide government policy which ensures that no single bus journey costs more than £3 ($4).

It’s easy to understand why this is popular. The patient queuers in Scarborough are waiting to embark on the Coastliner, an iconic route that winds through rolling fields to Leeds—more than 70 miles (110km) inland and three hours away. In 2022 a single ticket for this route cost up to £15. Now it costs a fifth of that, an unusual bargain in inflation-stricken Britain. Rachel Reeves, the chancellor, is keen to bask in the goodwill: in her conference speech last month, she highlighted the cap as evidence of Labour making Britain better.

Yet the cap betrays a troubling Labour impulse: to hoard power (and credit) in Westminster. That sits uneasily with the party’s 2024 manifesto pledge to devolve more control over transport, education and housing to local communities. The government has made some progress on devolution, giving mayors more flexibility in how they can spend government grants. But ministers remain reluctant to devolve power in areas where local control would make the biggest difference in boosting local growth. Mayors have little room to raise their own money—barred even from levying a humble tourism tax.



Buses illustrate this tension between centralisation and devolution. Bus networks in England outside London have been privately run since 1986. Commercial operators now decide fares, routes and timetables. As a result, thousands of routes have been cut, services reduced and the number of passenger trips fell by more than half between 1986 and 2024 (see chart). London, by contrast, kept buses publicly owned and journeys increased by 60% over the same period.

Other cities have taken note. In 2023 Greater Manchester's mayor began to bring bus routes and fares back under public control; the number of journeys climbed by 14% in the first year. Liverpool plans to follow suit from 2026. Parliament is in the final stages of passing a Bus Services Bill. This will give local authorities the option to run their own bus networks, either through public ownership or by contracting private companies to run specified routes at regulated fares.

Yet Labour's national fare cap risks undermining this devolution push. The scheme was originally announced as a £2 cap in 2023 by the previous Conservative government (subsidising operators for the difference with what the service costs to run). It was meant to be a three-month scheme to ease cost-of-living pressures, but has proved too popular to scrap. Instead Labour has kept extending it, now promising to maintain it until at least 2027, with the cap set at £3 since this January.

That is crazy. The cap has reduced fares for many and helped revive bus use after a sharp fall during the covid-19 pandemic. But a permanent cap brings two problems. First, it distorts the market signals that private firms depend on. Unable to adjust fares to reflect costs or demand, operators struggle to allocate resources efficiently or plan for the future. Second, the national cap is a blunt instrument that does not deal with the diversity of local needs. It does little for lots of people living in cities making short journeys, as fares for these are often already under the cap.

The main beneficiaries have been people in the countryside. Before 2023 longer, rural journeys like Scarborough's Coastliner were the most expensive and fares have thus fallen most steeply. Yet even rural Britons are not benefiting as much as Ms Reeves may think. Cheaper fares are cold comfort if your nearest route has been abolished or cut to once a week. Local people might prefer to redirect the subsidy to protecting struggling routes.

The fix is obvious: scrap the cap, which costs about £150m a year, and give the money to local leaders. Some might opt for a fare cap; Greater

Manchester already runs a £2 cap. Others might prioritise youth discounts or protecting rural routes. Ministers will fret about losing credit for a popular policy—and fear blowback if some places let fares rise. But if devolution improves the bus network overall, the public might be more forgiving than politicians think. Back at the Scarborough bus shelter, Barbara reflects: “The fare could go up to £5 and it would still be reasonable.” ■

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Britain | Bagehot

Britain’s Labour Party has no more safe seats

A by-election in Wales reveals Labour’s vulnerability

October 16th 2025

In around 1540 John Leland, an English antiquary, wrote that Caerphilly Castle had “waulles of a wonderful thiknes”. For more than a century the stronghold projected Norman and English authority over Glamorgan, Wales’s southernmost county. By Leland’s time it had fallen into disrepair. The fortress was impregnable—until it wasn’t.

On October 23rd Caerphilly will elect a new member of the Senedd, the Welsh parliament. Labour has held the seat since the devolved legislature was established in 1999 and the town has sent a Labour MP to Westminster at every election since 1918, when Alfred Onions, a Wesleyan preacher and trade unionist, joined one of the first cohorts of socialist MPs. After more than 100 years of political dominance, Labour could be pushed into third place by the hard-right Reform UK and Plaid Cymru, a left-wing Welsh-nationalist party. Caerphilly is not alone: few Labour strongholds now look impregnable.

Sir Keir Starmer's government is deeply unpopular. Voters in Caerphilly, like those in other parts of Britain, are angry about immigration, economic stagnation and cuts to pensioners' benefits. The Labour leader of Caerphilly's borough council resigned in protest against his party's proposed cuts to disability benefits and its response to the war in Gaza. He plans to vote for Plaid Cymru. The same issues that have caused Labour's average nationwide polling to slump to 21%—the lowest since 2009—are driving discontent in South Wales.

Voters do not seem to differentiate between Sir Keir and his Labour counterpart in Cardiff Bay, Wales's first minister, Eluned Morgan. Although the British government is less popular in Wales than the Welsh government, the latter is also more unpopular than ever. In 2024 Labour told Welsh voters to look forward to "Labour governments at both ends of the M4". A year on voters are unimpressed. If Labour MPs in formerly safe seats hope that the party's local entrenchment will save them, they are mistaken.

Labour has been unpopular before. Caerphilly stood by the party in 2007, as Sir Tony Blair's ratings sank to new lows after he had been prime minister for a decade, and in 2016, despite Jeremy Corbyn's disastrous party leadership. But whereas right-of-centre opposition to Labour has historically been concentrated in the Conservative Party, which has a wretched reputation in Caerphilly as in many other post-industrial areas, Reform has shaken things up. "You go to Tory conference and they're still gazing at Margaret Thatcher's dresses," says Llŷr Powell, Reform's Welsh-speaking local candidate. "We're not looking back, we're looking forward."

Yet most Labour voters remain sceptical of Reform. In national polls Labour is losing twice as many voters to centre-left parties. Though Labour voters in Caerphilly are likely to be more favourable to Reform than they are elsewhere, the by-election will probably rest on Reform's ability to turn out reluctant voters in places like Lansbury Park—one of Wales's poorest estates—and on corralling the right. Nigel Farage, Reform's leader, has visited the constituency to gin up enthusiasm. A poster of his trademark grin looks over

Caerphilly's high street from the party's offices, flanked by a bouncer. (There is no such poster of Sir Keir at Labour HQ.)

Labour's dissatisfied voters are instead drawn to Plaid Cymru's candidate, Lindsay Whittle. A local councillor since 1976, "Mr Caerphilly" has stood for election to the Westminster Parliament or the Senedd 16 times since 1983. This attempt could be his most successful. Fewer than one in eight Caerphilly residents is a Welsh speaker, Plaid Cymru's traditional base, but the party is reaching voters with a broader message on public services and the cost of living. Plaid Cymru tends to win more votes in Senedd elections than in Westminster, but that doesn't mean this kind of political dynamic is limited to Wales. The Liberal Democrats and Greens are winning voters in England with a similar playbook.

Number 10's focus on defectors to Reform exacerbates Labour's problem. Polling by YouGov shows that more Britons think the government is trying to appeal to Reform voters than to its own. But pandering to Reform voters is no substitute for good government, and offends Labour's most loyal supporters at a time when voters are less sticky than ever.

This political fragmentation and volatility mean that Labour's safe seats are no longer safe. The beneficiaries may vary: Reform in many places, Plaid Cymru in Wales or the SNP in Scotland, the Greens and Lib Dems in progressive cities, pro-Gaza independents in Muslim areas. The result is a skittish parliamentary Labour Party, making it even harder for the government to take the tough decisions that might improve its position in the long run.

If Labour comes third in Caerphilly, it could be a harbinger of the Senedd election in May. Polls show Plaid Cymru and Reform on the rise; both stand to gain from depicting it as a two-horse race. Under Wales's proportional voting system, Reform is unlikely to win a majority, making some form of centre-left coalition led by Plaid Cymru's Rhun ap Iorwerth the most probable outcome.

"We could have a Plaid Cymru first minister in Wales, an SNP first minister in Scotland and a Sinn Féin first minister in Northern Ireland," says Mr ap

Iorwerth. It would be the first time that all three devolved governments were led by separatists. “I want to use that tension constructively,” he adds.

The loss of Labour’s safe seats was already under way before the party came to power. In 2019 Labour won 24 constituencies by a margin of over 50 percentage points. In 2024, despite it winning more than twice as many seats, the number shrank to four. Caerphilly is just one Senedd seat and Labour might yet win it. But for the party’s elected officials no fortress now looks safe. ■

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Special report

Special report | Governments going broke

Across the rich world, fiscal crises loom

The consequences will be profound, argues Henry Curr

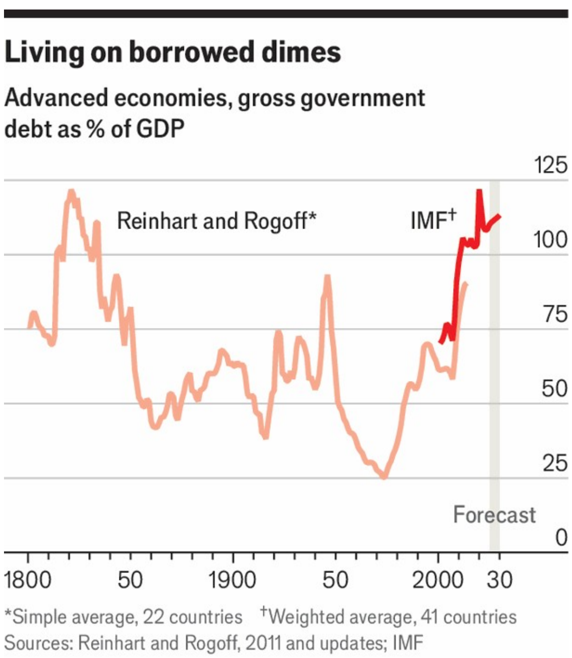
October 13th 2025

Government debt is one of humanity's great inventions. It allows societies to store wealth, fight crises and build for the future. After Britain's superior access to credit helped it defeat Napoleon in 1815, one historian likened the country's credit lines to Aladdin's lamp. Two centuries later, during the covid-19 pandemic, much of the world looked on with similar astonishment as rich countries borrowed freely to splurge on support for households and health care.

The magic of borrowing, though, comes with a temptation—one that David Hume and Alexander Hamilton worried about in the late 18th century. If a country is sufficiently creditworthy to cover its existing debts, it is in a position to borrow more. Having manageable debts means you can manage more debt. And so it is all too easy for debt to grow.

If this goes on for too long, governments start to face pushback. The bond markets which meet their need for debt start to charge them more. New borrowing gets harder—and so does rolling over old debts. If governments do not then tighten their belts, the country's all-important creditworthiness erodes in a way which can easily spiral out of control.

Historically such debt crises have mostly been a poor-world problem. Yet today the biggest, richest countries have fallen into a dangerous pattern of borrowing ever more. Debts have reached vertiginous highs and bond markets are showing resistance. This special report will predict what happens next.



Gross public debt as a share of GDP in advanced economies stands near 110%, close to an all-time high. A rise in interest rates since 2022—initiated by central bankers to control inflation that was caused in part by government spending sprees—has made debts far more burdensome. Rich countries as a whole now spend half as much again on interest as they do on national defence. And they keep on borrowing. This year the average deficit in advanced economies will be over 4% of GDP; in America the figure is over 6% of GDP.

A series of crises is part of the explanation for high debts: the financial crash of 2007-09, the covid-19 pandemic and Russia's invasion of Ukraine. And the kind of long-running short-termism about which Hume and Hamilton worried is also to blame. Governments have adopted mechanisms to constrain debts, such as America's "pay as you go" rules in Congress or the EU's Stability and Growth Pact. But politicians suspend, abuse or evade them almost as they please.

There is little political appetite for belt-tightening. America has spent whatever windfall it will raise from President Donald Trump's tariffs, and possibly more, by renewing and expanding Mr Trump's deficit-financed tax cuts from 2017. And the White House is entertaining still more tax cuts. France goes through annual political crises as proposals to trim the budget even modestly generate blowback: they are the main reason the country has lost five prime ministers in two years. Japan's incoming prime minister favours expansionary fiscal policy despite sky-high debts. Britain's government will give at least the impression of austerity on November 26th, when it will almost surely raise taxes. But the changes will keep the country only just inside a hyper-forgiving fiscal framework.

Bond markets are responding. For short-term debt, buying a bond is mainly a bet on the path of interest rates set by the central bank over the period the bond will be held—the trick is to get a higher yield than you can expect from cash in the bank. But the longer the duration of a bond, the more investors must pay attention to the risks posed by lax budgeting. It is therefore telling that in most big rich economies, ten-year government bonds yield more today than they did when the central bank started cutting short-term interest rates again in 2024; investors are demanding higher long-term rates because they sense danger.

The prospect investors must worry about is not just—or even mainly—that of default. There is another weapon that can hurt them over long horizons: inflation. Debts are typically fixed in nominal terms, meaning higher prices can erode their real value. Voters dislike high inflation, and it destabilises economies. But as debts mount, inflation becomes relatively more appealing, and the danger that politicians will pressure central banks to bring it about goes up.

The effect of such risks on the bond market can be marked. In September Britain's 30-year bond yield hit its highest point since 1998 in part because investors want compensation for the riskiness of its budget. Japan's hit its highest level ever, having surged over a percentage point this year. The country used to be the best example of low rates making high debts sustainable, but now looks wobbly. France's long-term debt carries yields almost as high as Italy's. And in the spring of 2025 America's "yippy" bond market appeared to be the main constraint on President Donald Trump's chaotic policymaking, as the 30-year Treasury yield nearly touched highs not seen since 2007.

The irony of the world's fiscal mess is that economic conditions are benign. No major economy is in a recession. Public debts have fallen slightly in real terms since their pandemic peak (due to inflation). And though interest rates have risen, in many countries they remain below the rate of economic growth.

That means that if the "primary" budget, which excludes interest costs, is in balance, GDP would rise faster than debts would mount. In fact, using five-year bond yields and IMF growth forecasts, The Economist calculates that most rich countries could still run small primary deficits and keep debts stable as a share of their economies, even if they had to refinance all their debt immediately at today's rates. The largest primary surplus required to balance debts is in Britain, at just 0.3% of GDP. That is not large for countries in a pinch. In the late 1990s Italy ran primary surpluses of 3-6% of GDP to bring down debts before joining the euro.

You look like you need a trim

G7 countries, 2025, % of GDP

Country	Government net debt	Government revenue	Austerity required to stabilise debt*
Japan	134.2	36.7	0.7
Italy	127.3	47.5	-0.5
France	108.2	51.9	3.1
US	98.0	31.5	2.3
Britain	95.1	39.5	2.3
Germany	49.6	46.9	1.7
Canada	12.5	42.4	1.2

*Change in primary balance required if average financing costs immediately reflected five-year bond yields
Sources: Bloomberg; IMF; *The Economist*

Unfortunately even modest budget targets are hard to hit if you start far away from them. In Britain and America, deficits are large. The belt-tightening needed to stabilise the debt-to-GDP ratio exceeds 2% of GDP; in France it is greater than 3% of GDP. Another problem in Europe is that taxes are high as a share of GDP, limiting the scope to raise them without doing excessive economic damage. Of the G7 group of big rich economies only Canada enjoys low debt, a small necessary adjustment and the space to raise taxes. France looks bad by all three measures.

Things look worse still when you consider the coming wave of spending on ageing populations, defence and the climate transition. And higher debt interest costs to come are not yet fully accounted for. About half of outstanding debt with a fixed interest rate in the OECD club of rich countries costs less than 2% a year to service—a legacy of having issued the debt when rates were low. American debt worth a quarter of the country's GDP will come due between 2025 and 2027. Reissuing it at 2024 yields would increase the interest rate paid by about two percentage points.

The IMF has estimated that debt interest, pensions, health, defence and climate change in Europe's advanced economies will create additional annual spending "pressure" worth nearly 6% of GDP by 2050. In Britain, Spain, Portugal and Switzerland the figure is above 8% of GDP. America is ageing less than Europe. But the Penn Wharton Budget Model, a research group, estimates that America would need to raise taxes and cut spending, by 15% in both cases, to eliminate the future gap between spending and taxes.

Critics pooh-pooh dire fiscal forecasts. Who knows the future? But the problem with budget projections is that they tend to be too optimistic. Britain's fiscal watchdog found this year that, when asked to forecast deficits five years in the future, it had underestimated them by 3.1% of GDP. The IMF has reached a similar conclusion across rich countries. "If history is any guide, the trajectory of debt will be worse than any of us project today, and considerably so," said Gita Gopinath, then of the IMF, in a speech last year.

One reason is that forecasters tend to be too optimistic about growth. Perhaps, with the help of breakthroughs in artificial intelligence, that could change. But the AI boom is concentrated in America, and faster growth there tends to mean higher global interest rates, making debts more expensive to service.

And even when policy has been aimed at stabilising debt-to-GDP, the ratio has ratcheted higher due to crises. It would be naive to think that such shocks—like another pandemic or war—will not strike again.

How will the global budget mess end? There is no law of economics that says the debt-to-GDP ratio can rise to a certain level and no further. It is up to markets and voters. If investors doubt an electorate's mettle for servicing their country's debts and start selling off bonds, governments can be forced into excruciating choices. Interest costs can rise so much that only enormous primary surpluses, requiring deep austerity, can restore economic stability. The other option of a country in such a crisis is to default or to inflate away debts.

The drift towards crisis could be arrested if budgets were fixed today. But one reason that looks so unlikely is the subject of the next chapter: the increasingly sorry condition of welfare states. ■

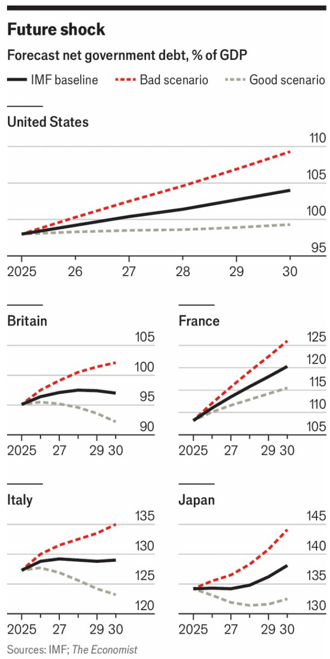
Special report | The limits of borrowing

How much public debt is too much?

Interest rates and growth define the threshold for danger

October 16th 2025

ONE REASON economists have a poor record of predicting fiscal crises is that there is no defined level at which debt can be said to be too high. They prefer to assess whether a debt-to-GDP ratio is stable or increasing.



The trouble is that a ratio that is stable one moment can be explosive the next. Consider an extreme hypothetical: debt-to-GDP of 1,000%. In theory, even this can be stable: with 2% growth, 2% inflation and a roughly 4% interest rate, the country could borrow the 40% of GDP it needed to pay its annual interest bills without increasing the debt-to-GDP ratio. It would just need to balance its "primary" budget, which excludes interest payments.

Yet a rise of just one percentage point in the interest rate or an equivalent fall in the growth rate would mean needing a primary surplus of 10% of GDP to stop the ratio exploding. Such surpluses never happen. Default or inflation would arise instead.

How much risk will markets bear? Like banks, highly indebted governments are vulnerable to runs. Fear of a crisis can start a crisis, by pushing up financing costs. It is also a matter of politics: how much will governments tighten their belts? High debts also slow growth and push up rates, by sucking up capital that could be spent productively. Models that account for this feedback loop show high-debt countries to be still more vulnerable to a crisis.

We have produced simulations showing the sensitivity of the debt-to-GDP ratio of five major economies. We take the IMF's latest forecast, then project a bad scenario in which the interest rate-growth differential is 0.5 percentage points higher than assumed and primary deficits 0.5 points wider. We also produce a good scenario with mirror-image assumptions. America and France see rising debts in all cases because their forecast primary deficits are so large. Italy and Japan—the most indebted major economies—face highly variable trajectories. Their high debts leave them more at the mercy of economic conditions.■

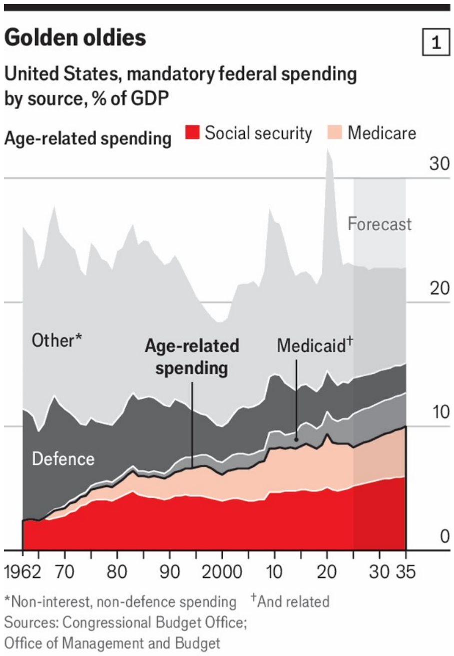
Special report | Welfare states

Fixing the welfare state looks electorally impossible

Ageing workers are doing better than expected. But they still demand handouts

October 16th 2025

Mention the phrase “the social contract” to a young French person and they might not think of Jean-Jacques Rousseau’s 1762 opus. They might think of a meme. It shows a young professional, “Nicolas”. He sits, head in hands, with arrows pointing from him to various drains on taxpayers, including “Bernard & Chantal, 70 ans”, who spend their pensions on cruises and cocktails. The image has spread elsewhere—in Britain retirees “Simon and Linda” extract cash from “Nick”. And it has entered the language of politicians. “It is always Nicolas who pays,” said Bruno Retailleau, France’s interior minister, in August. President Emmanuel Macron’s advisers are said to be “closely monitoring” the Nicolas qui paie “movement”.



Since the foundation of the welfare state its critics have warned that it would be captured and abused by coalitions with political power. Milton Friedman said in 1977 that an all-powerful middle class would "obtain benefits for themselves at the expense of both the very rich and the very poor". He was wrong. Instead, a coalition of the old and those sympathetic to them attempt to extract cash from Nicolas.

The ageing of populations has utterly reshaped the composition of government spending (see chart 1). Welfare states still support the poor. Even sink-or-swim America provides transfers to the bottom quintile that are worth 90% of their pre-tax incomes. But since 1980 transfers to the elderly and spending on health care—which is overwhelmingly concentrated on them—have grown by about 5% of GDP in the OECD group of rich countries, twice the rise in other social spending. Advanced economies in the G20 will, on their current trajectories, spend another 2.4% of GDP more annually on pensions and health care by 2030 than in 2023, according to the IMF.

Some view this growing transfer of resources as inevitable. The state is a veil, it is argued; specific policy choices cannot change the fact that as the ratio of retirees to workers rises, the elderly have to be supported somehow. Yet economists are beginning to entertain the idea that an ageing population need not be too much of a fundamental economic drag. That is because older people work more and more productively than they used to, live longer, and hoard wealth.

Even as societies have aged, employment in developed economies has risen slightly since 2000 as a share of the total population, economists at Goldman Sachs found in a paper this year. As life expectancy at birth has grown from 78 to 82 years, the median effective working life has gone up from 34 to 38 years. Thus ageing societies have in recent years wound up with more workers for every dependant, not fewer.

And older people are getting more productive. A person who was 70 in 2022 had the cognitive ability of a 53-year-old in 2000, according to data crunched by the IMF. The improvement among the over-50s is so large that, using the relationship between brainpower and income, it implies a rise in average earnings of 30% among those with jobs. The trend towards “healthy ageing” is sufficient to add 0.4 percentage points to forecast annual global growth between 2025 and 2050, reducing the overall negative effect of ageing by about a third. “Demographics is not destiny,” argues Joseph Davis of Vanguard, an asset manager, having modelled how ageing has affected American growth since 1890.

Rising healthy longevity helps with another feared problem: the global fall in fertility. The average rate of fertility needed for births to keep up with deaths is thought to be 2.1 children per woman. But if life expectancy rises at a pace of 0.25 years per year—the historical pattern in the rich world—the replacement fertility rate drops to just 1.6-1.7, calculate Goldman’s economists. That means many rich countries would have seen their populations grow in recent decades even if there had been no immigration.

The last bit of good news is that an older population should mean lower real interest rates. Older people, having built up assets during their working lives, run them down slowly; their vast portfolios provide a plentiful supply of capital. Adrien Auclert of Stanford University and colleagues project in a working paper that ageing populations will reduce global real interest rates by over one percentage point, all else being equal, by 2100. Another paper by an overlapping group of authors finds that the fiscal effect of lower rates from an ageing population could allow America’s debt-to-GDP ratio to sustainably rise to 250% by 2100.

Why, then, is ageing a fiscal problem nonetheless? The answer is like Friedman’s: the old have political power. They can resist changes to the structure of the welfare state, and thus enjoy the advantages enumerated above while retaining benefits defined when old age was shorter and grimmer. At their inception, public pensions in Britain and Germany offered meagre support to those over 70 when life expectancy was 45-50. But as life expectancy shot up, the age at which public pensions could be claimed did not keep pace. Between 1972 and 2000 the proportion of life a man in the OECD could expect to spend in retirement grew from a sixth to about a quarter. Since then governments have made efforts to raise retirement ages in line with increases in longevity, but it is fiddling around the edges compared with the decades-long trend. And now there are many more pensioners both claiming their incomes and voting to preserve them.

The average male retirement is 18 years long. That will rise in future decades, according to the OECD. Some countries, including Finland, the Netherlands, Portugal and Sweden, increase the retirement age by less than one-for-one with life expectancy, precisely because they do not want the fraction of life lived in retirement to fall. In 1930 John Maynard Keynes predicted that people would work only 15 hours per week a century later. Most workers still toil full-time. But such is the rise in the length of retirements that hours in the typical lifetime spent not working has grown by more than Keynes’s prediction implied, wrote Nicholas Crafts of Warwick University in 2022.

Proposals to make even minor changes to pension benefits have provoked furious protests in backlash. In 2023 more than 1m French marched against a gradual increase in the retirement age from 62 to 64; the reform was pushed through using special constitutional powers. Italy has watered down retirement reforms that were legislated for in 2011. Britain’s Labour government announced in 2024 that it would means-test the “winter fuel allowance”—a £300 ($405) annual universal handout that for most recipients has little to do with heating. It was forced to all but U-turn on the proposal. As populations have aged, politics seems to have become more of a bidding war: analysing the manifestos of political parties in 65 countries, IMF researchers have found that both left-wing and right-wing parties have become markedly more expansionist in their promises since about 1990 (see chart 2). Shifts in political rhetoric towards expansionism tend to be followed by bigger deficits.

Where does this leave Nicolas? The direction of the welfare state provides some support for the meme. But it misses two phenomena. The first is that pensions are popular with the young as much as the old. Four in five Americans told Pew, a pollster, in 2024 that social-security benefits should not be reduced in any way, a view broadly shared across demographic groups. A majority of Brits aged 25-49 think the government should definitely or probably keep the triple lock, a guarantee that the country's state pension rises by earnings, inflation, or 2.5%, whichever is highest, and which over time guarantees that pensions rise relative to wages. Nicolas, it seems, wants his granny to have a nice life—and to enjoy a comfortable retirement himself. The elderly have a lock on welfare states not just because they are a large voting bloc, but because they are sympathetic recipients.

The second omission is that taxes on Nicolas have not risen to anything like the extent that would be necessary to pay for the old—which is why so many governments are running up big debts instead. In both Europe and America, the total tax wedge, or difference between a worker's take-home pay and what it costs to employ them, is lower today on average than it was in 2000 for an individual earning 167% of the median wage. Even in France and Britain, the increase in the tax wedge is up by less than 2 percentage points.

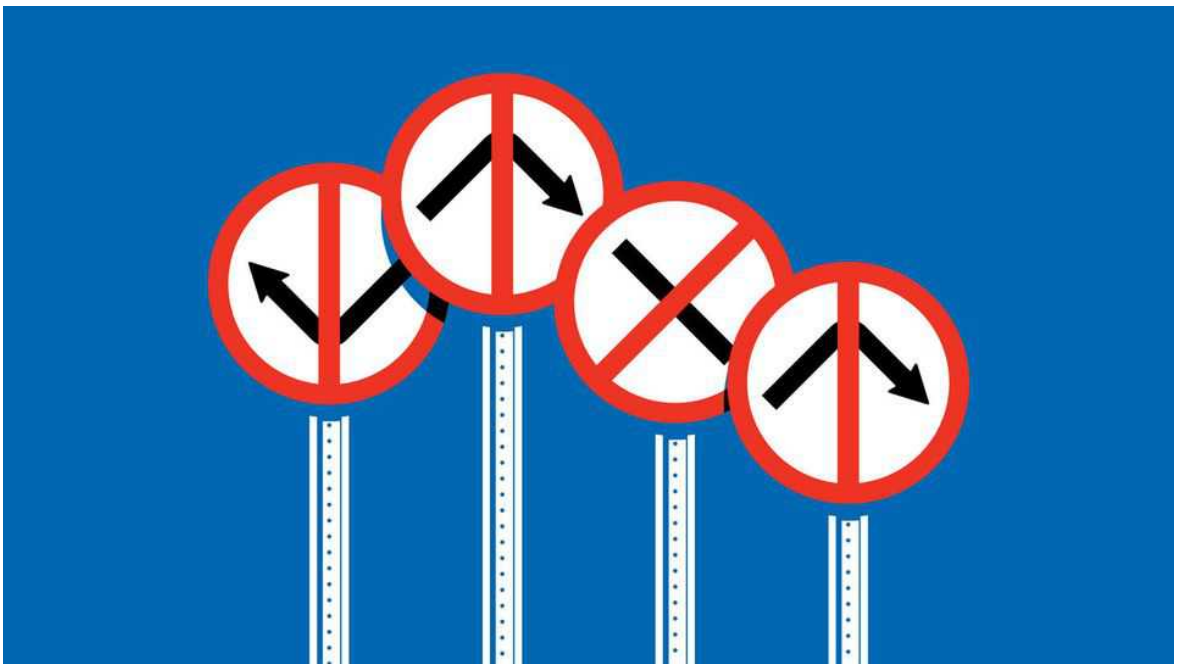
But Nicolas does have a problem. If governments decide to stave off fiscal crises by balancing budgets, he is the likeliest target. Although the balance of evidence is that belt-tightening is easier on the economy when spending is cut rather than taxes raised, the politics of a greying society make that difficult. The rest of the state has already been squeezed to make room for pensions and health care, and from Italy's local government reforms to Britain's pot-holes economists have linked the deterioration of public services to more votes for right-wing populist parties, which incumbents are trying to fight off. Taxes, especially on higher earners, will have to rise instead. That is, unless a more convenient way out of debt is found—a possibility that the next chapter examines.■

Special report | The ways out that aren’t

Economic growth is unlikely to prevent fiscal crisis

Immigration only defers the problem. Higher productivity means higher interest rates

October 13th 2025



It is a favourite trick of politicians to promise economic growth to flatter their budget forecasts. Debt is only one-half of the debt-to-GDP ratio; increasing output can be as good as shrinking what you owe. In the mid-20th century, the catch-up of wartorn economies, a baby boom, women’s entry into the workforce and the expansion of secondary education meant growth contributed to the rich world paying off its debts from the second world war). Emerging economies enjoying catch-up or commodities windfalls have at times grown their way out of debt rather than restructuring it or inflating it away.

Today, the low-hanging fruit has largely been picked. But politicians of left and right still pin hopes on growth to shore up the public finances. The left tends to favour more immigration, which is seen as a natural response to the problem of an ageing society. The right emphasises productivity, brought about by tax cuts, deregulation and technological advances. Unfortunately, neither population nor productivity is likely to rescue today's budgets.

Start with increasing the size of the workforce. "Immigration [is] one of the answers to Europe's demographic ageing," declared the Council of Europe's parliamentary assembly this year. At an annual central-bank jamboree in Jackson Hole, Wyoming, both Ueda Kazuo, governor of the Bank of Japan, and Christine Lagarde, president of the European Central Bank, suggested that foreign workers were the natural solution to the problem of demographic drag.

The appeal is obvious. Immigration mechanically boosts GDP, spreading existing debt over more people. In the near term, deficits fall because tax receipts rise. More migrants can also look better (fiscally speaking) than more babies, who do not arrive ready to work.

The trouble is that the young get old. The baby boomers have gone from being budget boons to budget-busters. Life expectancy has risen, which means adding immigrants or babies delays but does not prevent the average age of the population from going up in tandem. Eventually you face the same problem again on a bigger scale. "The rise in population needed to completely offset ageing…is very great and gets bigger over time," wrote David Miles of Britain's Office for Budget Responsibility, its fiscal watchdog, in a recent essay warning of a "population Ponzi scheme".

In some countries that might sound less like a warning than an enticement. Both Japan and Italy have birth rates that are so low that their populations are shrinking. More migrants would forestall population collapse as well as delaying a budget catastrophe.

Yet many Western voters increasingly fear congestion, especially around successful cities. Regulations often prevent adequate homebuilding. Infrastructure and public services have in many places failed to keep up with the pace of arrivals in the 2020s, creating a backlash. Research by the Bank of Canada has found that in some areas a 1% increase in skilled migrant populations produces a 6-8% rise in house prices.

Britain has seven times the population density of the average rich country and an acute housing shortage in its most productive region around London; it looks the least well-placed of rich countries to plug a fiscal hole with more people. America has lots of space overall, but local bottlenecks on housing supply in its most successful places, to which migrants would most naturally be drawn. If you thought balancing a budget was a difficult political job, try taking on NIMBYs.

Countries have also proved to be poor at admitting the most fiscally beneficial migrants. Progressive taxation and welfare states mean there is a chasm between the lifetime fiscal impact of a high-skilled and a low-skilled one. The average migrant who arrives in America aged 25-34 with a graduate degree brings discounted lifetime fiscal benefits (excluding descendants) of nearly \$2.3m, in 2024 prices, to the federal government, calculates David Bier of the Cato Institute, a libertarian think-tank, in a working paper. A migrant of the same age who arrives without a high-school diploma brings in less than \$15,000 in lifetime benefits. Similar evidence from the Netherlands suggests that migrants must have at least a bachelor's degree to have a positive fiscal effect.

Unfortunately the surge in migration that the rich world has experienced since 2020 has, on the whole, involved an unusually high proportion of lower-skilled migrants, including asylum-seekers. Yet even if there were a pivot to the highest-skilled, the numbers required to plug the hole in the budget are enormous. Take the nearly \$2.3m benefit of a young, high-skilled migrant and compare it with America's total forward-looking fiscal gap, estimated to be \$163trn by the Penn Wharton Budget Model. It would take an implausible 71m such migrants to close the gap.

What about the dream of faster productivity growth? "We may see a productivity revolution in this country over the next ten years that we just can't anticipate," Senator Ron Johnson of Wisconsin told reporters in June while defending a deficit-swelling budget bill. A scenario produced by America's Congressional Budget Office finds that if average annual total factor productivity growth were half a percentage point higher than it forecast, the public-debt-to-GDP ratio in 2055 would be 113% rather than 156%, all else being equal. "AI could solve the US fiscal problem," declared Torsten Slok of Apollo, a private-equity firm, in July.

Yet in fiscal terms even productivity growth can come with downsides. Public pension schemes like social security are often linked to wages, which rise with productivity, limiting the fiscal gain. More fundamentally, what matters for improving debt sustainability is not just boosting growth, but boosting growth relative to interest rates. Since Frank Ramsey wrote the canonical model of economic growth in 1928, economists typically have argued (though it is hard to prove) that productivity and interest rates rise and fall together.

As a result you might not lower the interest rate-growth rate gap "much if at all" with pro-growth policies, wrote Jason Furman of Harvard University last year. Faster growth will "prompt additional investment, putting upward pressure on real interest rates", warn Serkan Arslanalp of the IMF and Barry Eichengreen of the University of California, Berkeley. Although empirical evidence on the matter is scattered and inconsistent, some research implies that when growth rises, interest rates rise even more—which would make debt sustainability worse.

Suppose AI does turbocharge productivity. Investment demand is already rapacious: data-centre, server and chips investment will be nearly $500bn globally in 2025, says Morgan Stanley, a bank. The more optimistic you are about AI's growth potential, the greater the outlays should be. An uber-optimistic model by Epoch AI, a think-tank, suggests that optimal investment in AI this year is $25trn, almost the size of the entire US economy. Even for America, which can import oodles of capital, eventually a greater demand to invest pushes up interest rates. And, according to Ramsey's framework, faster expected growth also makes savings fall, because people think they will be richer tomorrow. This makes the capital shortage even worse.

The effect is global—and can be painful when countries grow at differing paces, according to Neil Mehrotra, now of the Federal Reserve Bank of Minneapolis. Cross-border capital flows keep interest rates highly correlated across countries. Fast growth in America can, therefore, push up the cost of capital for everybody—even if nobody else is sharing in the boom. Europe, with its regulatory burdens and lack of technological dynamism, must be especially cautious. The alternative to succeeding in AI is “importing higher rates while productivity stays flat”, warns Luis Garicano of the London School of Economics.

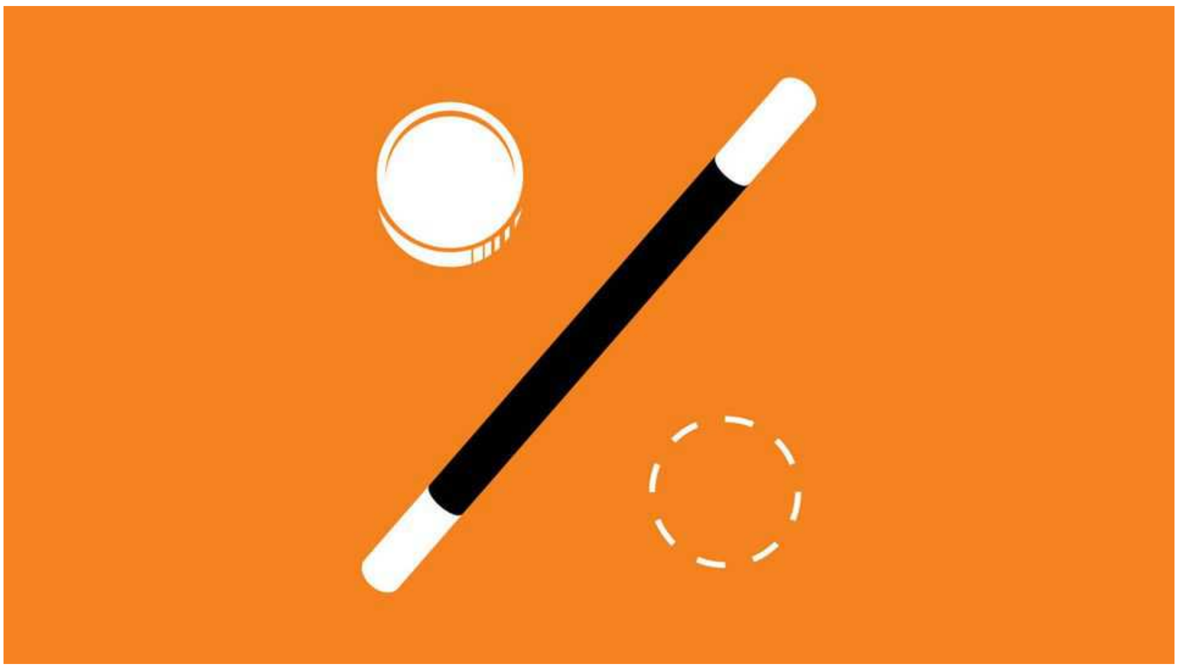
A last issue with AI is that it could increase the demand for redistribution. That is the expectation in Silicon Valley, which anticipates most knowledge work becoming redundant, and where many techies advocate a universal basic income (UBI). Even if they are wrong about UBI, it is likely that an era of economic disruption would lead to greater demands on welfare states. A larger economic pie would make that easier—Messrs Arslanalp and Eichengreen find that faster economic growth does predict successful fiscal adjustments, in part because it makes it easier to run surpluses. Yet with a disruption as profound as AI, there are plenty of reasons to be careful what you wish for. ■

Special report | Lessons from history

Big, rich countries have rarely repaid debt with surpluses

Since 1913, even default has been more common

October 16th 2025



Before the second world war defaults by leading economies were not unheard of. France forcibly made some short-term obligations perpetual in 1848. Britain never repaid some of its great war debts to America. America itself passed a law in 1933 voiding the rights of creditors to demand repayment equal in value to a certain weight of gold, after President Franklin Roosevelt abolished the gold standard—technically a default. Many European powers defaulted during or shortly after the second world war.

Since then there has been a norm that advanced economies always repay their bondholders (violated only by Greece and Cyprus in the 2010s). But creditors still get burned. In advanced economies governments spent about half the time between 1945 and 1980 gaining more from inflating away debt than they paid in interest, write Carmen Reinhart of Harvard University and Maria Belen Sbrancia of the IMF. The average annual saving in interest expenses ranged from 1-5% of GDP.

The biggest single episode of debt reduction identified in 220 years of data by Barry Eichengreen of the University of California, Berkeley, and Rui Esteves of the Geneva Graduate Institute occurred in Britain between 1947 and 1956. The country's debt-to-GDP ratio fell by 131 percentage points. About half of the drop came because inflation exceeded interest rates, though Messrs Eichengreen and Esteves are at pains to point out that America's simultaneous debt reduction, of about half the size, relied more heavily on economic growth.

One has to go back to before the first world war to find debt reductions driven by budget surpluses in big economies. Back then the gold standard did not allow for inflating away debts. From 1896 to 1913 France shrank its debt-to-GDP ratio from 96% to 51%. Britain managed to run nine decades of primary surpluses after the Napoleonic wars to slash its debt-to-GDP ratio from 194% in 1822 to 28% in 1913. America nearly wiped out its debt of 30% of GDP using surpluses between 1867 and 1913.

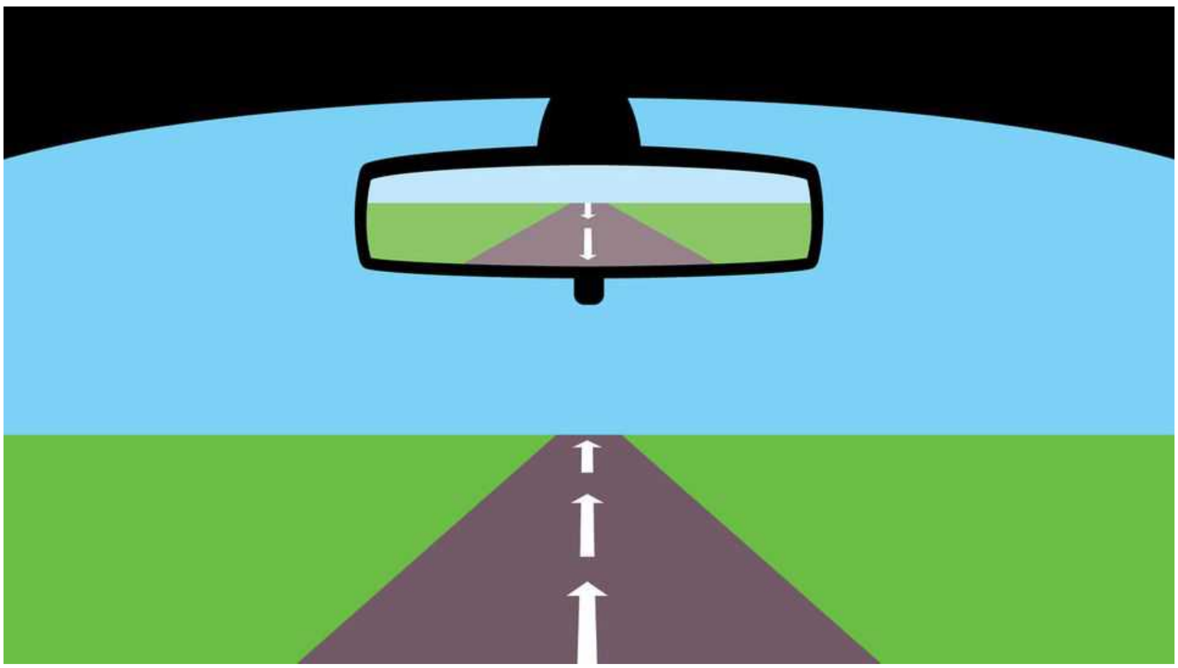
Of Messrs Eichengreen and Esteves's top 30 debt consolidations, the only one in the post-war era that was achieved primarily through budget adjustment among the G7 club of rich countries was in Canada between 1997 and 2006. Canada is also part of a small group of rich economies that has managed to avoid a big run up in debts today—as the next chapter explains. ■

Special report | The miracle workers

How do some countries avoid debt?

Reforms to limit debt accumulation seemed to have worked—in the countries lucky enough to have enacted them

October 16th 2025



Piling up debt through irresponsible budgeting can seem like part of human nature. In "How Countries Go Broke", a book released in June, Ray Dalio, founder of the hedge fund Bridgewater, argues that there is a debt supercycle that is visible across countries and through centuries of history. Governments lever up for decades and then must clear away the problem, often via default or inflation. Even the most advanced economies of the day are not immune.

But a significant minority of the rich world seems to have opted out of this cycle. Economies accounting for a third of rich-world output, at purchasing-power parity, have net public debts of less than 50% of their GDP, while facing pressures—like ageing and defence spending—that are pushing up debts elsewhere. Four blocs stand out for their relative probity: the junior Anglosphere (Canada, Australia and New Zealand); Scandinavia; the Rhineland economies (Germany, Switzerland and the Netherlands) and the Asian tigers (South Korea, Hong Kong, Singapore and Taiwan).

How do they manage it? Several have inverted the old rules of politics. Dust off research from the 1990s and you find evidence that the more fragmented a political system, the more likely it is to run up debts. The logic is simple. If a political system is made up of interest groups lobbying for goodies, the costs of which are borne by the whole nation, a tragedy of the commons results. Proportional voting systems and coalition governments are considered prone to throwing caution to the wind to keep everyone happy. Belgium, with its interminable coalition negotiations and 93% net-debt-to-GDP ratio, is the quintessential example of this phenomenon still in action today.

Yet in the 21st century the Rhineland and Scandinavian economies have paired consensus-oriented politics with low debts, while majoritarian Britain and America are deep in the red. The frugal governments of the moment tend not to be identifiable by their political systems, but by whether they implemented budgetary reforms in the 1990s and 2000s.

Take Sweden. After a financial crisis in the early 1990s brought about large deficits, the country adopted fiscal rules designed to ensure a budget surplus over the business cycle. That meant capping spending and eliminating open-ended appropriations so that surpluses in flush years would more than make up for deficits in the down years. It has since gone from being one of the most indebted European countries to one of the least. New Zealand, in its 1991 "mother of all budgets", responded to sovereign ratings downgrades with deep austerity, then wrote strict budget rules enforcing long-termism. Switzerland introduced a "debt brake" in 2003 after it was backed by 85% of voters—disproving the notion that electorates are inevitably myopic. Germany, known for its fiscal rectitude, was a relative latecomer, enacting a cap on deficits in 2009.

It helps when countries have also established pre-funded pension systems, rather than relying on promises to be fulfilled by future governments.

Australia, Canada, Denmark, Iceland, the Netherlands, Switzerland and Sweden have accumulated pension assets over 100% of GDP. (By this metric Germany does not look so careful after all: assets in its pension plans amount to just 6% of GDP, despite its rapid ageing.) Among rich countries only the United States has both vast pension assets and big debts.

But why do some countries and not others write the rules necessary to contain debt? One theory is that frugal nations are disciplined because they must be: many are small and depend on trade, and are not given anything like the leeway by investors that is granted to big economies. In South Korea, for example, the memory of the Asian financial crisis of the late 1990s still looms large every time its bond or currency market gets jittery. For comparison, many economists, including Stephen Miran, a White House economic adviser turned monetary-policymaker, have argued that America is doomed to indebtedness because global investors give it the rope with which to hang itself, in the form of nearly limitless access to capital.

Certainly, in the absence of laws limiting debt, majoritarian political systems are now as vulnerable to fiscal problems as anybody else—perhaps even more so. Political polarisation has been their undoing. One theory of public debt holds that it is a means by which governments can sabotage their opponents; there is a "war of attrition" in which each side would rather delay belt-tightening than accept austerity.

There is some evidence for these dynamics today. In America Republicans and Democrats know that every tax cut or spending increase they enact shifts the baseline for negotiations over any eventual fiscal compromise. In Britain the outgoing Conservative Party cut taxes unaffordably just before it left office; the current Labour government immediately raised them again, attracting much opprobrium for doing so.

Determined politicians will also find holes in fiscal rules. Both Britain and America have rules in place and independent, technocratic forecasters. But, faced with sufficient political will in an adversarial system, those processes are easily waived or gamed. In Europe discretionary enforcement of the Growth and Stability Pact, which is meant to constrain the debt and deficits of euro-zone members, has left the pact toothless. No country has ever been fined for breaking it. Even in New Zealand, the 1991 budget—also known as

"Ruthanasia" after then-finance minister Ruth Richardson—remains politically divisive today.

Hard constitutional limits provide much stronger protection against profligacy. Yet they also reduce flexibility: Germany's debt brake has hampered its ability to invest in infrastructure and spend on defence; it was relaxed in 2025 (though not without worries that it would end up spending its newfound leeway on pensions). If a fiscal rule is so tight that it prevents a country from harnessing the advantages of debt—being able to spread the cost of crises or infrastructure through time, or stimulating in response to a deep recession—then it can hurt as much as it helps.

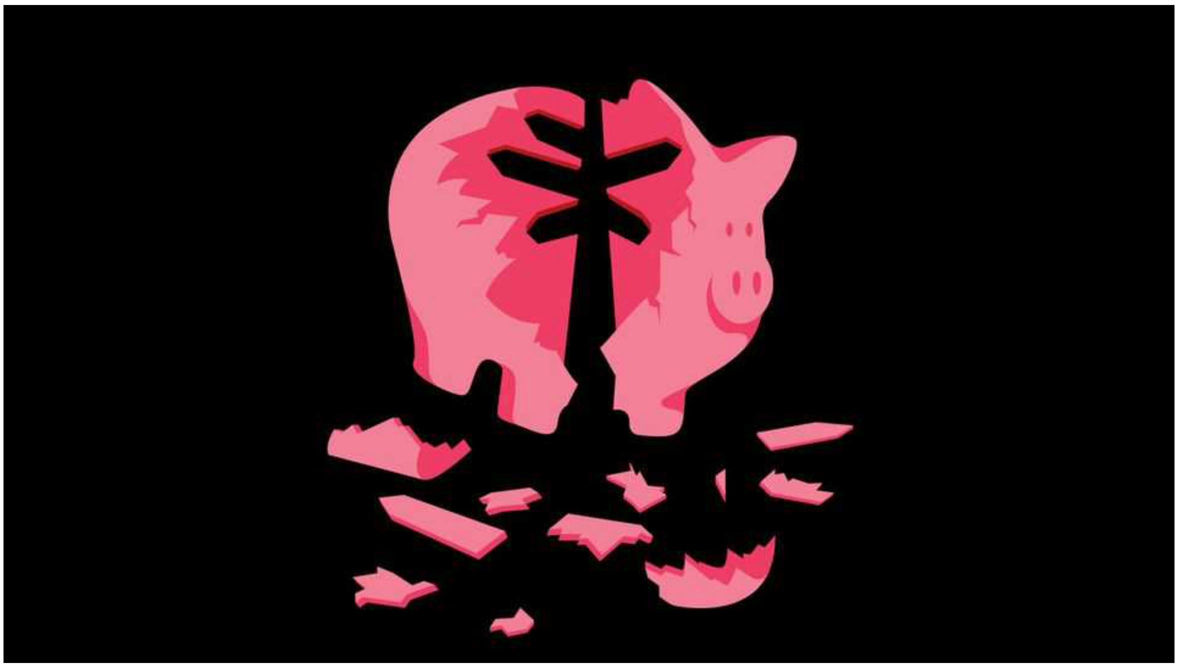
Hence it probably requires an enduring political consensus on how to budget to both enjoy the upsides of debt and avoid Mr Dalio's dreaded cycle. But it is not the 1990s any more. Just as repeatedly delaying a fiscal adjustment increases its eventual scale, so the scope of the political deal that needs to be struck to avoid disaster expands over time. That makes overcoming legacy debts with budgetary wisdom and discipline a dubious prospect. Instead rich governments are increasingly likely to resort to more primitive methods, as the final chapter argues. ■

Special report | The end game

The case against holding bonds

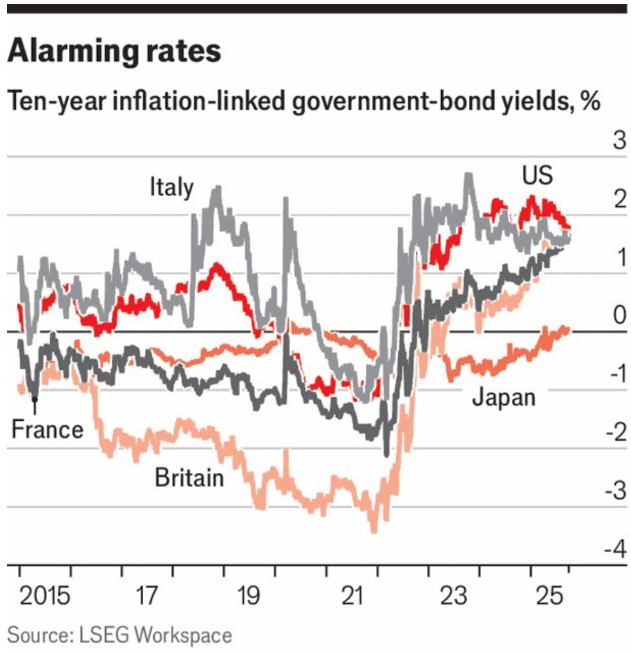
Governments are going bust. Inflation risk looms over long-term debt

October 16th 2025



In a speech in July Gregory Mankiw of Harvard University set out in stark terms what must happen to bring to an end America's unsustainable accumulation of debt. The five options: big cuts in government spending; extraordinary economic growth; large tax increase; default; or large-scale money creation (ie, inflation). "Individually, each of these outcomes seems highly unlikely," he noted. And yet logic dictates that some combination of them must happen.

This special report has narrowed down the possibilities—which are the same across the rich world—with a process of elimination. It has argued that cuts in spending are unlikely, given ageing populations and the political power of the elderly. Economic growth will not solve the problem. An imagined artificial-intelligence boom is likely to raise interest rates, and the quantity of high-skilled immigration needed to meet future spending obligations is wildly infeasible.



That leaves three unpalatable options: tax rises, default and inflation. The most likely is inflation—a danger looming over all who buy long-term bonds today.

In some places higher taxes are conceivable. America has a relatively low tax burden by international standards. It has no value-added tax, a (relatively) light-touch levy on consumption. Yet the current Republican Party will not back any big tax rise without being forced to do so by a financial crisis.

That it will get such a crisis is more or less a given—acknowledged as inevitable by members of both parties behind closed doors in Washington, DC. The only question is when. And that crises make the previously unthinkable thinkable is also clear. Before the financial crisis of 2007-09 it seemed out of the question that Congress would ever write cheques to support the financial system. But market chaos forced it to pass the Troubled Asset Relief Programme, a plan to buy toxic assets. Unfortunately, it's in the nature of the coming crisis that forestalling it at a reasonable cost is possible only in advance. If debts reach 150% or 200% of GDP, interest costs could mount so rapidly during a bond sell-off that the size of the necessary tax increase would be an impossible political task.

Europe's position is politically better but fiscally worse. Better because raising taxes is not quite as anathematic as it is in America; worse because, in part as a result of that amenability, Europe already has very high taxes. In France government revenue is 52% of GDP. A well-known result in economics is that the damage a tax does rises quadratically with the tax rate. If high-tax economies address their budget woes by raising revenues, they could slow economic growth. Japan is an intermediate case. Its taxes are lower than Europe's—and its budgets less strained—but its debts are higher, making it more vulnerable to shocks.

Across the rich world there is a growing likelihood that bondholders will face the last two of Mr Mankiw's options—either of which will cause them pain. First of all there is default. In the post-war era there has been a strong taboo in rich countries against restructuring or default, with Greece and Cyprus, in the 2010s, being the exceptions. Politicians have broken enough taboos in recent years, and politics has become so fractious and populist, that nothing should be ruled out.

But in countries that issue debt in their own currencies—and which, unlike euro-zone member Greece, have the power to create money to pay off debts—creditors historically suffer via inflation instead. This is what happened in the first few decades after the second world war, in which inflation played a major role in reducing the debts that war had built up.

Purists point out that it is only unexpected inflation that lessens debt burdens. When price rises are anticipated, bond investors account for that by demanding higher yields from the outset. In the post-war period various restrictions stopped bondholders being compensated in this way. In America the Federal Reserve capped long-term bond yields from 1942 to 1951. For decades "regulation Q" banned banks from paying interest on deposits, ensuring that there would be an appetite for Treasuries at artificially low yields. Banks were often forced to hold large quantities of government debt and capital controls made it difficult for investors to sell up and flee to other markets.

Today capital is globally mobile, making a mid-20th-century style debt resolution hard to imagine. Yet governments still have the tools to inflate away debt. Central banks have become used to buying bonds with newly created money, called reserves, which earn interest. The more bonds a central bank buys, the more directly it controls the government's interest expenses. A combination of bond-buying and holding interest rates beneath the rate of inflation would therefore cause debts to shrink in real terms.

Independent central bankers—who see themselves as guardians of low inflation and financial stability, not as fixers of fiscal messes—would never willingly sign up to such a plan. But they are under growing pressure. President Donald Trump repeatedly calls for the Fed to keep short-term rates down. If long-term yields stay high, the next step could be pressing the Fed to control those rates too, as it did in the 1940s.

The European Central Bank is banned from financing governments by treaty. But it already half-underwrites EU government debts. During the covid-19 pandemic it tilted its purchases of government debt towards Italy; it has invented new ways to keep interest rates down. If it came to a choice between tolerating an inflation surge or letting a major economy leave the euro in a debt crisis, the old promise to do "whatever it takes" to save the single currency would surely trump the inflation target—meaning that the central bank would create money to buy bonds.

In Britain Reform UK, a hard-right populist party with a remarkable lead in the polls, promises to fund big spending pledges by scrapping interest on reserves, which would make it lucrative to print money.

Perhaps the best argument against inflation is that, like spending cuts and tax rises, it is unpopular. But unlike fiscal moves, it happens by accident as well as by design. When politicians misjudge or conceal the consequences of their actions, inflation becomes the measure of their contradictions—and by the time it appears, it is too late to stop. Nobody intended the high inflation of the 1970s, which politicians fought with harebrained schemes like price controls.

The jolt in inflation of the 2020s that followed pandemic money-creation and fiscal stimuli was just a taste of what is to come. In the absence of bold action by governments, more inflation is coming. When it does it will be politically toxic for rich democracies already grappling with a surge in authoritarian populism. Buyers of long-term bonds today will be unhappy, and the wider world will be worse off for it. ■

International

International | The struggle for the Arctic

The icy cold war America is busy losing

Its weakest flank isn’t Greenland, but around Alaska

October 16th 2025

TO REACH THE strange, remote island of Adak, be patient. Such is the summer fog over the waters of the Aleutian Islands that it took this reporter four attempts in four days, including two aborted landings, before a gap appeared in the vapours. Arrival reveals snow-topped volcanoes, green slopes, salmon runs—and the wind-flung detritus of an abandoned military town.

Adak also reveals the contradictions in President Donald Trump’s contest with Russia and China for dominance in the Arctic. He talks of absorbing Canada as the 51st state and annexing Greenland. Astonishingly, he does not rule out taking the Danish-ruled island by force, claiming America needs it for “international world security” because Russian and Chinese aircraft-carriers and gunships are “going up and down the coast of Greenland”.

Mr Trump exaggerates the threat around Greenland. True, Chinese icebreakers have showed up and Russian submarines at times lurk there too. To the east, Russian activities around Svalbard cause concern. Yet NATO has long guarded the Atlantic’s “high north”. Its defences have grown more robust since Sweden and Finland joined the alliance.

The more acute Arctic challenge to the American homeland lies not on the North Atlantic side but, rather, on America’s more exposed flank on the Pacific. There, American forces are increasingly scraping against Russian and Chinese ones, at times operating in unison. Russian and Chinese research and coastguard vessels, warships and even nuclear-capable bombers regularly buzz the seas and airspace close to Alaska.

Foreign military aircraft have increasingly been testing the air-defence identification zone (ADIZ, an airspace buffer) around America and Canada —virtually all of them around Alaska and none around Greenland. In late September two Russian Tu-95 “Bear” bombers with two fighter escorts were intercepted 30 miles off an American island in the Bering Sea.

Instead of fixating on Greenland, Mr Trump should look at the speck that is Adak, on the chain of volcanic islands that stretch between the Alaskan and Siberian land masses. His generals are already doing so. The heads of both INDOPACOM (Indo-Pacific Command, in charge of planning for any war with China) and NORTHCOM (Northern Command, responsible for homeland defence) want the old military base on Adak to be revived. That would improve America’s ability to defend the homeland and help it to project power.

Some of Mr Trump’s fellow Republicans agree. Adak is the “gateway in the Arctic”, Dan Sullivan, a senator for Alaska, insists. “It flanks China and Russia. It makes a lot of sense to reopen that base.” Though dilapidated, Adak still has two runways, a deep-water harbour and fuel storage. It lies close to great-circle shipping routes between America and Asia, and to new Arctic shipping routes that promise to cut sailing times between Asia and Europe. In a war with China over Taiwan, Adak would be a good 1,000 nautical miles (1,852km) closer to the action than big bases in continental Alaska.

The town of Adak was born in war and died in peace. A base was built in 1942 to expel the Japanese from Attu and Kiska, farther west along the Aleutian chain. In the cold war Adak was a listening post and a base for tracking Soviet submarines. The naval air station was abandoned in 1997. A fish-processing plant shut in 2020; the high school in 2023. Homes, the church, McDonald's: all have been left for the elements to shred. A 6,000-strong community has shrunk to two-dozen.

The renewed interest in Adak—and in upgrading dual-use infrastructure in Alaska more broadly—is a sign of sharpening geopolitics in the Arctic. Powers long regarded the polar region as a zone of semi-neutrality, where the main debates concerned global warming, fragile ecosystems and the well-being of indigenous populations. In 2009 Canada's top general joked: "If someone were to invade the Canadian Arctic, my first task would be to rescue them."

Now priorities are geopolitical, intensified by Russia's war in Ukraine. With its emphasis on security, the Trump administration has slashed funding for polar science, including crucial satellite data to monitor snow and ice cover. In July the US Arctic Research Commission, an advisory body, recommended that studies henceforth focus on security in whatever form.

On conventional maps of the world the Arctic looks marginal. But adopt a polar perspective of Earth, and the Arctic becomes the crossroads of great powers. The shortest trajectories between many of America's, Russia's and China's biggest cities pass over the top of the world. Ditto those countries' missiles and bombers. Radars across North America, from Shemya in the Aleutians to Pituffik in Greenland, monitor the skies. Submarines hide under the ice cap. America's missile-defence interceptors are mostly in Alaska.

The Arctic is warming fast. This summer's minimum ice cover was 39% less than in 1980. The rate of shrinkage has slowed of late, according to recent studies, but probably only temporarily. The thaw is attracting such commercial activity as shipping, mining, fishing and tourism. The US Geological Survey believes the Arctic holds the world's largest undiscovered reserves of oil and gas. It is also rich in critical minerals. Environmentalists worry about ecological damage.

The shortest cargo route between East Asia and northern Europe would cut straight across the Arctic, but won't be feasible before the ice cap melts almost entirely in summer. The North-West Passage, through Canadian waters, remains tricky. So the Northern Sea Route, hugging the Russian coast, is the Arctic choice. It is largely ice-free in summer and shaves 2,500 nautical miles off the 10,600 nautical-mile journey from Shanghai to Rotterdam via the Suez Canal. The Centre for High North Logistics, an industry think-tank, counted 52 full transits along the NSR between June and August this year, up from 45 in the same period last year—mostly carrying Russian oil, gas and other bulk cargo to China. The Istanbul Bridge, an ice-strengthened container ship, set off from Ningbo in China on September 22nd and docked at Britain's Felixstowe on October 13th, inaugurating what Chinese boosters say will be a regular "Arctic Express".

That will thrill Russia, a giant in the Arctic, where it is revamping facilities and bases. China has invested in some of the them, seeing Russia as key to creating a "polar silk road" and affirming itself as a "near-Arctic" nation. China had five research vessels in and around the Arctic this summer. America suspects they serve both civilian and military purposes—

surveying the seabed for mining opportunities and to enable submarine operations. "Science is the precursor to everything you want to do in the Arctic, including hybrid attacks" such as cutting submarine cables, says Heather Conley of the American Enterprise Institute in Washington, DC.

America's Arctic ambitions are growing, too. In a quest for energy and minerals dominance, the Trump administration is simplifying regulations on the oil industry, most controversially by reversing a ban on drilling in the vast Alaska National Wildlife Refuge. That Alaska will produce much more crude is questionable, given the costs of extracting it, says Jeremy Kasper of the University of Alaska Fairbanks. Similar challenges confront those who hope for an Alaskan gas pipeline and a minerals bonanza.

Meanwhile, Alaska's fishing grounds are changing. Populations of cod and king crab are moving north. A warming Arctic increases pressure to end a fishing moratorium in the central Arctic Ocean.

All this will lead to disputes. Several of the eight Arctic coastal states claim an "extended continental shelf", with exclusive rights to mine the seabed beyond their exclusive economic zones (EEZs) of 200 nautical miles. Some of the claims overlap.

America's coastguard struggles to monitor the increasing activity and has few resources to deal with high-latitude accidents and spills. This year it acquired a second (medium-size) icebreaker in the Arctic. In contrast, Russia has scores of icebreakers, several of them nuclear-powered. Even in Trump-coveted Greenland, America relies on a Canadian icebreaker to resupply Pituffik. In 2012 an ice-strengthened Russian tanker had to be used to deliver emergency fuel to the Alaskan harbour of Nome, near the Bering Strait. The strait, the essential conduit for all polar shipping routes, lies partly in American waters. Yet America's nearest American deep-water port is Dutch Harbour, more than 700 nautical miles away.

When a Chinese-Russian patrol entered America's EEZ in the Bering Sea in 2022, just a single coastguard cutter was able to monitor it. Last year the Pentagon was unnerved when a joint strategic-bomber patrol came within 140 nautical miles of Alaskan territory—probably the closest Chinese bombers had ever come to America. To add to concerns, the Chinese planes had taken off from a Russian base to reach the Arctic. That this is evidence of an emerging alliance, however, is debatable. "I've seen co-operation. I haven't seen anything that shows they have the capability to integrate," as NATO does, says General Gregory Guillot, head of both NORTHCOM and NORAD, America's joint aerospace command with Canada.

NORAD has counted 95 Russian and Chinese intrusions in the North American ADIZ since 2020. Staff at General Guillot's headquarters in Colorado Springs look at the map like a clock. The two o'clock position, towards Greenland, is the quietest: no incursions since 2020. A bit busier is 12 o'clock, beyond Canada, with four. The most acute probing comes from ten o'clock, around Alaska, with 91 incursions.

Intercepting forays is a challenge. America's and Canada's main Arctic air bases are deep in the interior. In a typical mission to monitor incoming aircraft, fighters must fly 1,500 nautical miles or more and refuel several times in mid-air. The encounters take place in international airspace, and most are uneventful, though in one instance last year a Russian jet swooped alarmingly close to an American fighter plane. Other threats are multiplying, from China's use of high-altitude balloons in 2023 to its development of long-range cruise and hypersonic missiles. These are hard for North America's ageing early-warning radars to spot.

Monitoring the seas is harder still. The Chinese navy, the world's largest, operates ever farther from its home. Russia, though under pressure in Ukraine, has deployed seven new submarines in the Pacific since 2022—more than all the subs America built over the same period. China and Russia appear also to have conducted their first-ever joint submarine patrol. Another American concern is the scant coverage of communications and other satellites at high latitudes, and their vulnerability in war.

Concerned Western countries have been drawing up new Arctic strategies and beefing up their defences there, not least through more intense military exercises. Mr Trump's "big, beautiful bill", passed by Congress in July, allocates $25bn for the coastguard, including $9bn for new icebreakers. On October 9th the president struck a deal with his Finnish counterpart, Alexander Stubb, for Finland to build four icebreakers and then, using Finnish technology, for American yards to build a further seven. The bill also authorises $25bn for "Golden Dome" missile defence. That should improve warning of aerial threats. Separately, work on a deep-water port in Nome will start next year. Some generals want to expand airfields on Shemya island and at Deadhorse in Alaska's far north.

Will it prove enough? Iris Ferguson, a former defence official, says the Arctic lacks a strong advocate in the Pentagon. Three combatant commands abut the Arctic, she notes, but none controls all of it. EUCOM focuses on Russia yet has nearly no role in the Pacific; NORTHCOM is taken up with the southern border and the Caribbean; and INDOPACOM, which controls most forces in Alaska, thinks about a possible war in the western Pacific much more than one in the north. By contrast, Ms Ferguson argues, "Russia and China recognise the Arctic's strategic value. They are investing and moving fast. America has a lot to lose if we cede that ground."

It ought to be obvious that Western allies should work closely together in the Arctic. After all, seven of the eight members of the Arctic Council, a forum to discuss regional issues, are NATO members. (Co-operation with Russia, the eighth member, has come to a near-standstill.) Yet Mr Trump thinks otherwise.

Denmark, which emphasises that Greenland is not for sale, has protested over American spooks stirring anti-Danish sentiment on the island. This month Denmark announced plans to spend $8.8bn on military equipment, not least for the Arctic, as European leaders and military units have stepped up visits to Greenland. The aim is both to show America they take the Arctic seriously and to warn it off seizing the island. To many allies, the threat in the Arctic comes not just from Russia or China, but from an America that often looks like going rogue.

In August Mr Trump welcomed Mr Putin in Anchorage, Alaska's biggest city—a symbolic venue, given that America bought Alaska from Russia for a song in 1867. Both sides have dangled the promise of lucrative joint projects in the Arctic if relations improve (right now they are prickly). As Mr Trump applauded his guest, Russian and Chinese warships were conducting a joint naval patrol near the Aleutians. An American warship sent to monitor them dropped anchor at Adak so that senior crew could fly in to rejoin their vessel.

Even in its decrepit state, Adak still acts as a hub in the Aleutians, serving fishing crews, researchers studying volcanoes and wildlife, and vessels servicing more distant military facilities, such as a missile-tracking radar on an old oil rig in the Pacific.

Tucked in the big budget bill is $115m "for exploration and development of existing Arctic infrastructure". That's a euphemism for Adak, says Senator Sullivan, who hopes it will be used to start making improvements, such as refurbishing the fuel facility for the navy. As for Adak's remaining residents, the best hope of reversing their decline rests on the base coming back to life. Just possibly, some say, the town will be able to justify a grocery store.

Still, some top brass remain Adak sceptics, saying the weather is too poor to justify the investment. Native Aleuts called their home the "birthplace of the winds". As if to make the point, on the day this correspondent arrived in Adak, a plane with military grandees and a pair of F-35 jets on exercise cancelled a planned visit because of fog. Feisty or foolhardy, the Alaska Airlines flight touched down where military pilots dared not go. For Mr Sullivan, a former marine, the qualms are "bullshit". Those who fought the Aleutian campaign, the "thousand-mile war", operated just with compasses, he says. The "warrior ethos", now loudly promoted by the Pentagon, has yet to return to Adak. ■

International | The Telegram

China tries shock-and-awe on Donald Trump

Xi Jinping's bet that dramatic escalation is the way to win a trade war

October 16th 2025

RELIABILITY IS FOR losers. Strength keeps superpowers safe. Some version of that bleak philosophy appears to unite the supreme leaders of China and America. After a period of fragile calm, their trade war is roaring back to life. Each side has issued threats that, if fully carried out, would upend the global economy. Each angrily blames the other for provoking this crisis. With each round, the two giants give trade partners fresh reasons to fear dependence on them. Neither seems to care.

On October 13th America's treasury secretary, Scott Bessent, told the Financial Times that China, alarmed by its own weak growth, wants "to pull everyone else down with them". That was his interpretation of export controls unveiled by China on October 9th, giving itself new legal powers to strangle supply chains of Chinese-produced rare-earth minerals and products containing even a trace of them, including permanent magnets used in everything from cars to fighter jets. For good measure, Chinese authorities announced rules that would let them restrict exports of high-performance batteries, as well as overseas sales of technologies needed to process rare earths or make batteries outside China.

As global investors and governments reeled, President Donald Trump cranked tensions higher. Giving China a deadline of November 1st to back down, he threatened an additional 100% tariff on Chinese goods and export controls on critical software. He grumbled that he now saw "no reason" for a planned meeting with Xi Jinping, China's leader, at an APEC summit in late October, though he later suggested that it might take place.

In the face of American indignation, China has responded in kind. On October 12th its commerce ministry accused America of issuing "a string of new restrictive measures" against Chinese interests since the two countries held trade talks in Madrid in September. Those talks purportedly ended with a promise to avoid new trade curbs. Chinese officials have let it be known that they felt betrayed after America proceeded to extend trade bans on Chinese firms under sanctions to include their subsidiaries. In contrast, the commerce ministry insists that China's latest controls are not blanket bans, but an attempt to safeguard the security and stability of global supply chains. In a further burst of piety, the ministry noted that because rare earths have many military uses China is controlling their sale "to better defend world peace". Given that Ukraine is being battered by Russian drones and missiles packed with Chinese-made components, Western diplomats in Beijing call the ministry's talk of world peace "preposterous".

Alas, non-American diplomats and executives also suspect that their disbelief could not matter less to China's rulers, who are overwhelmingly focused on their contest with America. Communist Party bosses are not wholly wrong to believe that America is trying to hold China down, those foreigners suggest. Both Mr Trump and then-President Joe Biden have indeed worked hard to deny China advanced computer chips and the means to make them. Diplomats joke darkly that China's latest trade rules copy existing American restrictions so precisely, down to their "long-arm" controls on supply chains anywhere on Earth, that officials in Washington should sue for intellectual-property theft.

Lesser trade partners are collateral damage in this great-power contest. For all China's promises to grant licences to legitimate rare-earth users, foreign companies have struggled to obtain permits since a first salvo of controls in April. By early September China had approved just 19 of 141 licence requests from European firms, according to the European Union Chamber of Commerce in China. Frustrations continue, with Chinese officials demanding that foreign companies hand over sensitive product designs to be considered for a licence. Curbs on mineral-processing technologies are a blatant attempt to thwart countries trying to "de-risk" supply chains from dependency on China, which controls over 90% of the supply of some rare earths.

Westerners meeting Chinese officials found them "emboldened" after a first round of controls on rare earths and permanent magnets in April panicked American carmakers and other firms, prompting Mr Trump to slash tariffs on China. Yet China is giving trade partners new reasons to distrust its rise, and to diversify supply chains. Rare-earth production will begin or resume in many countries, and quite soon, for the process is dirty but not especially hard. As other trade partners reduce their exposure, China risks losing much of the diplomatic credit it gains as a green-tech superpower. Many controlled minerals are embedded in low-carbon technologies, from wind turbines to batteries. By using green-tech for coercion, China is weaponising its most benign exports.

China's shows of strength target an audience of one. America's president tantalises China. In his first term, a senior Chinese official told this columnist that Mr Trump is a man guided by his own commercial and political interests, who had been "hijacked" by anti-China hawks. Jia Qingguo of Peking University, who sits on a body that advises China's policymakers, says that "Trump's de-emphasising of ideology" creates "room for pragmatic deals". In truth, a Trump-Xi deal requiring serious policy concessions would be hard, given their countries' mutual distrust. Still, China hawks should brace for Mr Trump breaking their hearts, for he does not disapprove of Mr Xi as they do. In a social-media post on October

12th, Mr Trump declared: “Don’t worry about China, it will all be fine! Highly respected President Xi just had a bad moment.”

The Communist Party and MAGA agree on one point, at least. In a brutal world, dominance is a surer route to security than the admiration of friends. Other countries may hate where the America-China trade war goes next. Their views will not be sought. ■

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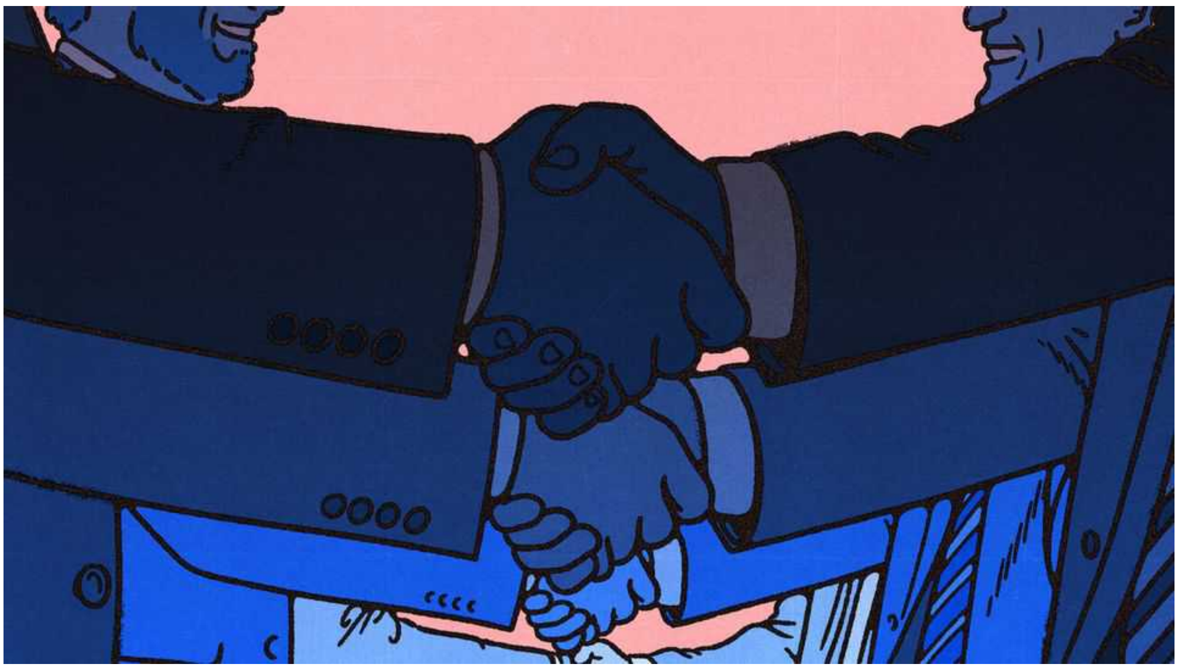
Business

Business | Merger mania

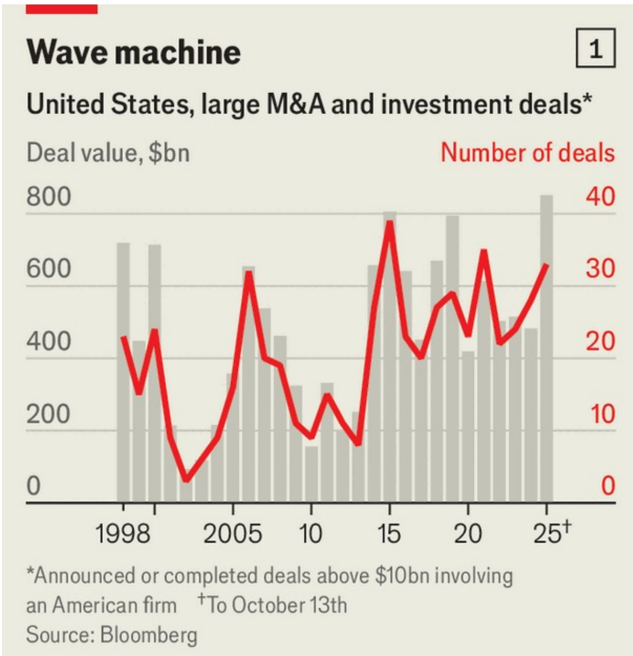
Never mind America's real economy. Its deal economy is booming

Donald Trump has unleashed an M&A bonanza

October 16th 2025



America's first merger wave began in the 1890s and forged giants in steel, oil and railroads. A second preceded the crash of 1929. Executives assembled conglomerates in the 1960s; private-equity firms dismantled them in the 1980s. The bursting of the internet bubble, the financial crisis and higher interest rates ended takeover waves in 2000, 2007 and 2022. Now an eighth is gathering strength. Like its predecessors, it is energised by technological promise, enthusiastic credit markets, willing politicians and striving bosses.



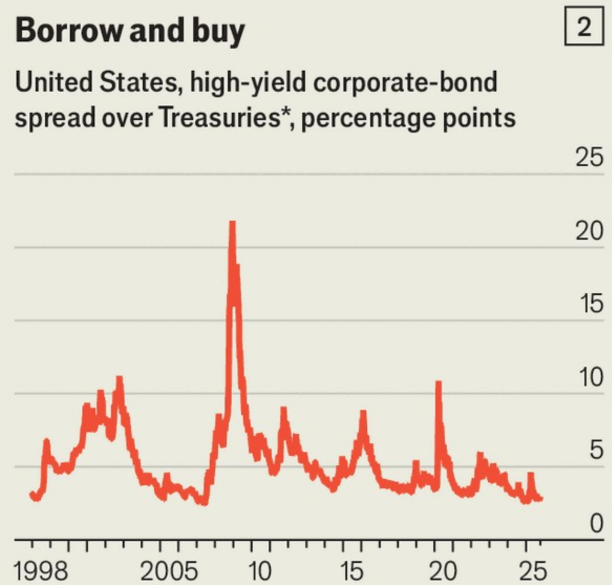
The number of mega-deals—mergers, acquisitions and investments worth over $10bn—announced this year is approaching a record high (see chart 1). The third quarter was one of the busiest in history. Donald Trump's MAGA revolution is yet to upend the real economy. Look to the deal economy, though, and American capitalism is permanently changed.

Historic tie-ups are coming thick and fast. In July Union Pacific and Norfolk Southern, two of America's four "Class I" railroads, agreed to merge. The $55bn leveraged buy-out of Electronic Arts (EA), unveiled in September, is the largest ever. Jensen Huang and Sam Altman, the bosses of Nvidia and OpenAI, have woven a web of cross-holdings which, should it tear, would tank markets. The state has acquired equity at a rate not seen since the bank rescues of the financial crisis.

Deals usually beget more deals. The other two big railroads, BNSF and CSX, may themselves be spurred to merge. The artificial-intelligence boom is making hot property of data centres. GIP, an infrastructure firm, is in talks to buy Aligned Data Centres for around $40bn. Investors are rewarding any news of hefty AI investments with scant thought for returns, encouraging firms to go for even more. They have also enthusiastically welcomed the government as a shareholder.

Borrow and buy

United States, high-yield corporate-bond spread over Treasuries*, percentage points



Source: Federal Reserve Bank of St Louis *Option-adjusted

What analysts call "animal spirits" is a mixture of two things: confidence and capital. Confidence in the economy is stronger than it was in April, when Mr Trump launched his barrage of "reciprocal" tariffs. Capital is cheap and plentiful. Spreads on high-yield bonds—the difference between risky companies' borrowing costs and those of America's government—are nearly as low as they were in 2007 (see chart 2).

Long frustrated takeovers are going ahead. In mining, Anglo American said in September that it would merge with Teck, a Canadian copper-miner, in a deal worth over $50bn. Glencore had tried to buy Teck in 2023; BHP pursued Anglo in 2024; Glencore and Rio Tinto had considered a deal. Some unsuccessful mergers of the past are being unwound. Warner Bros Discovery, a media giant formed in 2022 through the union of Discovery and WarnerMedia, is already breaking up. In September Kraft Heinz, a food giant, said it would split, a decade after being sandwiched together.

Two things make the latest wave special. The first relates to Mr Trump's paradoxical approach to free markets, which involves a light touch on antitrust while using deals, along with tariff exemptions, as tools of private-sector coercion and industrial policy. Anything goes until it displeases the boss, as in a casino. Second, technology firms have gone on a buying spree of unprecedented voracity and variety.

After last year's election, executives worried that MAGA antitrust policy would combine the anti-scale activism of Joe Biden's presidency with Mr Trump's bullying style. The tie-up between Skydance and Paramount, two media companies, was delayed until Paramount paid $16m to Mr Trump's presidential library to settle his complaint about an episode of CBS News's "60 Minutes".

But bosses, by and large, are pleased. In June regulators reached a deal to allow the acquisition of Juniper Networks, a telecoms firm, by Hewlett Packard Enterprise after at first trying to block it. Two Department of Justice officials appointed by the Trump administration were fired; one decried "MAGA-in-name-only" lobbyists putting the "populist conservative agenda" at risk. Rules on bank mergers have also been thinned. This month Fifth Third said it would buy Comerica to create America's ninth-largest bank. Further consolidation of America's 4,400 lenders looks likely.

Proximity to the administration helps. MGX, an Abu Dhabi fund which this year used a cryptocurrency linked to the president for a $2bn deal, is expected to become an owner of TikTok's American business. Saudi Arabia's sovereign-wealth fund is among the buyers of EA. The consortium includes Jared Kushner, Mr Trump's son-in-law, who has since helped broker the Gaza peace deal. Investors doubt that the buy-out will face many regulatory hurdles.

Promises of big investments and presidential control are useful too. The sale of US Steel to Japan's Nippon Steel is a case in point: Mr Biden tried to block the deal, citing spurious national-security risks. Little effort was made to engage with Nippon. But Mr Trump and his team are much easier to get on the phone. Nippon promised to put $14bn into US Steel and give Mr Trump a veto over some decisions—which the administration threatened to use last month to prevent a plant closure in Illinois.

Shareholders have rewarded similar interventions. Intel's share price has risen by 50% since the state took a 9.9% stake in the chipmaker in August. Those of MP Materials, Lithium Americas and Trilogy Metals, three mining firms, have also soared since Uncle Sam became part-owner.

The greatest excitement, however, surrounds AI. New technologies often contort the corporate form. AI is doing so especially quickly. Some tech firms are absorbing high-flying AI talent through licensing deals with startups that stop short of full acquisitions. More important, though, are the polyamorous relationships and cross-holdings emerging within the industry.

Nvidia has become the world's most valuable firm because its chips are the AI industry's physical lynchpin. Increasingly, its deals are the financial equivalent. According to PitchBook, a data provider, Nvidia has invested in 50 firms this year alone. Many are tiny: at the end of July the firm valued its ownership of private companies at just $4bn.

Some are not. Nvidia owns around 7% of CoreWeave, a highly leveraged firm that is expected to spend more than $10bn on Nvidia's chips this year before renting them out to big tech companies (Nvidia recently signed a $6bn agreement to guarantee CoreWeave's revenue). It has also put $5bn into Intel and is providing some of the $20bn being raised by Elon Musk's xAI, which is yet another customer.

Most important is its investment in OpenAI. From next year Nvidia will put up to $100bn into the developer of ChatGPT. The ten-gigawatt (GW) deal could translate into $400bn of revenue for Nvidia. Nvidia thus secures a customer for its chips, while OpenAI reduces the cash required to buy them. Goldman Sachs, a bank, reckons that the agreement will cover over a quarter of OpenAI's operating costs next year.

OpenAI has built its own web of cross-holdings with firms that are, in turn, building their own. It has its own stake in CoreWeave, as well as a revenue-sharing agreement with Microsoft. In October OpenAI said it would use 6GW of chips from Advanced Micro Devices, Nvidia's main rival. AMD handed over warrants which would convert into 10% of its equity.

The fine print of these deals is kept secret, giving shareholders little idea of what has been agreed and raising the chance of double-counting and concentration risks. Even Japan's notorious (and inefficient) cross-holdings might be put to shame by the resulting complexity.

The ends of previous deal booms make grim reading. A change in antitrust enforcement could spoil the fun, as with the first wave, in 1904. That said, deregulation keeps bosses on Mr Trump's side. Another possibility is that credit markets crack, as in 2007. Many takeover booms, though, have ended with a stockmarket crash. This time, it is possible that tech's deal structures will cause or exacerbate the mess—making it all the harder to untangle. ■

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Business | SAMR-rattling

China is going after American firms to hit back at Donald Trump

Its investigation of Qualcomm may be the latest example

October 16th 2025

WHEN HE FIRES his trade weapons at China, President Donald Trump often appears to shoot from the hip. Officials in Beijing, by contrast, are said to deliberate much more, convening high-level meetings among ministries and regulators to determine their country's next steps.

This process may have been at work on October 10th when the State Administration for Market Regulation (SAMR), China's antitrust watchdog, said it was investigating Qualcomm, an American semiconductor-maker, and the transport ministry levied new docking fees on American-owned ships. A day earlier the Ministry of Commerce had announced new controls on exports of rare-earth minerals. To Mr Trump, the package came as a surprise affront after months of relative calm in relations between the two countries.

SAMR said the probe into Qualcomm was routine and was caused by the company's failure to report its acquisition in June of Autotalks, an Israeli smart-transport company. Although the deal's size of $80m fell below the usual reporting threshold, SAMR had stated in the past that the transaction would need its approval. Qualcomm has acknowledged that it did not report the deal. Its share price fell by more than 7% on October 10th.

Yet the timing is suspicious. After all, in the past few years China has been fortifying its legal and regulatory frameworks in what Xi Jinping, the country's supreme leader, views as an "international legal struggle". Officials can add foreign companies to an "unreliable-entities list". A Foreign Relations Act allows the government to go after anyone deemed to pose a threat to national security. Its export-control regime now resembles America's sophisticated system: the measures announced on October 9th are similar to ones used by the Department of Commerce.

SAMR is shaping up to be one of China's best-equipped regulators. It has widened its jurisdiction in recent years. Chinese firms fear its new willingness to crack down on local monopolies, as it did with Alibaba, an e-commerce giant, in 2021. It is also undertaking more probes of small transactions abroad, such as Qualcomm's deal in Israel, which was hardly noticed when first announced in 2023.

There is little doubt that SAMR's antitrust investigators have been enlisted in the battle with Mr Trump. When fighting over trade broke out in his first term, SAMR used a probe into another Qualcomm acquisition—of NXP, a Dutch chipmaker—to gain leverage. (The deal was called off.) When Mr Trump hit China with tariffs in February, it unveiled a probe into Google, one of America's tech champions. Then, as a new phase of the trade war began in April, SAMR quickly announced an investigation into the Chinese unit of DuPont, an American chemicals firm. That probe was just as quickly suspended in late July, ahead of trade talks. The actions against Google were reportedly halted in mid-September as the countries negotiated the fate of the American business of TikTok, a Chinese-owned video app.

But SAMR's investigations are more than just tactics in the trade war. The authority is becoming more useful in China's fight for tech supremacy, too. Its probe into Google may have been well-timed as retaliation, but its main target was probably the dominance of the American firm's operating system in Chinese smartphones. Around 70% of them use its Android OS; most of the rest use Apple's iOS. It is no secret that China's technocrats view dependence on American software as a weakness and would like to see widespread adoption of a local version. SAMR's investigation could be one tool for promoting a home-grown operating system developed by Huawei, a big Chinese tech group, which was released at the end of last year. The origins of the probe could be tied to Google's refusal to license Android to Huawei after the American government hit the Chinese group with sanctions in 2019.

The same applies to a probe into Nvidia, the dominant maker of artificial-intelligence chips, which began late last year. SAMR's justification was flimsy. The watchdog said in September that the giant American firm had broken China's anti-monopoly laws in its acquisition in 2020 of Mellanox, an Israeli supplier of computer networks. SAMR approved the deal at the time, and did not specify which conditions Nvidia had breached.

It is clear that China's leaders are wary of dependence on America's most sophisticated chips, even if they are needed to run the best AI machines. Chinese tech firms have been told to stop using Nvidia's AI chips. Customs officials are cracking down on advanced-chip imports, the Financial Times has reported. SAMR's investigations often double as trade-war leverage and a mechanism for supply-chain security, says Angela Zhang, the author of "Chinese Antitrust Exceptionalism". They can "kill two birds with one stone", she says.

The probe into Qualcomm is dual-pronged, too. Its acquisition target, Autotalks, makes intelligent-transport systems that connect cars with their surroundings. The connected-car industry is one that China seeks to dominate, along with electric vehicles and autonomous driving. Qualcomm is a leading competitor in connected-car technology; Chinese technocrats may want to slow the build-up in its capabilities. Outsiders may never know what goes on in China's highest trade-war councils, but it is increasingly clear that antitrust probes are part of their arsenal. ■

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Business | Guarding their chips

The Dutch seize control of Nexperia from its Chinese owner

The most aggressive move yet in Europe's effort to save its semiconductor industry

October 16th 2025

AT THE HEIGHT of the cold war, the Netherlands passed a law allowing the state to take over companies for security purposes. After gathering dust for 73 years, the law has at last been put to use. On September 30th the Ministry of Economic Affairs quietly took control of Nexperia, a semiconductor firm headquartered in Nijmegen that had been bought in 2019 by Zhang Xuezheng, a Chinese entrepreneur. A week later an Amsterdam business court suspended Mr Zhang (known by his nickname "Wing") as CEO, replacing him with a Dutch interim chief. The moves were made public by the Dutch press on October 12th. They are among the most aggressive steps yet by European governments to protect strategic industries from China.

The Dutch were prompted in part by fears that Mr Zhang was undermining Nexperia in favour of his Chinese companies, and in part by threats from America. Last year the government told the firm it was at risk because America's Department of Commerce had put Wingtech, Mr Zhang's holding group, on a sanctions list. On September 29th the Americans extended export controls to companies whose majority owners are on the list. Mr Zhang had reportedly frustrated negotiations on guaranteeing Nexperia's independence.

Meanwhile, changes at Nexperia were setting Dutch executives' hair on fire. The company had become a regular client of a chip foundry in Shanghai that Wingtech set up in 2020. That foundry had run into financial problems, the Amsterdam court said, citing claims by Dutch executives that Mr Zhang was trying to divert cash from Nexperia to prop it up. In September the firm's chief financial officer and two other executives found their access to company accounts had been revoked and given to people with little financial experience. Another senior financial officer quit, writing in an email that Nexperia had become "purely Chinese".

The Netherlands is a bright spot in Europe's struggling semiconductor industry. ASML's technological lead gives it a monopoly on the world's most advanced chip-printing machines. NXP, a spin-off from Philips, a big electronics firm, makes specialised chips for cars and other applications. Nexperia was in turn spun off from NXP. It had revenues last year of $2bn. It produces less sophisticated transistors, but is also a big supplier to the car industry, which Europe is desperate to protect from Chinese competition. In 2024 the Dutch government announced Project Beethoven, a €2.5bn ($2.7bn) programme to subsidise its chip industry.

The European Union's own Chips Act, adopted in 2023, has yet to raise the bloc's share of the global market. On October 14th Maros Sefcovic, its trade commissioner, said the EU was considering requiring Chinese companies to include technology transfers in investments—a historic reversal of roles. European countries, "cajoled into siding with America", also fear for their own industries' future, says Sander Tordoir of the Centre for European

Reform, a think-tank. Yet displeasing China risks retaliation. On October 4th the Chinese government placed export controls on Nexperia's suppliers. ■

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Business | TEDucation

TED gets new bosses and changes direction

The event organiser heads into ed tech

October 16th 2025

THE YEAR 1984 is immortalised in tech circles for the introduction of Apple's Macintosh computers. It was also when the first TED conference—which stands for Technology, Entertainment, Design—was held in Monterey, California. And just as the Mac became a totem of the digital desktop, TED became the sharpest, coolest name in elite events.

TED was bought in 2001 for $14m by Chris Anderson (pictured below), a magazine publisher, when it was considered kaput amid the dot-com crash. He turned it into a charity, activated a community of fans and harnessed the internet. Though buffeted in the pandemic, it has flourished (see chart).

After nearly 25 years as its “curator”, in February Mr Anderson appealed for someone with “the resources and the ideas to oversee TED”. Around 100 entities stepped forward, from foundations and universities to rich individuals and media firms. Some valued TED at $1bn, Mr Anderson says.

Yet on October 15th TED unveiled a management transition, not a financial one. It named Sal Khan, the boss of Khan Academy, a free online learning site, as its “vision steward” (a very TEDster title). It also promoted Logan McClure Davda, hitherto “head of impact” (ditto), to chief executive. This marks more continuity than change: Mr Anderson will stay on, but focus on fundraising and philanthropy; Mr Khan will remain at Khan Academy and not be paid by TED.

The two organisations plan to work together. Both are in different parts of the education-technology business: one aiming videos at children, the other at adults. TED also has a division focused on executive training for companies (such as adapting TED Talks on leadership, emotional intelligence and so forth), which it will develop further. The union is being presented as a way for two leading promoters of reliable information and critical thinking to combat a crisis of trust and AI slop online.

Some may mock TED as a parody of gabby utopianism, but its impact has been profound. It pioneered having the world's bright minds crystallise big ideas into pithy talks. These are offered free online without garish ads (while a standard ticket to the annual flagship event costs $12,500 and a VIP one $100,000). As a non-profit group, it tapped a global community of volunteers to translate videos to reach more people. It even defied the MBA playbook by open-sourcing its brand, allowing others to hold events under the TEDx label. Its Audacious Project works with philanthropists to funnel around $1bn a year to social entrepreneurs with practical plans.

TED's changes come amid darker times, at a point when the era of do-gooder globalism ebbs into polarised populism. Funders are retreating from progressive causes that defined the organisation's ethos. The business of in-person events is booming: people working from home a lot are using conferences to make human connections they would otherwise lack. But the world of online video that emerges from those events has shifted. TED will need to reinvent its compact talks for an age of even tighter, two-minute TikToks.

Drawing together two pillars of free online learning could amplify their impact. Both proffer optimism as much as education. In 2013 The Economist mused that Mr Khan might well be awarded a Nobel peace prize for running the largest educational institution in history (over 100m people use the site annually). Now, as in any successful TED Talk, he needs to produce a happy ending. ■

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Business | Loved and loathed

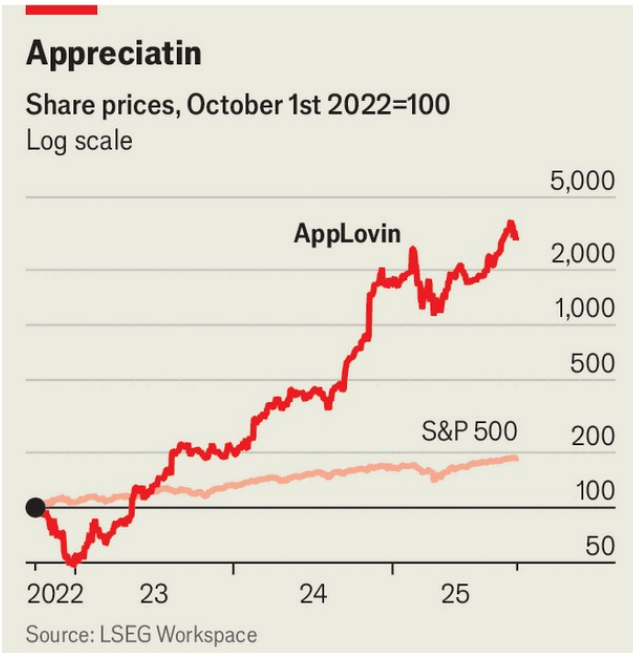
The remarkable rise of AppLovin

A fast rising digital-ad firm attracts both enthusiasts and sceptics

October 16th 2025

Over the past three years, which company in the S&P 500 index has enjoyed the biggest rise in its share price? Nvidia, a mighty maker of artificial-intelligence chips? Only third. Palantir, a star of data analytics? That would have been right—until last month. The winner is AppLovin, a digital-ads firm that entered the index only on September 22nd. Since October 2022 its share price has climbed more than 30-fold (see chart). At $200bn, it is worth more than Uber. AppLovin's boosters call it the TikTok of the mobile-advertising world, powered by a super-smart algorithm. Short-sellers call it a house of cards.

Founded in 2012, AppLovin helps app developers reach new customers. It does this chiefly by matching advertisers, usually games companies, with ad slots, usually in games on smartphones. Typically a client pays for a number of installations of its app. AppLovin's AI model then targets the players likeliest to download a new game and bids for the relevant ad space through a digital auction. Last year this part of the business brought in more than 80% of AppLovin's revenue of $5bn, estimates JPMorgan Chase, a bank. To outsiders the algorithm is a black box. Analysts think it is enriched with data from other parts of the business, including digital-ad auctions that AppLovin operates.



Whatever powers the algorithm, it has proved potent. AppLovin's ad revenue tripled between 2022 and 2024. The business is doing so well that, in June, AppLovin sold its game studio to focus on ads. Margins are fat and widening, in part because the firm is lean, with just 1,500 staff. JPMorgan thinks AppLovin is behind 40-45% of ads served to mobile games. More than 1bn people see its ads each day.

The combination of dizzying success and opaque algorithm has attracted sceptics. In February and March a quartet of short-sellers—Bear Cave, Culper Researcher, Fuzzy Panda and Muddy Waters—each published reports criticising AppLovin. Their concerns ranged from worries about privacy to claims that its data practices broke Alphabet's and Apple's app-store rules.

Scrutiny has picked up again recently. On October 6th Bloomberg reported that America's Securities and Exchange Commission was probing the firm's data practices. A week later Ben Edelman, an independent researcher, put out a report examining AppLovin's code. He claims there is evidence that AppLovin sometimes installs games on users' phones without their full consent (for example, after a five-second countdown on an ad has ended).

AppLovin says the reports "are littered with inaccuracies" and that its data practices are standard in the industry. It adds that users never get a download "without explicitly requesting it"; the code Mr Edelman examined was "a test product and was shut down last quarter". Most investors seem to accept its rebuttals. The firm's share price has weathered all the dents from the critical reports.

Competition may be a bigger worry than reputational damage. Unity, a maker of game-development "engines" which also has an ad business, recently upgraded its ad-matching technology. Moreover, AppLovin plans to expand beyond games. It has been running pilot programmes selling its ad-matching capabilities to retailers, such as Wayfair, a furniture-seller, and Dr Squatch, a soap-maker. The early signs are promising. AppLovin plans to roll out the service more broadly next year.

But that will put AppLovin into more direct competition with Meta and Alphabet, notes Jeremy Goldman of eMarketer, a research firm. Taken together the pair account for about half of global digital-ad spending. And if AppLovin's speciality is AI expertise, the two giants have that in spades. AppLovin has climbed far. Its chosen path may get a lot steeper. ■

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Business | Bartleby

Why bosses need to wake up to dark patterns

Of roach motels and countdown clocks

October 16th 2025

Digital design sounds innocuous enough. Dark patterns, less so. That's the term for user interfaces which nudge or manipulate consumers into making choices they otherwise wouldn't.

You will recognise many of them. The button to turn down an offer that says something like: "Yes, I would like to miss out on the bargain of the century." The "Enroll now for rewards" option which is three times bigger and much brighter than the one saying, "I'd just like the thing I came here for." The cancellation journey so byzantine that people forget what it was they were trying to do. The message that implies 300 people are looking at the same hotel room as you.

Such practices can be very effective, at least in the short term. A study published in 2021 by Jamie Luguri and Lior Strahilevitz of the University of Chicago Law School exposed samples of American consumers to dark patterns when promoting a free trial of a service.

Mild dark patterns, such as a choice between one button marked “Accept and continue (recommended)” and another marked “Other Options”, made participants more than twice as likely to proceed than members of a control group exposed to a simple “Accept” or “Decline” choice. Aggressive designs, such as forcing people to click through several screens in order to decline the service, more than quadrupled the acceptance rate. Numbers such as these are hard for bosses to dismiss.

Dark patterns are not all sinister. Design choices can be shadowy in some lights and reasonable in others: it is useful to know whether inventories of hotel rooms or tickets are running low, for example. Some forms of manipulation are part and parcel of commerce: if advertising is not quite legitimised lying, as H.G. Wells supposedly called it, it is not the unvarnished truth either.

Consumers themselves differentiate between levels of deception. A recent paper by Shannon Duncan of the University of Pennsylvania and her co-authors looked at how people reacted to adverts from an aid organisation. They found that people objected more to artificiality (using a child actor to accurately represent poverty in a village, say) than to misleading devices such as cherry-picking a real child who is atypically poor.

Dark patterns can replicate without much thought. According to Marie Potel, a co-founder of Fair Patterns, a firm that helps to fix dark patterns, problematic designs are often cut and pasted from standard templates. Generative-AI tools may make this problem worse because they are trained on the dark-patterned internet. But bosses have two big reasons to pay more attention to design choices.

The first is a rising tide of regulation and litigation. Lawmakers from Brussels to California to London have cracked down on dark patterns. Last month the Federal Trade Commission reached a record $2.5bn settlement with Amazon, after the agency alleged that the retailer had manipulated consumers into enrolling in its Prime subscription service and then made it unreasonably hard to cancel. (Amazon says the settlement does not imply any admission of guilt.) In June a Dutch consumer association launched a class-action lawsuit against Booking.com, a hotel-booking platform, accusing it of using unlawful design tactics to mislead customers.

The second reason for managers to eschew dark patterns is that they can hurt their firms' long-term interests. Consumers dislike egregious attempts to manipulate them into buying things: the study by Messrs Luguri and Strahilevitz found that aggressive techniques upset the consumers who encountered them.

Making it hard for customers to extricate themselves from contracts can also backfire, according to Navdeep Sahni of Stanford University, one of the authors of a study that randomised the type of subscription offer shown to over 1m customers of a European media business. Some were offered promotional trials that auto-renewed into paid subscriptions, and others were offered trials that automatically expired.

People on auto-renewal contracts stuck around in greater numbers, as you might expect. But that wasn't the whole story. Initial take-up of the auto-renewal option was 35% lower, for instance. Aware that they might ultimately spend more money than they wanted to, plenty of people avoided the product altogether. Auto-cancellation subscriptions ended up being better for the business, says Mr Sahni. Dark patterns can make consumers behave in self-defeating ways. They can do the same for firms.■

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Business | Schumpeter

Sloponomics: who wins and loses in the AI-content flood?

Against all odds, the deluge might be good for creators

October 16th 2025

"Astounding triumphs", from stopping climate change to founding space colonies, will be made possible by artificial intelligence, Sam Altman has written. The head of OpenAI is not the only tech boss with high hopes. AI is the "defining technology of our time", believes Satya Nadella, Microsoft's boss. Mark Zuckerberg of Meta has argued that AI will enable the discovery of "things that aren't imaginable today".

The miracle technology's latest feat, however, is to bring forth skateboarding kittens, wrestling grannies and a cage-fighting Albert Einstein. Since OpenAI launched its Sora video-creation app last month, social-media feeds have filled with surreal, AI-made clips, generated by text prompt. Meta has launched a rival called Vibes, producing similar results. With Sora still at the top of Apple's download chart, the internet is fast becoming clogged with uncanny AI videos that have been pejoratively labelled "slop".

Video is just the latest flavour. Literary slop arrived with the first chatbots: search Amazon for a new book and the results often include AI-made knockoffs with similar titles. Image slop followed, as people shared viral pictures of Pope Francis in a puffer jacket or photos converted into the anime style of Studio Ghibli. Audio slop has invaded playlists. In the past year Spotify has removed 75m "spammy" tracks from its platform, saying that AI has made it easier to "push 'slop' into the ecosystem".

It is unfair to call all AI-made content slop—there can be few people who have not giggled at the Balenciaga pope or given their profile picture a Ghibli makeover. But whatever you call it, AI-produced content's rapid infiltration of every media format poses questions about the future of creative industries. Who wins and loses in a world of infinite content, made by countless creators?

The clearest winners are the once-frustrated artists who can bring their ideas to life. Just as Instagram made photographers of everyone with its snazzy filters 15 years ago, AI can turn anyone into a writer, artist, composer or film-maker. The democratisation of content-creation does not just give people a creative outlet. It provides a large minority of them with a living. Last year YouTube paid an estimated $32bn to more than 3m creators, large and small. Spotify paid more than $10bn in royalties to rights-holders. AI is turbocharging ordinary people's ability to produce, and ultimately monetise, slop of their own.

That is also good news for the platforms which share it. Slop brings risks: Spotify warns that the listening experience is spoiled if poor-quality tracks sneak in; OpenAI admits that letting everyone generate videos free of charge is proving costlier than expected. But helping people create slick-looking video (as well as images, sound and text) offers a chance to reverse a trend in which users of social networks have been posting less often. What is more, platforms have a stronger hand when content is made by many creators rather than by a powerful few. The music business has long been dominated by a handful of big record companies, which in 2017 accounted for 87% of the streams on Spotify. Since then, following the upload of tens of millions of home-made tracks, the big labels' share of listening has fallen to 71%. Slop's growing hold on attention will reduce the bargaining power of mainstream rights-holders everywhere.

Unsurprisingly, those rights-holders are the most worried. Slop not only competes for their audience. Many creative companies claim that it infringes their copyright. Disney and Universal are suing Midjourney, an AI image- and video-generator, while Sony, Warner and Universal Music are suing a pair of AI audio-makers. OpenAI breezily said that rights-holders were free to opt out of Sora; after objections from the Motion Picture Association, among others, it quickly U-turned to more of an opt-in system. The AI industry's general approach has been to seek forgiveness rather than permission. It is well summed up by a video doing the rounds on Sora. Mr Altman stands in a field full of Pokémon characters, chuckling: "I hope Nintendo doesn't sue us."

Yet for the best-known creators, slop presents two opportunities. First, there is little evidence that the tidal wave of user-generated content unleashed by the internet has detracted attention from the biggest stars. Quite the reverse. In a sea of endless content, users rely on algorithms to point them to the best stuff—and many end up in the same place. Since 2017 the number of artists making over $1,000 a year in Spotify royalties has tripled; the number making $5m has quadrupled and that of those making $10m has risen sevenfold. Similar patterns can be seen in the book and film industries where, despite more content sloshing around, the biggest hits are bigger than ever. Slop's losers will be the professional creators who are not successful enough to join the top table, and must now share the scraps with millions more rivals than before.

Second, slop offers a chance to turbocharge what creative types call discovery. Mr Altman has touted the potential for "interactive fan fiction", in which users can bring beloved characters to life in new contexts. Licensing copyrighted work for sloppification could delight superfans and introduce material to new audiences. In April, at the height of the Studio Ghibli fad, Google searches for "Ghibli" were 50 times higher than before.

Many creatives still feel sore from an earlier era of the internet, when the music industry suffered a near-death experience from piracy and YouTube aired clips ripped from television without permission. Yet others have drawn the opposite lesson. Many in the music and TV industries refused to accept that streaming was here to stay. It took many years—and wasted billions—to cut deals with the platforms to monetise their content. They should not make the same mistake with AI. Where there's slop, there's cash.■

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Finance & economics

Finance & economics | Taking a battering

Donald Trump and Xi Jinping: both weaker than they think

As America and China clash over trade, cracks emerge in each side's position

October 16th 2025

Making a lithium-ion battery, of the sort that can power an electric vehicle, is a bit like baking a cake. The ion-rich powder is first mixed into a lump-free batter, then spread evenly on foil. The solvents must be dried in an oven, just as baking removes water, then the results must be carefully stacked. The underlying chemistry is fairly well understood. But the best battery-makers, like the best bakers, improve their craft over years in the kitchen.

Many masters of this craft now reside in China. On October 9th its Ministry of Commerce said battery-makers would soon need a licence to export goods, kit or ingredients. The rules were part of an overhaul of China's export controls, which also included new limits on rare earths. The regime has rattled China's trading partners, and enraged President Donald Trump. In response, he has threatened an extra tariff of 100% on Chinese goods and retaliatory controls on American exports to China.

The two superpowers still seem confident that they can avoid a ruinous trade crunch. China has denounced America's tariff threat but not matched it. Officials from both countries met on October 13th and again at meetings of the World Bank and IMF on October 15th. Hopes remain that Mr Trump can strike a deal with Xi Jinping, his Chinese counterpart, on October 29th before a summit in South Korea. But for a lasting truce, each side needs to grasp its rival's strengths and weaknesses—and its own. That does not look like it will happen any time soon.

Mr Trump seems to believe that America's economy can withstand a triple-digit tariff on China. This is despite its experience earlier in the trade war, when America's average levy on Chinese goods briefly exceeded 100% and markets plunged. That—and China's retaliation—proved too painful to bear for more than a few weeks. Hence America sought a truce in May.

America's giddy stockmarket should be no source of comfort. It has rallied since April partly because Mr Trump dropped his worst threats. Stocks rebounded after a fall on October 10th because investors think he will back down again. Should he follow through with a 100% tariff, all bets would be off. If investors think Mr Trump does not fear them, they will fear him.

Nonchalant about their country's weaknesses, American officials also exaggerate China's. True, it suffers from low demand and persistent deflation: its factory-gate prices fell year-on-year in September for the 36th month in a row. Its growth this year has also been propped up by exports. But that does not mean China is cripplingly dependent on the American market.

In fact, China has so far had great success in switching the destination for its wares from America to other markets. In the year to September, for example, goods exports grew by over 8%, even though those to America fell by 27%. And if China's overseas sales did falter, the state could fill the gap with stimulus, including greater public spending. A higher American tariff will change how China meets its growth targets, not whether it meets them, argues Larry Hu of Macquarie, a bank.

China, then, may calculate that it can endure tariff pain better than America can. But tariffs are not America's only economic weapon. It also has its own export controls. Officials can withhold a wide range of sophisticated technologies on which China remains uncomfortably dependent.

In May, for example, America suspended the sale of equipment to COMAC, China's domestic aircraft-maker. America could go further, denying parts for China's fleet of Boeings, which might then struggle to get certified and insured in the West, points out Capital Economics, a consultancy. And Mr Trump has already said he will restrict exports of "any and all critical software". During the spat in May, America curbed the sale of electronic-design automation (EDA) software, a chip-design tool. The big three firms in this industry—Cadence, Synopsys and Siemens EDA—are all based in America and retain an 82% share of China's market, notes Morgan Stanley, another bank. Although China has more EDA firms than any other country, none can match the breadth of services provided by the big three. America could also work with European allies to further restrict China's access to chip-making kit.

China still fears these controls. On September 29th America announced the "50% rule", which extended its blacklist of firms to cover majority-owned subsidiaries as well. American officials saw this as the mere closing of a loophole. Why would they have cared if China saw things differently? Well, they do now. "Think of how a child learns to fear hot things," wrote Ren Yi, the grandson of a former Communist Party leader, on social media. "They get burned once and learn to be cautious."

China's new controls mimic America's own. Its licence requirements now encompass foreign products made with its kit and technologies—an imitation of America's "foreign direct product rule". China's definition of "advanced" chips is very near to America's: logic chips with nodes of 14 nanometres or below, for example.

Chinese officials have long complained about the "long-arm jurisdiction" exercised by American regulators beyond their borders. Now they assert their own. Can they enforce such far-reaching rules? "Definitely," says Mel Sanderson of American Rare Earths, a miner. "The Chinese government has a very good grasp on who is making what, with what and selling to whom. They have been tracking things closely for quite some time." Even if the authorities cannot trace everything, firms with any presence in China will not want to risk being caught breaking the rules.

The country's commerce ministry was keen to point out that requiring export licences was not the same as a ban. It said it might approve broad licences and offer exemptions, so as not to disrupt supply chains too much. But it may have miscalculated, overestimating the credibility of its assurances. On October 15th Scott Bessent, America's treasury secretary, kept up the pressure, warning that, "If China wants to be an unreliable partner to the world then the world will have to decouple."

China may also have underestimated how burdensome its new requirements will be, even for customers it wants to keep serving. The new rules, for example, apply to products with even trace amounts of Chinese rare earths. Foreign firms buying permanent magnets (or coatings or catalysts) must therefore trust their suppliers to tell them whenever these elements exceed 0.1% of the product's value. The exact weight is often a trade secret.

Many of the companies covered by the new rules will not have previously applied for a licence. It will take them time to gather the required information, even if they are willing to share it. Applications must be made in Chinese, to unfamiliar regulators. Even the annexes to the new regulations are in a format developed by Kingsoft, a Chinese software firm, rather than PDFs. The regulators, meanwhile, will have to learn about many more industries and firms. Tentativeness by low-level officials could cause greater licensing delays than China's leaders intend.

The problems could extend well beyond the carmakers who were most visibly affected by the dispute in the spring. Some American states, for example, need high-energy batteries for their electricity grids, especially to power new data centres. If they lose access to Chinese suppliers, they will "likely have to scramble to fill this gap", points out S&P Global, a rating agency.

Disruption seems inevitable. Even if Mr Trump meets Mr Xi in South Korea, China is unlikely to repeal its new controls. It could offer reassurances about how they will work, or other gestures of goodwill. Mr Trump's advisers may then urge him to declare victory, if only to avoid a tariff that will hurt America as much as China. The world must then hope that China implements its new regime as unobtrusively as possible. There could eventually be an uneasy truce, with each side refraining from disrupting critical exports too much, for fear the other side will do likewise. But getting there will not be a piece of cake. ■

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Finance & economics | Debtly serious

Indian microfinance is in trouble

A model that has lifted millions out of poverty is threatened by rising defaults

October 16th 2025

Shobha Devi runs a tailor's shop in the narrow lanes of Vapi, an industrial town in Gujarat. A former teacher, she now earns more from pins and petticoats. "I am proud that I am standing on my own feet," she says. "That's by God's grace." Some credit also goes to microfinance lenders. One, IIFL Samasta, lent her 65,000 rupees ($732) to expand her business. Part of that funds her daughter's education and she repays 1,470 rupees every fortnight. She belongs to a group of women with joint responsibility for each other's loans.

Microfinance was popularised by Grameen Bank in Bangladesh. It is far preferable to village money-lenders, who often demand usurious rates, security or pledges of labour. Microloans are collateral-free; most are to poor women. Today some 60m Indians owe $35bn-worth of such loans, with repayment rates near 95%. The model has lifted millions out of poverty. But after years of rapid growth, it may be in trouble. Microlending has long been a hard business, and both politicians and regulators have made it tougher. Worse still, economic stress is driving up defaults.

Gauging creditworthiness is "a small art", says Venkatesh N, boss of Samasta. Field officers note everything down to whether a house's roof is tin or concrete. Despite India's digital-payment system, over 90% of repayments are in cash, so must be made in person. Last year's brutal heatwave made the travel required for such home visits trickier, pushing up defaults and lowering officers' morale. Attrition is still high: staff often defect to outfits such as Swiggy and Zomato, which pay them more to deliver meals and groceries.

Meanwhile, other digital infrastructure remains patchy. In 2018 India's Supreme Court restricted the use of Aadhaar, the national ID system, for loan verification and reporting. Without a centralised system, borrowers can use duplicate IDs to secure multiple loans, muddying records.

Political interference doesn't help. Last month the state government of Bihar transferred 10,000 rupees each to 7.5m women. Soon after, officials reportedly asked lenders to pause collections until after state elections. Rumours of debt waivers prompted some borrowers to stop payments, expecting government relief, says Alok Misra of Microfinance Industry Network, a self-regulatory organisation.

A well-intentioned policy change has added to the challenges. In 2022 the Reserve Bank of India created one regulatory framework for all lenders, including banks and microlenders. This means microlenders now face more competition. Consumer choice is good, but "the market moved in aggressively", admits Samasta's Mr Venkatesh. Margins are thinner and defaults have risen, as clients can borrow more.

The biggest strain, however, is economic. From 2019 to 2024, real rural wages fell by 0.4% (though they have risen somewhat this year). As incomes stagnated and food prices rose, borrowing increased, says Sadaf Sayeed, chief executive of Muthoot Microfin, a large lender. Under such difficult conditions, few borrowers prioritised repaying unsecured loans. As defaults climbed, lenders struggled and withdrew credit. Borrowers' inability to refinance then led to more defaults, sparking "a vicious cycle", adds Mr Sayeed.

Banks, spooked by rising risk, have slowed lending to the non-banks that make nearly 40% of microloans. These depend on term loans and other long-term borrowing, and saw credit growth fall to 15% in the year to March 2024, from 30% a year before. In August the Microfinance Industry Network sought up to $2.2bn in government-backed credit guarantees to shore up liquidity.

Listed lenders have been hit hard, with some companies losing nearly 70% of their market value. In May IndusInd Bank disclosed a $76m accounting error in its microfinance portfolio. In August Manappuram Finance reported a 75% year-on-year drop in quarterly profit as more and more loans soured. The total value of outstanding microloans in India fell year-on-year by 17%, to $41bn in June 2025. Delinquency rates have more than doubled, to 6%, as many borrowers juggle multiple loans.

Mr Misra nevertheless insists that the "fundamentals of the sector remain strong". If he is wrong, then soon enough borrowers like Shobha will surely be looking to other options. "I have never missed my payments," she says. "I want to set up a bigger shop, and never want to spread my hands in front of my husband". ■

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Finance & economics | The parable of Château d’Yquem

Why the ultra-rich are giving up on luxury assets

Forget fine wine, great art and glitzy mansions. There are finer things in life

October 16th 2025

A BOTTLE OF Château d’Yquem 2010 is a fine thing. Apricot, toasted almond, citrus zest, juicy lemon, white truffles: it is all there. Until recently, the cost of the world’s finest sweet wine rose steadily. By 2023 a given bottle from the producer went for 60% more than in the mid-2010s. At the time, all forms of opulence were becoming more expensive. Classic cars, aged whiskies and enormous mansions shot up in value. From 2015 to 2023 a “luxury-investment index” produced by Knight Frank, a property firm, rose by 70%.

And then something changed. From its peak in 2023, the index is down by 6%. The price of Bordeaux first growths, including Lafite Rothschild and

Margaux, has fallen by 20%. In America the price of private jets and boats is down by 6%. Second-hand Rolexes change wrists for nearly 30% less than in 2022. Fine art is in a slump. According to Savills, a real-estate firm, prices of the very best properties in global cities are barely rising. The price of "prime" housing is falling in London and Paris. Two years ago a house on San Francisco's "Billionaires' Row" went on sale for $32m. The sellers have now cut the price to $26m.

Why the bear market in plutocratic assets? It seems unlikely that the super-rich are struggling. There are more than 3,000 billionaires in the world, according to Forbes, a magazine, up from 2,800 last year. The richest 0.1% of Americans now hold 14% of the country's household wealth, the most in many decades. In San Francisco, where no one wants to buy a mansion, the AI boom mints millionaires each day. In contrast with poorer Americans, the richest 3.3% have greatly increased their outlays since 2022, finds Mark Zandi of Moody's Analytics, a research firm.

Instead, the bear market is down to the fast-changing economics of luxury. To understand why, read Thorstein Veblen, an American economist who was prolific in the early 20th century. He argued that luxury depends on scarcity and rivalrousness. A good is truly luxurious not just because it is costly, but because one person's consumption diminishes others' ability to have it. Today, what counts as scarce and rivalrous has changed profoundly.

The problem, at least for the ultra-rich, is that fancy goods are everywhere. Lots of vineyards make great wine; is the best Bordeaux really that much better? Lab-grown diamonds are identical to the real thing. Anyone with a bit of dosh can claim a Kiton jacket from a second-hand marketplace or charter a private jet. Art-world innovators talk of "fractionalising" old masters, with hundreds of people owning a tiny piece of a Rembrandt. These days everyone enjoys the finer things in life—and they post about it on social media. Such things are no longer scarce or rivalrous. So they no longer seem as luxurious.

The rich are therefore spending on bigger and better things; often services, rather than goods. We constructed an ultra-luxury-services index, including everything from a Super Bowl ticket to a three-Michelin-star meal. We chose experiences with both global recognition—not just nice, but the best of the best—and for which we could unearth reliable price data over many years. Our index has risen by 90% since 2019. It has even surged since 2023, as goods prices have fallen (see chart).

Soaring luxury-services prices reflect the very same dynamics that have harmed luxury goods. Consider Le Bristol, perhaps Paris's finest hotel. There is global demand to swim in its roof-top pool, which boasts a view of the Eiffel Tower. Many of the guests on its leafy terrace spend more time photographing their cocktails than drinking them. Yet there are fewer than 200 rooms at Le Bristol, making accommodation intensely rivalrous. A night there now costs twice as much as in 2019.

Many people would like a housemaid, but the best are hard to find. In America, their salaries are about 50% higher than in 2019. Housekeepers in Palm Beach, a ritzy part of Florida, now routinely pull in more than $150,000 a year. You can resell a watch, but you cannot "resell" a day spent on Centre Court at Wimbledon. Since 2016 the issue price of a five-year debenture, which entitles the holder to a ticket, has risen from around £50,000 ($67,000) to well over £100,000. The price of a ticket to the Super Bowl is double what it was a few years ago. Attending the Met Gala, if you can get a ticket, costs over twice as much as in 2019. The price of the menu at Benu, a three-Michelin-star restaurant in San Francisco, has risen by 78%

since 2015. Was it worth the more than $500 that your correspondent paid to eat the food? Maybe?

Yet when eating at the restaurant, you buy not just the food—but the knowledge that, for those few hours, nobody else on Earth could sit at your table. New York and Paris fashion weeks, exclusive fundraisers, the NBA play-offs: there are no good deals any more, which makes it even more satisfying to tell others that they were not there. Goodness knows how much a resale ticket to next year's football World Cup final, to be played near New York City, will cost. That is a large part of the appeal. When you could be one of a handful of people seeing Harry Kane and Kylian Mbappé face off, why would you bother with a bottle of Château d'Yquem? ■

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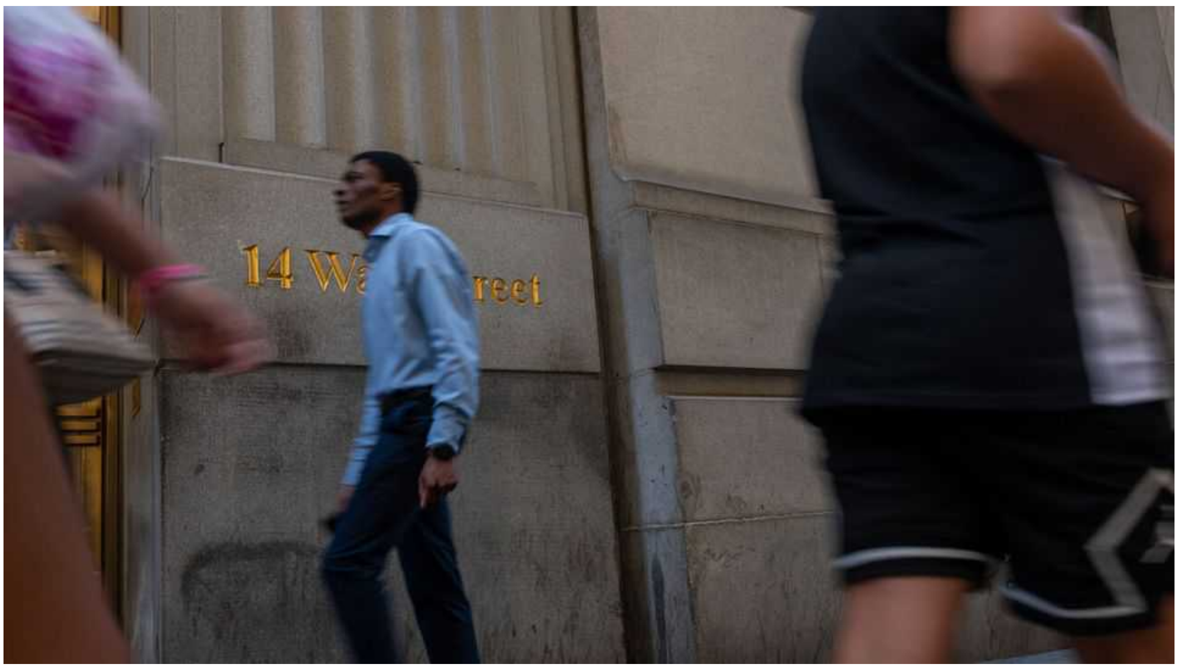
Finance & economics | Take a beat

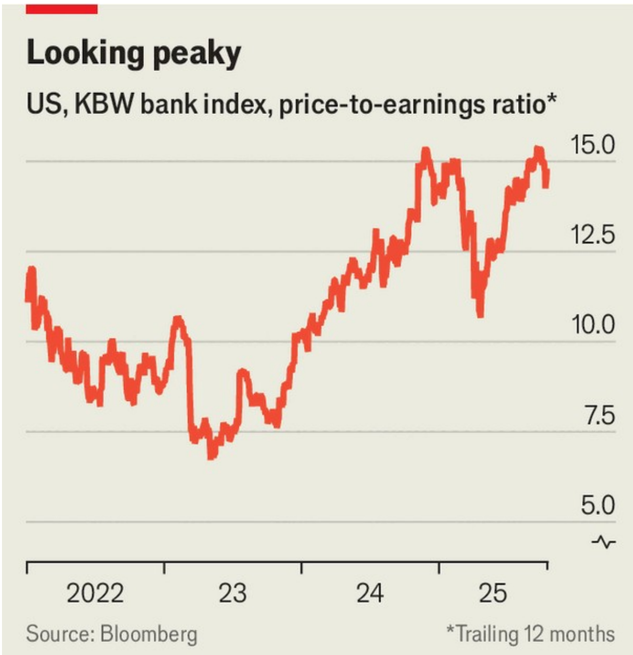
America's bankers are riding high. Why are they so worried?

Their latest earnings do not represent unalloyed good news

October 16th 2025



It might seem like a wonderful time to be an American investment bank. Over the past year, the country's lenders have handed shareholders gains of 27%, far outstripping the 10% for other stocks outside the technology sector. They have ridden a wave of strong interest income, heavy trading and a surge in dealmaking. Soon they will face less red tape, too. Viewed in this light, conditions could hardly be better.



Squint a little, though, and things are starting to look rather less rosy. The price-to-earnings ratio for the KBW bank index is 14.5. It has not often been higher over the past 20 years, except during the global financial crisis of 2007-09 and the covid-19 pandemic, two periods during which earnings collapsed. Uncertainty about tariffs is still high, and gauging their impact is harder than ever owing to the federal government's shutdown, which has halted releases of economic data. Tricolor and First Brands, two heavily leveraged private firms, recently went bankrupt. In doing so they raised worries about the health of America's weaker corporate borrowers, and how exposed creditors might be.

This glass-half-full, glass-half-empty dynamic was on full display as banks announced their third-quarter earnings. Results released by JPMorgan Chase, Goldman Sachs, Wells Fargo and Citigroup on October 14th were far better than analysts had expected. So were those of Bank of America and Morgan Stanley, released the next day. Their share prices rose by 4% and 5%, respectively.

But the rally was not universal. Goldman's share price fell by around 2% on October 14th. Quarterly profit rose by 37% year on year to $4.1bn—well above the median forecast of $3.6bn, even if revenue from the share-trading division missed estimates by around $200m. Although the bank has done better than most of its peers this year, and its share price is still up by around a third, investors' hopes are so high that only barnstorming results will do.

Both Jamie Dimon and David Solomon, bosses of JPMorgan and Goldman respectively, warned of frothy markets. Mr Solomon noted "a fair amount of investor exuberance". Mr Dimon went further, saying the collapse of Tricolor and First Brands could be signs of worse to come. "When you see one cockroach, there are probably more," he warned. JPMorgan's loss of $170m, sustained from the bankruptcy of Tricolor, was "not our finest moment", according to Mr Dimon. The bank's shares dipped by 2%, and it raised its provision for credit losses by 9%, to $3.4bn.

Worries about the most opaque corners of American lending have grown over the past month. The S&P business-development-company index, which tracks the performance of firms that invest in private loans, has fallen by 15% this year. That puts it below its level when markets spasmed in early April, in response to President Donald Trump's announcement of swingeing tariffs. According to Moody's, a credit-rating agency, the "golden era" for such investors is over. Greater economic uncertainty and low credit spreads will make strong returns difficult to come by, even without further insolvencies.

Threats from the riskier parts of America's credit markets could ripple back to its banking system. In recent years, bank loans to non-bank financial institutions—including specialised lenders such as Tricolor, as well as private-credit firms—have ballooned. According to research by the IMF, banks accounting for more than half the sector's assets have exposure to non-bank lenders which is greater than their buffers against unexpected losses.

Big lenders still have some things to look forward to. If the wobbles in private markets die down, tariffs do not tank the economy and the artificial-intelligence boom does not turn into a bust—three admittedly big "ifs"—then lenders will be well-placed to make the most of a wave of Trumpian deregulation. Bank executives are excited about the loosening of capital requirements resulting from a range of rules due to be changed over the coming years. Should such changes materialise, analysts believe they may unlock more than $200bn in capital. America's top bankers may, in other words, shortly be in reach of a prize they have chased for years. That is nice. The problem is that shareholders expect perfection. ■

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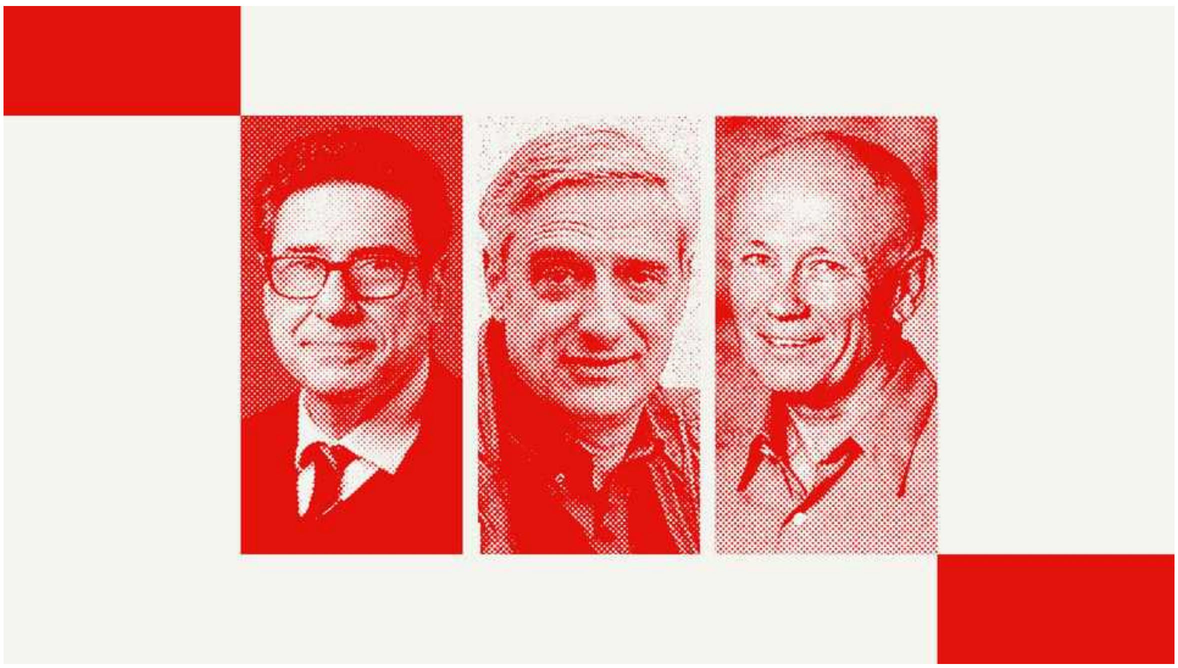
Finance & economics | Past winners

Joel Mokyr deserves his Nobel prize

The Nobel committee is belatedly recognising economic history

October 16th 2025



On October 13th the Royal Swedish Academy of Sciences awarded the Nobel prize in economics to three people. Philippe Aghion of the London School of Economics and Peter Howitt of Brown University have made big contributions to researchers' understanding of how economic growth happens, and shared half the prize. The other half went to Joel Mokyr (pictured, centre) of Northwestern University, along with half the prize money of 11m Swedish kronor ($1.2m). The award is well deserved—and a reflection of how intellectual currents are changing.

Mr Mokyr is an economist and a historian. He is also an inbetweener; not fully happy in either camp. He writes better than almost any of his wonky peers, producing books that even a layman might be tempted to pull from the shelf. But he reasons like an economist, and is not afraid of numbers, putting him outside the mainstream of academic history, too. Were he to be starting his university career today, he might struggle to get a top-tier job.

The American-Israeli economist has written on a wide range of topics, including the Irish Famine and the history of working from home. The research for which he was awarded the Nobel deals with a question that will never get a fully satisfactory answer: why did economic growth take off? For the vast majority of human history, GDP did not rise. Then, around the mid-18th century, it shot up. Mr Mokyr places high value on the power of ideas to explain this shift. The argument of "A Culture of Growth", published in 2016, is straightforward. Around the 17th century, European cultural norms changed in a manner that was conducive to scientific experimentation and discovery, and then the commercialisation of those ideas.

In making such arguments Mr Mokyr overturned the prevailing consensus, which held that engineering advances owed little to science. People made technological breakthroughs, the argument went, but did not really understand how they had done so. Thomas Kuhn, the most famous historian of science, thought that science and engineering worked in opposition until the 1870s.

By contrast, Mr Mokyr argued that institutions like London's Royal Society, founded in 1660, fused science and engineering at a much earlier stage. "The true and legitimate goal of the sciences is to endow human life with new discoveries and resources," said Francis Bacon, the Royal Society's chief inspiration.

The flourishing of commercial science also required the right political conditions. In China, for instance, the ruling class worried that free-thinkers might overturn the established order—and crushed them. Europe seemed more suited to intellectual progress. Having lots of states in close proximity meant that academics who incurred the wrath of the authorities could escape relatively easily. Governments there were also more prepared to allow "creative destruction", where old firms die and new ones grow. As the work of Messrs Aghion and Howitt explains, this process is the foundation of economic growth. For all these reasons Europe, and not Asia, was the first continent to industrialise.

It is gratifying to see Mr Mokyr win the award. For one thing, he is a nice man who offers journalists from The Economist constructive feedback when he bumps into them at conferences. His accolade also speaks to a welcome change in academia.

Understanding recent events, including the global financial crisis of 2007-09 and the covid-19 pandemic, is near-impossible without an appreciation of economic history. Knowing how governments of the past dealt with crashes and plagues helps us better deal with contemporary ones. And yet for a long time the Nobel committee ignored economists with a historical bent. Happily, they no longer do. Last year's winners, including Daron Acemoglu of the Massachusetts Institute of Technology, are most famous for their work on historical development. The year before Claudia Goldin, an economic historian at Harvard University, won alone. And in 2022 Ben Bernanke, a former Fed chair and a student of the Great Depression, shared the prize with two others.

Certain biases remain—especially, it seems, against economic historians attached to British universities. (Robert Allen, Stephen Broadberry and Sheilagh Ogilvie, all at the University of Oxford, should surely be considered for future prizes.) Some economists still believe that such researchers are lightweights lacking the mathematical nous to do the real thing. Hopefully, that kind of thinking is on its way out. For now, enjoy the novelty of being able to enjoy reading the work of a Nobel-prizewinning economist. ■

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Finance & economics | Buttonwood

Would inflation-linked bonds survive an inflationary default?

A thought experiment on the nearest thing to a safe asset

October 16th 2025

Perhaps the biggest headache for any investor is that no asset offers complete safety. Inflation gnaws away at cash; gold might offer protection but its price has soared so high that it feels less like insurance than chasing a hot trade. Rich-world government bonds are supposed to be havens, and have historically done better than cash at outpacing consumer prices. Just now, though, plenty of governments are borrowing so much that it is worryingly easy to imagine them letting the money-printers whir and inflating away their debt.

These are the sorts of worries that might lead you to inflation-linked bonds (or "linkers"), which offer payments that rise along with consumer prices.

Linkers were first issued by the Commonwealth of Massachusetts in 1780, during the American revolution, when they were pegged to a basket of goods featuring corn, wool and leather. They were then used to pay soldiers made mutinous in part by their paper money losing value. They are now issued by governments around the world, pegged to official inflation indices. Pension funds and insurers, with liabilities that often rise in line with these, are keen buyers. And for individual investors, linkers guarantee a future income stream with fixed purchasing power—useful for, say, planning a retirement. Though no asset is truly safe, these bonds come close.

How, then, would they fare if a debt-laden government let inflation rip? That scenario, as our special report argues this week, is more likely than often appreciated. One answer is that this is exactly the risk linkers exist to mitigate. A government that sells them, after all, cannot later stiff buyers by debasing its currency. The safety-valve has slammed shut, since the nominal value of the linkers, unlike that of other bonds, would rise with consumer prices. Take Britain, where linkers make up a quarter of the national debt. An inflationary default, by trashing the rest, would raise this quarter-share, spurring demand for new bonds to be similarly protected. The debt burden would be eased, but only up to a point.

Linker-holders should consider three other potential outcomes. One is that central banks buy their bonds, wrenching the safety-valve open, since in public hands they could be devalued. This is only imaginable in a world where central bankers have lost independence or shelved their inflation targets: it would amount to a public bet on runaway prices, and there are few worse signals they could send.

Britain's share of inflation-linked debt is too low to warrant such a drastic measure; those of other rich countries are lower still (only 7% of American Treasuries are linkers, for example). Hence the second, more likely outcome is that linkers are left on the market and function as intended, preserving their owners' purchasing power even as that of bog-standard bondholders falls. This is a cheery scenario if you are one such owner.

At the same time, the consequences would show how much of a migraine even the safest asset can induce. Analogously to normal bonds, the real yields promised by inflation-linked ones move inversely to prices. So they fall as demand rises, which it surely would if inflation was eating the value of other debt and linkers were protected. Retirees and insurers who had locked in the income streams they needed at previous prices would sit pretty. Yet those still saving to buy bonds to guarantee their liabilities would see that goal recede, as lower real yields raised the amount they needed to generate the same income.

The situation would partially mirror the years of near-zero (or negative) interest rates—but with the addition of unstable inflation threatening growth, employment and other asset prices. As savers struggled, even existing linker-holders sitting on windfall gains would face difficult choices. Once they had booked their gains, they would either need to commit to years of low real returns, or sell and take their chances in markets destabilised by a new, much more volatile economic regime.

In the third and most concerning potential outcome for linker-holders, the question of safety never really goes away. When developing countries restructure debts, foreign investors are loth to take losses from which local ones are exempt. Whatever their agreed terms, would investors in linkers fare any better if all other bondholders were being rinsed and lobbying furiously for the pain to be shared? It would depend on how politicians balanced immediate unpopularity with the long-term public interest. Nothing to worry about, then. ■

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Finance & economics | Free exchange

The new economics of babymaking

A postcard from one of America's youngest towns

October 16th 2025

A few miles south of Salt Lake City, deep in Utah County, the town of Payson is on parade. Toddlers run between trucks that tug floats carrying cheerleaders and footballers. Seven beauty queens wave from a giant watermelon; the next float bears 36 bagpipers. Every performer in this annual celebration is a child. All told, it takes them two hours to pour onto the streets.

Between 2008 and 2024, the fertility of America's average woman fell by a quarter. The country's population is ageing and, should birth rates stay low, will eventually shrink. But in Payson, unlike most towns, children still outnumber adults. More babies were born in Utah County in 2024 than a decade earlier. Although fertility has fallen faster than the American average in the wider state, the county makes more babies than almost anywhere else in America. In southern districts, according to the mayor's office, the birth rate is twice the national average—and rising.

Economists modelling women's choices have long assumed that falling birth rates are down to rising incomes. In a rich, meritocratic country, couples have reason to spend more on education and other ways to boost their offspring's life-chances, leaving less to spend on additional babies. As more women join the labour force, the opportunity cost of having a child rises, since child-rearing time could instead be spent advancing a career. It is for these reasons, economists have tended to think, that rich women in America have fewer children than their poorer peers.

But recent research and birth trends have challenged this consensus. Within high-income countries, women in the richest places now have the most children, rather than the fewest. Birth rates among the poorest women are falling fastest. And since 2010, highly educated women have been having more children.

In other words Utah County, with its rich, expanding families, encapsulates what economists struggle to understand about American fertility. Here, it is not that the population has resisted the social forces reducing fertility elsewhere. Rather, many of the newest parents are newcomers themselves, who moved to the county to have babies. Its child-friendly infrastructure and density of young families are a potent draw. These new arrivals illustrate an underappreciated consequence of America's changing demography. As cities across the country get greyer, would-be parents will flock to those communities that still prioritise children.

Mormons help explain Utah County's unusual demography—but not in the way you might expect. They have long made up the majority of the county's population. The typical temple-going adult grew up in a family with four children, two more than the average American. As birth rates fell elsewhere, Payson built more schools, adapted public spaces and provided child care. Most student housing in the neighbouring town of Provo, home to Brigham Young University, was built to include space for children. Elsewhere, women seemed to be having fewer babies in order to make time for their careers. But fewer women worked in Utah, and locally the thinking was that they would end up having similar size families to those of their mothers.

In the intervening 35 years, that is not how things have turned out. The fertility of Mormon women has dropped by more than that of the rest of the population. By 2019 more than half had fewer than three children. Birth rates are falling faster in Utah than in any other state. Yet housing, transporting and educating children is still the organising principle of these religious suburbs. That has attracted a flood of migration, mostly newlywed couples and young families from elsewhere in America. Of the 700,000 people now living in Utah County, for instance, some 100,000 have arrived since 2014. In Alpine, an affluent town nestled in the mountains on the county's eastern border, one Mormon retiree points down his cul-de-sac. Out of 12 sprawling houses, all but his have been bought by families that arrived in Utah since 2010. A diverse set of parents now packs local museums, parks and parades.

Few demographers contemplate how new parents will behave in an ageing world. Most are still caught on the knock-on effects of fewer births. As the ranks of the elderly swell, they will soak up policymakers' attention. A worrying consequence might be that, with little state support and few other parents, couples might have even fewer children. But many will remain determined, and seem likely to seek one another out.

Thus Utah County might provide an example for other parts of America keen to have more babies. In a study published in 2023, Matthias Doepke of Northwestern University and colleagues assessed what fertility hotspots had in common. They found that birth rates held up best in places where policymakers set up child-care schemes and introduced flexible working hours. Social norms also mattered. People living in places where adults' social lives revolved around children tended to have more of them.

Many politicians worry about relying on migration to make up for birth shortages. Payson shows that it need not be all bad. New arrivals are rich: they have to be to afford houses in the area, the prices of which have doubled over the past decade. That provides a boost to the state's coffers. And those moving to the area to start families also seem increasingly likely to have university degrees, which reflects a national trend. According to Mr Doepke, birth rates among the most educated women are rising.

Most big cities and populous states are not yet entirely old and grey. Still, as your columnist watches another float roll through Payson (packed with fiddlers, this time) the sheer quantity of youthful exuberance on display feels startingly unfamiliar. It is pleasant, too. How rare it is already for a town to put children at the heart of its public life. ■

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Science & technology

Science & technology | Seed capital

How to save Madagascar's dwindling forests

The island's unique plants are being preserved in the world's biggest seed bank

October 16th 2025

In a 4x4 bumping and rattling along a dirt road in Madagascar, Nomentsoa Randriamamonjy explains a local idiom. A few generations ago, the phrase "when the eastern forest disappears" was Madagascar's equivalent of "when pigs fly". That forest once stretched the entire length of the island's east coast, some 1,600km (see map).

But slowly the phrase fell out of use. The loss of the eastern forest no longer seemed impossible—or even distant. The rainforest, and Madagascar's many other wooded areas, are under threat from the usual suspects: climate change, wildfires, slash-and-burn agriculture and invasive species. Between 2001 and 2024 a quarter of the country's native rainforest vanished. That matters. Madagascar became an island around 90m years ago, leaving its inhabitants evolutionarily isolated. Around 80% of the plant species found there today live nowhere else in the world.

That is where people like Mr Randriamamonjy come in. A botanist at Kew Madagascar—an outpost of the Royal Botanic Gardens, whose headquarters are at Kew in London—he has the painstaking, and sometimes dangerous, job of collecting seeds from threatened plants. His work is the first stage of a huge conservation endeavour. The tiny parcels of life that he collects in the field eventually make their way to the shelves of Kew's Millennium Seed Bank (MSB) in Sussex, England, the world's largest archive of wild plants. There, seeds are not just locked away in case of some future catastrophe. They are also used for research, restoration and to help secure the world's food supplies.

The MSB, as its name suggests, celebrates its 25th anniversary on October 22nd. Its vast underground freezers store more than 2.5bn seeds from 40,000 species—around 10% of the world's plants. Most are collected by partner organisations abroad (samples are also held in local repositories). Madagascar is the only country besides Britain where Kew has its own office, with around 60 staff.

When your correspondent joins Mr Randriamamonjy—before the coup of October 14th, in which the army said it had seized power in the country—he and his colleagues are bound for Antavolobe, a protected area of humid forest 100km east of Antananarivo, Madagascar's capital. Plains lined with rice paddies soon give way to dense tree cover. At the forest's entrance are local guides, whose knowledge of the terrain and flora are invaluable. Once inside the forest, the guides point out medicinal plants. Centella asiatica is a small herbaceous plant whose leaves have anti-inflammatory properties. The Madagascar periwinkle is a source of vinblastine, vincristine and vinorelbine, a trio of anti-cancer medicines.

Seed collecting is not for the faint-hearted. Some expeditions involve three- or four-day drives along potholed roads and dirt tracks. The remotest sites can be reached only by trudging through the forest for days on foot. Mr Randriamamonjy and his colleagues can spend several weeks subsisting on rice and the fish he is able to dazzle with his head torch and catch bare-handed.

On each mission the team has a list of ten or so target species. They prioritise those that are endemic, endangered and economically important. A successful trip generally ends with 15 different samples, though days can pass with no luck. Sometimes there are thrilling surprises. Recently, in one remote site, Mr Randriamamonjy and his colleagues rediscovered a species of aloe that was presumed extinct—it had last been seen in 1910. Since their most recent funding award in January 2024, the Kew Madagascar team has added 18 new tree species to their collection, one of which is entirely new to science.

Climate change makes their work harder. Seeds can be collected only when a plant's fruit is ripe, and the rhythms of the past have become an unreliable predictor of when fruits will be ready today. Sometimes, the team travels for days only to find the berries they were looking for are already gone. One of the guides laments the Madagascar rosewood, a tree that once fruited here yearly, but has borne nothing in the past five. The Kew team are helped by locals with smartphones who record data on target plants nearby.

Finding ripe berries is just the beginning of the process. Before taking the seeds, the team counts the number of individual plants of the target species nearby. They only ever gather a fifth of the ripe fruit, leaving the rest for the lemurs and birds. In each collection they aim for about 1,000 seeds. They also record data on the population and location, gather leaves for DNA analysis and take cuttings for herbaria in Madagascar and Britain.

Any seeds and specimens that the team collects from the field are first taken to Antananarivo. Crinkled cuttings are mounted on a card, photographed for the database and filed in towering metal cabinets. Seeds are cleaned and dried, tested for germination—there is no point in storing lifeless kernels—and then split between the Silo National des Graines Forestières, Madagascar's national seed bank, and Kew's repository in distant Sussex.

Seed banks are often thought of as "doomsday" vaults, says Charlotte Lusty, head of seed collections at Kew. But in reality, they are more like libraries: samples are checked out of the MSB every week. Many of the seeds that are withdrawn from the bank are used for restoration. During Australia's 'black summer' of 2019-20, for instance, wildfires nearly wiped out a rare pea species, Glycine latrobeana, found in mountains near Adelaide. Thankfully, seeds of the pea were held at the MSB. These were sent back to Australia, allowing the species to dodge extinction and be reintroduced to its natural habitat.

The seeds can also improve food security. Kew helped set up the Crop Wild Relatives project in 2011. This collected seeds from the wild cousins of staple crops with the eventual goal of crossing them with domesticated varieties to create plants that can better withstand climate change and disease. Kew trained collectors across 25 countries. By the end of 2021, when the project finished, 3,667 wild-relative samples were held at the MSB. Some of these were then sent out to international gene banks, which plant the seeds ready for crossing. Several improved varieties of durum wheat have already been commercially released, including Jabal, a drought-tolerant strain which takes traits from goatgrass, a wild wheat collected from the dry Syrian plateaus.

Back in Antavolobe forest, Mr Randriamamonjy plucks a handful of orange spheres, the size of marbles, from a low branch. He slices one open to reveal a magenta interior flecked with tiny white seeds: a perfect fig. But there is a catch. This fig has “recalcitrant” seeds rather than “orthodox” ones. Recalcitrant seeds are those with a high water content and which are still metabolically active. That means they cannot survive drying or freezing, and cannot be banked. Still, the fruit will not go to waste. One of the guides saves a few to plant in a nursery, where seedlings are raised to restore degraded patches of forest.

Many of Mr Randriamamonjy’s seeds are already being put to work to help restore and maintain Madagascar’s biodiversity. Local charities and the Malagasy government often buy seeds from the national seed bank to use for restoration. Kew is also involved in replanting efforts. In Ankarafantsika National Park, a dry forest in the north of the country, the team has planted 30,000 seedlings across six hectares of degraded land.

Whether official co-operation will continue under military rule remains to be seen. Since 2001 around 215,000 hectares of the country’s forest have been lost each year. At this rate, all of Madagascar’s primary forests will be gone by 2100. The seed bank may one day serve as a final refuge for Madagascar’s plants, but its primary purpose is to ensure that never happens.

The old saying assumed that the disappearance of the forest was unthinkable. Perhaps one day, thanks to these seeds, it will be unthinkable again. ■

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Science & technology | Climate and tectonics

Global warming may have volcanic consequences

Why less ice might mean more fire

October 16th 2025

WHY WOULD a meteorologist concern herself with the rocks beneath her feet? For good reason, if she lives in Iceland. That island nation straddles the mid-Atlantic ridge, a boundary between two of Earth's crustal plates which are drifting apart. That allows hot, liquid rock called magma to well up from the depths. Iceland also sits just below the Arctic circle and enjoys glacier-promoting temperatures. As a consequence of these facts, it is home to 34 active volcanoes, half of which are buried under ice up to 1km thick. And that ice is melting as the climate warms.

Some predict the glaciers will vanish in two centuries, which could upset the volcanoes below, causing them to erupt more frequently, more violently or both. Michelle Parks of the Icelandic Meteorological Office is therefore leading a three-year project that will try to determine whether, in future, less ice could mean more fire.

Glaciers bear down upon Earth's crust. The pressure they create squeezes the underlying rock, raising its melting point. Remove the ice and the rock rebounds (the land around some ice-bound volcanoes is rising by as much as 3cm a year), easing the pressure. That means the melting point drops, enhancing the formation of magma, which then erupts from volcanoes as lava.

Early geological data collected by Dr Parks suggest two or three times more magma is being produced beneath Iceland than was the case a century ago. Her colleague Freysteinn Sigmundsson, a geophysicist at the University of Iceland, suggests the newly generated magma might start arriving in the next few decades.

How that plays out will depend on how the magma reservoirs beneath individual volcanoes are reshaped by the rebounding land. Some may erupt more frequently; others, less so but more violently. This may be happening already. Grimsvotn and Bardarbunga, two volcanoes in central Iceland, have been more active than normal in recent decades. By contrast Katla, in the south, once erupted every 50 years or so but has been quiet for over a century.

History certainly supports the idea that melting ice stimulates magma production. There were 30 to 50 times more volcanic eruptions after the retreat, some 10,000 years ago, of an ice sheet thousands of metres thick that smothered Iceland during the last ice age. Admittedly, there was a lot more ice then than the bits-and-pieces now remaining. But the link with more volcanic activity seems clear.

Iceland is not the only place thus affected. Antarctica, Alaska and the Andes are similarly cursed. Altogether, some 250 volcanoes are known to lurk beneath or close to ice sheets. And Antarctica, at least, may host others yet undiscovered.

Antarctica and Alaska (and, indeed, Iceland) are sparsely populated. But the Andes—or, rather, coastal regions to their west—are not. Research published in 2020 suggests that though only 20,000 people dwell within 5km of an affected volcano, 160m people live within 100km of one, and might thus be at risk of disruptions to their water supplies, which often start as mountain ice, and also of mudslides.

And people need not live nearby to be affected. When Eyjafjallajökull, a small volcano by Icelandic standards, erupted 15 years ago it sent into the atmosphere an ash cloud sufficient to trigger six days of aviation chaos. In the late 18th century Laki, another Icelandic volcano, emitted so much sulphur dioxide and ash that some historians suggest crop failures precipitated by the resulting drop in temperatures helped cause the French revolution.

Current fears about climate change's effect on agriculture revolve around the damage which rising temperatures might do. That it might provoke damaging temperature falls as well is ironic. ■

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Science & technology | Don't drink the cave water

The strange role of lead poisoning in humanity's success

A new study looks at ancient exposure to the metal

October 16th 2025

THE ROMANS built pipes from it. Sixteenth-century women coated their faces in powders containing it. And until a phase-out began in the 1970s it was added to petrol to make cars run smoothly. Poisoning by lead is usually thought of as a disease of relatively modern civilisations. Yet in a paper just published in Science Advances Alysson Muotri, a geneticist at the University of California, San Diego and his colleagues show that it was also common among humanity's pre-industrial ancestors. Indeed, the toxic metal may have even helped Homo sapiens to become the planet's sole surviving species of hominin.

Dr Muotri and his team made their discovery while studying ancient teeth. Teeth survive well as fossils, and can reveal plenty about the lives of their owners. As they grow, tiny traces of chemicals circulating in the body get trapped inside them. If a person regularly drinks water tainted with a specific element during childhood, for instance, traces of that element will be preserved in their gnashers.

The researchers studied 51 teeth from humans and their relatives, covering the past 2m years. They used a laser to vaporise tiny bits of tooth in order to discern what was inside them. To their surprise, lead turned out to be present in 37 of the specimens. It was found in every type of hominin in the sample, including Australopithecus, an ancient ancestor that is thought to have died out around 1.9m years ago, and Homo erectus, which survived until about 100,000 years ago.

Exactly how the lead got into the teeth remains unclear. Although the metal can be released by volcanic eruptions and wildfires, Dr Muotri's favoured theory is that water was responsible. Early humans used caves as shelter. A cave with a stream in it was particularly desirable. But cave water can often contain lead dissolved from minerals in the surrounding rocks. And the researchers knew from other studies that at least some of the palaeolithic caves used by the various species of Homo were saturated with the stuff.

The levels of lead in many of the teeth were high, with some as great as 50 parts per million. Modern studies show that children with just a few parts per million can suffer cognitive impairments. This left Dr Muotri curious about how ancient humans coped with such exposures. To find out, he grew little tufts of brain-like tissue known as brain organoids.

Some of the organoids were made from cells whose genomes contained a version of a gene called neuro-oncological ventral antigen 1 (NOVA1) that is found in all modern humans. Some had an ancient version of the same gene that has been found in Neanderthal genomes (and which is presumed to be present in earlier species such as Australopithecus, too). The modern version of NOVA1 is vital for human brain development. Previous work led by Dr Muotri has shown that brain architecture is so different when the ancient version of the gene is present that the modern form of NOVA1 is one of the clearest genetic signals setting apart modern humans from their Neanderthal cousins. Moreover, NOVA1 is also involved in the brain's response to lead contamination.

The researchers exposed the organoids to different amounts of lead and studied how they responded. None reacted well. But one difference jumped out. In the organoids carrying the ancient version of NOVA1, lead poisoning altered the expression of another gene known as FOXP2. In modern humans, a properly functioning FOXP2 gene is vital for learning language. Organoids with the modern version of NOVA1 suffered no such problems.

Dr Muotri, therefore, suggests that the evolution of the new version of the NOVA1 gene helped prevent lead exposure from interfering with the ability to speak. If he is right, then a greater tolerance for lead poisoning may have been one way in which modern humans outcompeted their cousins and went on to make extraordinary things—such as leaded pipes, petrol and cosmetics with which to poison themselves all over again. ■

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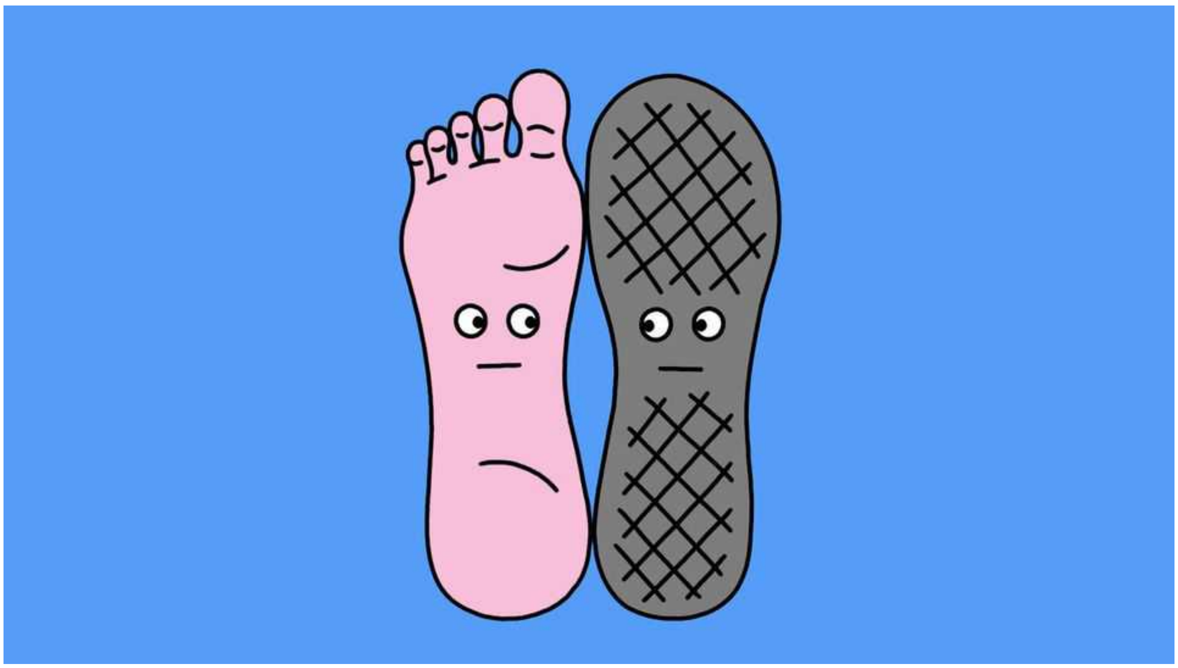
Science & technology | Well informed

Are barefoot shoes good for runners?

Aficionados swear by them. But the scientific jury is out

October 16th 2025



As oxymorons go, “barefoot shoes” takes some beating. Otherwise referred to as “minimalist footwear”, these are shoes designed to mimic the experience of not wearing shoes. Evangelists include Joe Rogan, a podcaster who occasionally blesses followers with photos of his toes splayed out in a pair of Vibram FiveFingers (imagine a rubber glove, but for your feet).

The idea that running barefoot might be good for you took off in 2009 when Christopher McDougall, a journalist, published a bestselling book about the Tarahumara, a group of people in Mexico who run long distances without shoes. These days a whole industry caters to enthusiasts. Vivobarefoot, one manufacturer, says “Modern shoes are robbing our feet of their natural potential." By returning to something closer to the barefoot experience, the argument goes, runners can improve their health and reduce injuries.

Evolution is one line of argument. After all, humans—and their hominin ancestors—have been running barefoot for millions of years. Shoes have existed for only around 40,000 years, according to an analysis of paleolithic feet. That is not an especially long time in which to adapt. And modern trainers, with their padded soles, elevated heels and arch supports, date back only to the 1970s.

Proponents of barefoot shoes argue that cushy modern footwear gives runners weak feet. For example, over 75% of athletes wearing conventional shoes use a rearfoot strike—when the heel hits the ground first. For barefoot runners, or those in minimalist shoes, the numbers are 40% and 67% respectively, with the rest opting for a forefoot or midfoot strike in which the ball of the foot lands either before or with the heel.

The difference is largely because of shoe design. Chunkier heels hit the ground earlier than they otherwise would. And a cushioned sole protects the heel from the otherwise painful impact of running heel-first. Barefoot runners rely on the foot's inbuilt suspension system to reduce that impact—a collection of tendons, ligaments and muscles which act as a kind of spring, storing and releasing elastic energy to push the body into the next stride.

Such tweaks to the mechanics of running can have big effects on the body. One small study, published in 2021, found that six months of wearing minimalist footwear can increase toe-muscle strength by 57%. Another, from 2018, reported a 40% increase in just eight weeks. Those accustomed to walking and running barefoot—such as the Kalenjin tribe in Western Kenya—have thicker foot muscles and improved ankle mobility. Barefoot shoes may also reduce load on the knee. And among older people, minimalist footwear has been shown to improve stability and balance.

Supporters say that running in barefoot shoes should therefore mean fewer injuries. But no study has confirmed that. The evidence, both for and against, is inconclusive, with most studies examining only small numbers of people. Some scientists worry about increased loads on the calf and Achilles tendon. Others suggest barefoot running may actually increase rates of injury, particularly on hard surfaces, or if the switch to barefoot shoes occurs too quickly. One ten-week study found almost half of runners making the switch showed signs of bone-marrow oedema—a fluid build-up often caused by stress on the foot. “The most important thing”, says Ali Ghoz, an orthopaedic surgeon at The London Clinic, “is a gradual introduction.” ■

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Culture

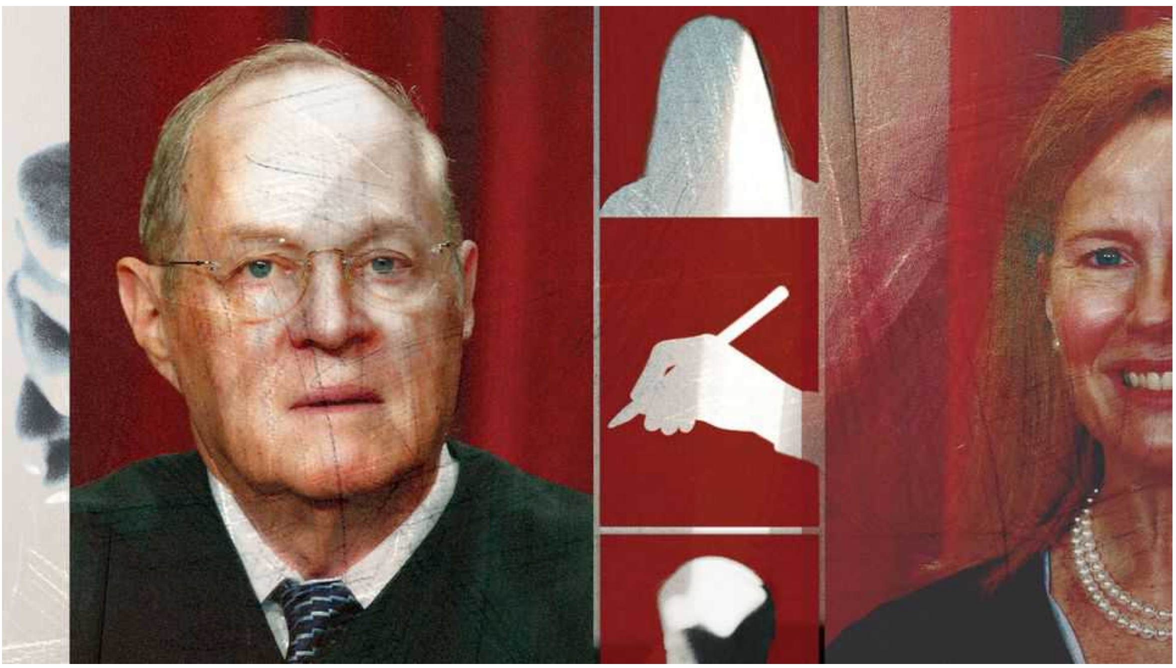
- The terrifying reality of being a judge in America
- Lessons from the Wall Street crash of 1929
- Diane Keaton brought an offbeat charm to every role
- Are video games getting harder?
- Cocktails and coups: the view from a luxury hotel in Kabul
- The Antichrist: he's back!

Culture | Court in the crossfire

The terrifying reality of being a judge in America

Two memoirs hint at a Supreme Court under siege

October 16th 2025



When Anthony Kennedy, then a justice of America's Supreme Court, visited Russia in 2001, three things perturbed him. First, en route to a legal conference, his car was stopped by a policeman who demanded a bribe. Second, the Russian judges he met kept asking him how the White House "quietly communicated" its instructions to American judges on how to decide important cases—and could not believe that there was no such mechanism. Third, he met Vladimir Putin.

Russia's then newish president wanted to talk about justice. Turning his "intense, unwavering gaze" on Mr Kennedy, he tried to sound modern and enlightened. He promised that, having signed up to the European Convention on Human Rights, Russia would have no death penalty. Then he somewhat spoiled the effect by musing about strangling murderers with his bare hands. Mr Kennedy formed the impression that Mr Putin would be "fearless in imposing his own will, using the law only if convenient". Why bother with a formal death penalty when your opponents keep mysteriously falling out of windows?

Mr Kennedy was appointed to America's top court by President Ronald Reagan in 1998 and retired in 2018. He was one of the most consequential judges of modern times, sitting at the court's ideological centre and often supplying its crucial swing vote. History will remember him for writing the landmark decision legalising gay marriage across America—a ruling so eloquent that people stick quotes from it on their fridges. Now, in a memoir, "Life, Law & Liberty", he sounds deeply alarmed about the rule of law.

Small wonder. A quarter of a century after that chat in the Kremlin, the Putin approach has spread across the world. Strongmen in China, Hungary, El Salvador, Turkey and Zimbabwe place themselves above the law, unleash prosecutors on their political foes and see judges the way kings did in Francis Bacon's day, not as impartial arbiters but as "lions under the throne".

Even in America, where as Thomas Paine put it, "the law is king", there are some who would flip the order of those words. President Donald Trump claims the right to execute suspected drug dealers without trial, by blasting their boats with missiles on the open sea, having declared without congressional authorisation that America is at war with drug gangs. He claims that protests outside federal facilities count as armed revolts and that therefore he can send soldiers to police American cities run by the opposition.

All of this is plainly illegal. Yet when a Trump-appointed federal judge ruled on October 4th that the president was overstepping his constitutional powers by trying to put troops on the streets of Portland, Oregon, a city he absurdly described as "war-ravaged", Stephen Miller, the White House deputy chief of staff, accused the judge of "insurrection".

American judges, by and large, are decent and conscientious. Faced with lawbreaking by the executive branch, they feel duty-bound to resist it. But doing so requires courage these days. According to the US Marshals

Service, which provides security services to the judiciary, 395 judges have received threats this year.

Such threats come both from the left and the right. The would-be assassin who lurked outside Justice Brett Kavanaugh's house with a gun and zip ties (and who was jailed on October 3rd) wanted to stop the Supreme Court from allowing state abortion bans. The more powerful menace, however, comes from Mr Trump's supporters, some of whom take seriously Mr Miller's suggestion that judges who thwart the president are traitors and reserve a special fury for Republican-appointed judges who fail to support him.

Justice Amy Coney Barrett has also recently published a memoir, "Listening to the Law"; in it she describes death threats and "lewd packages" sent to her home. Justice Barrett, whom Mr Trump tapped for the Supreme Court in 2020, is more conservative than Mr Kennedy, but since the court has also shifted rightward, she often finds herself in a similar position, as the conservative justice most likely to side with the court's liberal wing. On occasion she appears more sceptical than her fellow Republican appointees of extravagant claims of executive power.

She has a bulletproof vest and full-time security. One of the men who stormed the Capitol on January 6th 2021 said he hoped someone would cut her throat "from ear to ear". Unsolicited pizzas arrive at her relatives' homes —a common way for thugs to signal that they know where you live.

This climate of fear may explain an astonishing omission from both books. In more than 600 pages, neither explicitly says anything of substance about the central figure in the turbulent legal landscape they seek to map. Neither mentions Mr Trump except where it is impossible not to (Justice Barrett could hardly have written that she was appointed by President What's-his-name). Neither praises him, except on trivial matters: Mr Kennedy says Mr Trump was "cordial" when they met. Neither directly criticises him.

That could reflect a reasonable desire to avoid the appearance of political bias. Justice Barrett will have to deal with many more Trump-related cases in the next three years. Yet Mr Kennedy will not. Perhaps this is why, reading between the lines, his book brims with implied rebukes of the current administration.

He is scrupulous about ethics: his wife turned down a nice job at the Department of Education in case one day he had to rule on a case involving it. Mr Trump's family, Mr Kennedy is too polite to mention, have made billions during his presidency; he just offered American security guarantees to a regime that gave him a jet.

Mr Kennedy argues passionately that prisons should be humane and try to rehabilitate inmates, even as they keep dangerous people off the streets. "We can become better people by improving our prisons," he writes, citing Fyodor Dostoevsky and Alexander Solzhenitsyn. The Trump administration sends gang suspects to rot in a mega-chokey in El Salvador—where inmates are held indefinitely without trial—and posts triumphant footage of the vile conditions there on social media.

Mr Kennedy is effusive about free speech. He rejects the old left-wing argument that hateful statements should be banned: "If emotional harm to the listener is the measure by which we regulate speech, freedom of speech would mean only the freedom to say that which no one minds hearing," he avers. Mr Kennedy also rejects the old right-wing argument that flag-burning is too offensive to allow. As he put it in 1989, "The flag protects those who hold it in contempt." Mr Trump has ordered prosecutors to use any legal way they can find to imprison flag-burners, and tars his critics as "terrorists".

Though opposed to legal restrictions on free speech, Mr Kennedy laments the "indecency" of public discourse. He champions self-restraint and civility. "It is degrading to see elected officials shout epithets on national television," he states. "Perhaps those who bring vulgarity to our nation may not have a true psychosis of narcissism, but by their conduct they display the same elements as those with that affliction—they are so self-important that they enjoy degrading others."

Most of all, he argues for an impartial judiciary that upholds the law, regardless of outside pressure. Here Justice Barrett weighs in, too. A judge is "not a Democrat or Republican", she insists, and not "beholden to a particular administration or party". Mr Kennedy's conclusion is pointed. "Our democracy cannot depend on one individual holding on to power longer than he or she should," he warns. A strict constructionist reading of the text says he is talking about his own decision to retire. But lurking in the penumbra is a different meaning, too obvious to spell out. ■

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Culture | The history of stockmarkets

Lessons from the Wall Street crash of 1929

Andrew Ross Sorkin, the author of "Too Big to Fail", has turned his attention to another financial crisis

October 16th 2025

A HANDFUL of years throughout history are synonymous with a single event. It is impossible to think of 1066, 1776 or 1914 without recalling the wars and revolutions that changed the world for ever. And two years are remembered for the worst financial crashes: 2008 and 1929.

Andrew Ross Sorkin, a journalist at the New York Times, chronicled the turmoil of 2008 in "Too Big to Fail", which was published in 2009 and adapted into a film in 2011. Now, with "1929", he has turned his attention to the seminal stockmarket and banking crash of modern history, to which all others are inevitably compared.

The American stockmarket roared in the 1920s, rising by almost 500% from a low in 1921 to its high in 1929, puffed up by economic optimism and dangerous, debt-driven trading. In October that year, leveraged bets combusted; the market conflagration lasted for more than two and a half years. The Depression that followed endured until America entered the second world war. The Dow Jones Industrial Average, an index of stocks, would not return to its previous high until 1954.

Mr Sorkin wisely tells this sprawling story in a focused way, reconstructing how crucial figures experienced the ructions almost hour by hour. He concentrates on Thomas Lamont, the acting head of J.P. Morgan, and Charles "Sunshine Charlie" Mitchell, head of the National City Bank (which eventually became Citibank). The men were not just financiers but giants of public life, with easy access to the most senior officials in Washington.

America's banks had extended enormous loans to stockbroking firms, which in turn lent huge sums to new and exuberant investors, a chain of credit that came apart as stock prices went into freefall. A gaggle of banks, led by Lamont, burned through hundreds of millions of dollars buying stocks in the depths of the sell-off in a futile attempt to rescue the market.

In the face of mass unemployment, men like Lamont and Mitchell were maligned in the press and dragged in front of legislators to testify about their businesses and incomes. (Some money men even found themselves in court.) America's financial system was duly reshaped: in 1933 the Glass-Steagall Act separated the activities of commercial and investment banks.

Mr Sorkin's coverage of the crisis in 2008 was based on hundreds of interviews, but most of the people in this tale have been dead for decades. You would be forgiven for forgetting it. The combination of extensive research and a lively tone makes both the crash and the men involved feel more recent. Significant political figures have walk-on roles, including Hjalmar Schacht, the head of the Reichsbank, who had to deal with the Weimar Republic's hyperinflation and reparations, and Winston Churchill. (He dabbled in speculation and was in New York on "Black Tuesday".)

For the most part, readers are left to draw their own parallels between 1929 and 2025. There are some concerning ones. By the end of the 1920s, consumer credit in the form of instalment finance—the precursor to today's "buy now, pay later"—was rampant. Investing in stocks had changed from a game for a monied elite to a national pastime, spreading the pain to a far broader group. Many had accumulated margin debt to invest, and were left nursing not just losses but hefty loan repayments. The exposure of American households reached a record high this year, with margin debt rising to near-record levels relative to the size of the economy.

The exuberance during the boom, the panic that drove the sell-off and the delusion of policymakers that followed will be familiar to observers of more recent crises. But the pattern of hubris, disaster and regret offers an important reminder that the darkest moments pass. Churchill's verdict on the unfurling crisis remains a useful one almost a century later. "The English critic would do well to acquaint himself with the inherent probity and strength of the American speculative machine," he wrote as the market plunged. "It is not built to prevent crises, but to survive them." ■

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Culture | On her own terms

Diane Keaton brought an offbeat charm to every role

The actress, who died on October 11th, was also known for her sense of style

October 16th 2025

HOLLYWOOD can be cruel to actresses who dare to age. Faye Dunaway's star dimmed after the 1970s, as did Debra Winger's after the 1980s and Meg Ryan's after the 1990s. Diane Keaton somehow escaped this fate. Before her death on October 11th, she enjoyed a varied film career spanning more than half a century.

Her breakout role was in "The Godfather" in 1972, when she was 26. She played Kay Corleone, the WASPy wife of the story's central gangster, Michael; as Michael grew more powerful and ruthless, Ms Keaton's expression faded from chipper propriety to dead-eyed gloom. Thereafter she embarked on an artistic collaboration with Woody Allen, starring in eight of his films between 1972 and 1993. The most notable was “Annie Hall” (1977), for which she won an Academy Award.

The movie also turned her into a style icon. In one scene she appears in an Oxford shirt, khakis, a long blue tie and a jaunty bolero hat, and manages to look simultaneously luminous and frazzled. The winning look—casual and slightly off-kilter—was her own. Mr Allen had told her to “wear what you want to wear”, she recalled in her memoir: “I stole what I wanted to wear from the cool-looking women on the streets of SoHo.”

More Oscar nominations followed. In 1981 Ms Keaton played Louise Bryant, an activist and journalist, in “Reds”, Warren Beatty’s epic about the Russian revolution. (At more than three hours, the film was bloated and self-indulgent, but her performance was steely and heartfelt.) In 1996 she produced a tear-jerking performance as a dutiful sister and daughter in the otherwise forgettable “Marvin’s Room”. Her last nomination, in 2004, was for “Something’s Gotta Give”, in which she played a witty, self-possessed playwright.

How did she do it? She was not ageless, nor was she as malleable as Meryl Streep, one of the few American actresses with a similarly long and starry career. On screen Ms Keaton radiated an extraordinary emotional openness: she listened and reacted perfectly to her co-stars, often with an element of whimsy and seeming spontaneity, however thoroughly rehearsed. Her sense of style was flawless, which means that she knew and was comfortable with herself: not an easy achievement in an industry that ruthlessly judges its stars, especially women, on their appearance.

Her self-effacing demeanour concealed a strong focus and will. She was brought up in southern California by a civil-engineer father and a mother who harboured unfulfilled artistic ambitions. Ms Keaton made her debut in the original production of “Hair”, but soon stepped off the stage. “Night after night? Doing a play? That’s my idea of hell,” she told an interviewer.

She had romances with several of her co-stars—including Al Pacino and Messrs Allen and Beatty—but she never married, suspecting that she “would have to compromise too much”. She adopted a daughter and a son after she turned 50.

Ms Keaton was always herself and yet her acting was subtle. Witness a scene near the end of “Reds”, where she walks down a crowded train platform searching for her lover. She says nothing, but moves through emotions—hope, disappointment, near-despair, hope again, relief—using just her eyes and the occasional head movement.

She was also very funny. Mr Allen said that, “With the exception of Judy Holliday, she’s the finest screen comedienne we’ve ever seen.” She did not do slapstick or physical comedy, but her timing was impeccable. She would have shrugged off the compliment; Mr Allen, she later said, “would have me set up the joke for him. That’s what I’m good at: being the idiot.” Others, including everyone lucky enough to have seen her on screen, knew better. ■

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Culture | Level up

Are video games getting harder?

Our analysis shows how games have changed in the past 40 years

October 16th 2025

"About ready to give in?" taunts "Hades II". Inspired by Greek mythology, the video game takes players to the underworld, where they must dispel Chronos, the "titan of time". Like Sisyphus, most will end up doing the same thing over and over again (though pushing buttons rather than a boulder). Every time you are killed, you go back to the beginning. Failure is part of the experience; some gamers have been complaining that it is vexing.

Anyone who has attempted such challenging missions may reasonably wonder: are video games getting harder? To find out, The Economist analysed rankings from GameFAQs—a website where users can rate the difficulty of games, from one ("simple") to five ("unforgiving")—for the most popular titles released in the past 40 years. Our findings show two things.

First, games were tougher in the 1980s and 1990s (see chart). Arcade games had long been deliberately difficult, as designers wanted to coax coins from competitors. Greedy operators could even flip a switch to reduce the number of "lives" offered per turn.

When games moved into homes on consoles, money was made by selling the cartridge containing the game rather than an individual go at it. Over time developers realised that games would have to be easier if they were to reach a wide audience. Nintendo, a Japanese firm, initially did not release "Super Mario Bros 2" (1986) abroad in part because it was considered too difficult. Western players instead got a version of "Doki Doki Panic", another game.

Many games allow players to select their preferred level of difficulty. Some modern ones use artificial intelligence to adjust the game to suit people's skills. If players miss shots too often, targets get easier. A vocal minority of "hardcore gamers" gripe that such innovations can make games too simple and taunt inexpert players to "git gud" (get good).

The second thing our analysis shows is that a few particularly taxing games may skew players' perceptions of the market overall. Average difficulty ratings reached their lowest point in 2010 and have plateaued since. Inevitably it is gnarly titles, such as "Hades II", "Dark Souls" (2011) and "FTL: Faster Than Light" (2012), that get the most attention.

How do casual players feel about daunting quests? Jay Ma, co-founder of Subset Games, which developed "FTL", says they sought to make something they "would want to play". Many "FTL" players were not put off by its "roguelike" nature. (The term takes its name from "Rogue", a game of 1980 in which players are forced into do-overs.)

Yet the reception of "Hollow Knight: Silksong", released in September, suggests there is a fine line between thrilling and infuriating. Players have lamented that "'Silksong' is extremely punishing"; one vowed that "I've had more fun at the dentist." The creators quickly released an update to give players an easier time of it. Gaming ought to be more enjoyable than a root canal, after all. ■

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Culture | Under new management

Cocktails and coups: the view from a luxury hotel in Kabul

Lyse Doucet chronicles Afghanistan's history as it was seen from the InterContinental

October 16th 2025

MANY JOURNALISTS believe that you should talk to taxi drivers if you want to get the measure of a place. But Lyse Doucet, the BBC's chief international correspondent, reckons it is better to speak to the people who work in hotels. In her new book she traces the tumultuous history of Afghanistan as it has been experienced at the Hotel InterContinental Kabul.

The "InterCon"—the first luxury hotel in Afghanistan—opened in 1969. It was a symbol of the modernising instincts of the king, Mohammed Zahir Shah, and of Kabul as the "Paris of Central Asia". Women paraded poolside in bikinis. People sipped drinks in the Nuristan Cocktail Lounge. The hotel hosted a catwalk show by Pierre Balmain, a French couturier, in 1971.

The building soon became an emblem of solidity amid political change. The king was ousted in 1973. When presidents were overthrown—three were murdered in 1978-79—the "staff got their hammers and nails out again. Portraits came down; new ones went up." The hotel remained standing amid these bloody coups as well as civil wars, occupations and Islamist rule.

All sorts of people have strutted through its gilded lobby: leaders, foreign dignitaries, spooks, mujahideen and Taliban fighters. Ms Doucet focuses on the Afghans who keep the lights on. There is Abida, the hotel's first female chef, known for her ashak (pasta dumplings). There is Hazrat, a housekeeper whose job, when "freshening up rooms", is also to try "to air them of anxiety". And there is Mohammad Aqa, a waiter-cum-manager.

The InterCon strived to be a "business-as-usual bubble". When it seemed like Mohammad Musa Shafiq, the prime minister, might be cracking down on alcohol in 1973, "liquor glasses kept being polished". As the Soviets invaded on Christmas Eve 1979, people danced to "Hotel California" in the Pamir Supper Club on the top floor.

Inevitably that bubble sometimes burst. In 1978, when some 2,000 Afghans were killed in the Saur revolution, the staff stepped over bodies and "rivulets of red blood" on their way to work. In 1981, when delegates from the Afro-Asian People's Solidarity Organisation, an NGO, were due at the InterCon, the mujahideen fired rockets into the nearby hills. In 1993, during the second civil war, Ahmad Shah Massoud, a warlord, attacked the district of Afshar. He positioned his tanks next to the InterCon's pool. The hotel has also been the site of two terrorist attacks, in 2011 and 2018.

Ms Doucet begins and ends her story in 2021, with the return of the Taliban. The staff knew what to do: they rolled out prayer mats, turned music off and hid alcohol. The men made a note to grow beards. The women were told not to come back.

"The Finest Hotel in Kabul" is written like a novel. This is both its strength and its weakness. Ms Doucet is a humane narrator with an eye for detail; she conveys her characters' suffering and resilience. (Abida, for instance, was laid off shortly before the Taliban returned. She missed her work and worried about money.) At times, however, you wonder how much is fact and how much is inference—and her habit of referring to herself in the third person gets rather irritating.

Nonetheless, it is fascinating to read how the InterCon has been buffeted by history. Many of the people Ms Doucet describes no longer work there. Yet the message of her book is ultimately salutary. Regimes can outstay their welcome, but not for ever: at the InterCon, "Politics, like hotel guests, checked in and out." ■

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Culture | Apocalypse now

The Antichrist: he's back!

Evidence of him is everywhere—or so says Peter Thiel

October 16th 2025

The Book of Revelation, for some reason, forgot to mention Greta Thunberg. In its barnstorming final book, the Bible limns what will happen when the apocalypse arrives: earthquakes, sinister horsemen, and hail and fire mingled with blood. But now, in Silicon Valley, new words are being added to those ancient prophecies. Some say that the footsoldiers of the Antichrist are already here—and that they include Ms Thunberg, a Swedish activist, as well as "Brussels bureaucracy". (For who has stood in a passport queue in Belgium and not felt that the End Times were upon them?)

These latest revelations came not from the Book of Revelation, but from Peter Thiel, the co-founder of PayPal and Palantir. Their style is rather different. The Book of Revelation is a first-century biblical text, rich in allusion and clothed in the English of the King James version. It goes heavy on phrases such as: “And I saw a new heaven and a new earth.” Mr Thiel is a 21st-century tech bro, rich in money ($26bn, by some estimates) and clothed in black t-shirts. He goes heavy on phrases such as: “So it’s like, come on.” It seems unlikely he will be quoted in 2,000 years’ time.

What the hell—in a more literal sense than usual—is going on? Over the past few weeks, in a series of off-the-record lectures and on-the-record interviews, Mr Thiel has argued that the world has submitted to a doctrine of “peace and safetyism” for the past 50 years. It has also submitted to the rule of organisations such as the European Union. As the Bible, Mr Thiel says, states that “the slogan of the Antichrist is ‘peace and safety’,” it follows that the world risks the rule of the seven-headed one.

Mr Thiel’s science is worth treating even more cautiously than his theology. He argues that the world’s (and arguably the Antichrist’s) enthusiasm for safetyism has led to “50 years of stagnation” in many areas. He is concerned about artificial intelligence (AI) and the Antichrist stymying the technology’s potential. Mr Thiel has called Nick Bostrom, a philosopher who writes about the dangers of AI, a “legionnaire of the Antichrist”. Others demur. The idea of widespread scientific stagnation is “nonsense”, says Martin Rees, Britain’s Astronomer Royal. Mr Bostrom is more charitable. “I understand his frustration,” says Satan’s supposed operative.

There is an august tradition of talking twaddle about the End Times. Everyone from the emperor Nero to Bill Gates has been accused of being the Antichrist. Medieval crusaders saw the Antichrist’s footsoldiers in their Saracen enemy. Protestants during the Reformation felt the pope was the Antichrist. For others he was embodied in property-owners who must thus be massacred. (Generation Rent might feel some sympathy.) Each incarnation of the Antichrist is less indicative of demonic power than personal pique. Mr Thiel, who has invested in AI, sees the Antichrist in anti-AI regulation. The Antichrist has always been less anti-Christ than anti-you.

The Antichrist also appeals because the devil is so devilishly appealing, as generations of artists who have attempted to capture the glory of God—and ended up accidentally glorifying Satan—have found. Lots of people may find that, like John Milton, they are “of the Devil’s party without knowing it". Had Mr Thiel given an open talk on how AI's benefits might be lost by overzealous regulation, it would have been all but ignored. To give a secret talk is, he said, "a pretty good marketing shtick"; throw in the Antichrist and it is irresistible.

Accusations of Antichrist activity are also impossible to disprove. Mr Bostrom does not look much like an agent of the Antichrist (he is wearing a green cardigan). But, as he says, with a smile that it would be churlish not to describe as devilish, "You never know what I'm up to when I switch off the camera."

These days such charges are notably unfashionable. Early Christian writings seethed with hallucinogenic apparitions, with demons appearing as lions, horned beasts and naked women. St Augustine's "City of God" is also a city of demons. (The theologian didn't take ketamine, unlike some tech types.) But ghouls became uncool in the Enlightenment as people sought rational explanations of evil.

Now, demons are on the march again: look at Google's Ngram viewer, which tracks the usage of words, and mentions of the Antichrist rise steadily after 2000. Perhaps this is proof that this is an age of the Antichrist—or perhaps it is proof that this is an age of anti-Enlightenment thinking. That, even to the most rational mind, may feel a little apocalyptic. ■

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Economic & financial indicators

- Economic data, commodities and markets

Economic data, commodities and markets

October 16th 2025

Economic data
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	Gross domestic product % change on year ago: latest		quarter*	2025†	Consumer prices % change on year ago: latest		2025†	Unemployment rate %	
United States	2.1	Q2	3.8	1.7	2.9	Aug	3.0	4.3	Aug
China	5.2	Q2	4.5	4.9	-0.3	Sep	-0.1	5.3	Aug‡§
Japan	1.7	Q2	2.2	0.9	2.7	Aug	3.2	2.6	Aug
Britain	1.4	Q2	1.1	1.1	3.8	Aug	3.7	4.8	Jul††
Canada	1.2	Q2	-1.6	0.9	1.9	Aug	1.9	7.1	Sep
Euro area	1.5	Q2	0.5	1.2	2.2	Sep	2.1	6.3	Aug
Austria	0.3	Q2	-0.5‡	0.2	3.9	Sep	3.0	5.8	Aug
Belgium	1.0	Q2	0.7	1.0	2.7	Sep	3.0	5.8	Aug
France	0.8	Q2	1.3	0.7	1.1	Sep	1.0	7.5	Aug
Germany	0.2	Q2	-1.1	0.2	2.4	Sep	2.2	3.7	Aug
Greece	1.7	Q2	2.3	2.2	1.8	Sep	2.7	8.1	Aug
Italy	0.4	Q2	-0.2	0.5	1.8	Sep	1.8	6.0	Aug
Netherlands	1.7	Q2	0.8	1.1	3.0	Sep	3.0	3.9	Aug
Spain	3.1	Q2	3.3	2.6	3.0	Sep	2.3	10.3	Aug
Czech Republic	2.3	Q2	1.8	2.2	2.3	Sep	2.3	2.8	Q2‡
Denmark	0.9	Q2	4.2	2.5	2.3	Sep	1.8	2.9	Aug
Norway	-2.1	Q2	3.4	1.1	3.6	Sep	2.8	5.0	Jul‡‡
Poland	3.4	Q2	3.2	3.3	2.9	Sep	3.9	5.6	Sep§
Russia	1.1	Q2	1.5	0.9	8.0	Sep	8.8	2.1	Aug§
Sweden	1.6	Q2	1.9	1.5	0.9	Sep	2.3	8.4	Aug§
Switzerland	1.3	Q2	0.6	1.2	0.2	Sep	0.1	3.0	Sep
Turkey	4.8	Q2	6.6	3.3	33.3	Sep	34.2	8.5	Aug§
Australia	1.8	Q2	2.4	1.9	2.1	Q2	2.5	4.2	Aug
Hong Kong	3.1	Q2	1.8	2.7	1.1	Aug	1.7	3.7	Aug‡‡
India	7.8	Q2	7.4	6.5	1.5	Sep	3.2	6.4	Sep
Indonesia	5.1	Q2	5.9	4.7	2.7	Sep	1.8	4.8	Feb§
Malaysia	4.4	Q2	5.8	4.1	1.3	Aug	1.4	3.0	Aug§
Pakistan	3.7	2025**	na	4.8	5.6	Sep	3.5	6.3	2021
Philippines	5.5	Q2	6.1	5.5	1.7	Sep	1.5	5.3	Q3§
Singapore	2.9	Q3	5.4	2.9	0.5	Aug	0.8	2.0	Q2
South Korea	0.6	Q2	2.7	0.8	2.1	Sep	1.9	2.0	Aug§
Taiwan	8.0	Q2	12.8	5.1	1.3	Sep	1.8	3.4	Aug
Thailand	2.8	Q2	2.4	1.8	-0.7	Sep	nil	0.7	Aug§
Argentina	6.3	Q2	-0.2	4.5	31.8	Sep	41.2	7.6	Q2§
Brazil	2.2	Q2	1.5	2.1	5.2	Sep	5.1	5.6	Aug§‡‡
Chile	3.1	Q2	1.4	2.4	4.4	Sep	4.2	8.6	Aug§‡‡
Colombia	2.5	Q2	2.0	2.5	5.2	Sep	4.9	8.6	Aug§
Mexico	nil	Q2	2.6	0.7	3.8	Sep	3.8	2.6	Aug
Peru	2.8	Q2	1.8	3.1	1.4	Sep	1.8	6.9	Sep§
Egypt	5.0	Q2	13.7	4.1	11.7	Sep	14.1	6.1	Q2§
Israel	2.4	Q2	-4.0	2.6	2.5	Sep	3.3	2.9	Aug
Saudi Arabia	2.0	2024	na	4.4	2.2	Sep	2.1	3.2	Q2
South Africa	0.6	Q2	3.4	1.2	3.3	Aug	3.0	33.2	Q2§

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
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	Current-account balance % of GDP, 2025†	Budget balance % of GDP, 2025†	Interest rates 10-yr gov't bonds latest, %		change on year ago, bp	Currency units per $ Oct 15th	% change on year ago
United States	-4.0	-5.9	4.0		2.0	-	
China	2.0	-5.6	1.6	§§	-14.0	7.14	-0.7
Japan	4.3	-3.4	1.7		72.0	152	-1.4
Britain	-3.1	-4.9	4.7		42.0	0.75	2.7
Canada	-2.0	-2.2	3.2		-5.0	1.40	-2.1
Euro area	3.1	-3.3	2.6		35.0	0.86	7.0
Austria	2.1	-4.5	2.9		18.0	0.86	7.0
Belgium	-0.6	-5.1	3.1		31.0	0.86	7.0
France	-0.3	-5.6	3.4		39.0	0.86	7.0
Germany	5.4	-2.7	2.6		35.0	0.86	7.0
Greece	-5.8	-0.2	3.3		11.0	0.86	7.0
Italy	1.3	-3.3	3.4		-8.0	0.86	7.0
Netherlands	7.8	-2.4	2.7		21.0	0.86	7.0
Spain	2.8	-3.2	3.1		9.0	0.86	7.0
Czech Republic	1.0	-2.1	4.3		42.0	20.9	10.6
Denmark	12.2	2.1	2.5		33.0	6.43	6.4
Norway	13.6	9.5	4.0		36.0	10.2	6.3
Poland	0.1	-6.7	5.5		-8.0	3.67	7.1
Russia	1.8	-2.7	15.1		-116	80.0	20.2
Sweden	6.5	-1.3	2.5		45.0	9.54	9.3
Switzerland	7.4	0.5	0.2		-29.0	0.80	7.5
Turkey	-1.1	-3.4	29.8		189	41.8	-18.1
Australia	-2.1	-1.8	4.4		20.0	1.54	-3.9
Hong Kong	11.1	-4.9	2.9		-21.0	7.77	-0.1
India	-1.0	-4.4	6.5		-29.0	88.8	-5.3
Indonesia	-1.1	-3.1	6.0		-70.0	16,592	-6.2
Malaysia	0.8	-4.0	3.5		-36.0	4.23	1.4
Pakistan	-1.4	-5.4	12.0	†††	-2.0	282	-1.6
Philippines	-3.3	-5.4	5.9		13.0	58.2	-1.2
Singapore	15.0	0.2	1.8		-98.0	1.30	0.8
South Korea	3.8	-2.4	2.9		-21.0	1,429	-4.9
Taiwan	15.3	0.6	1.3		-23.0	30.7	4.8
Thailand	2.0	-5.8	2.1		-48.0	32.7	1.7
Argentina	-2.4	-0.1	na		na	1,357	-27.8
Brazil	-3.2	-8.1	14.0		147	5.48	2.0
Chile	-1.7	-1.9	5.6		-1.0	961	-3.6
Colombia	-2.5	-7.5	11.5		148	3,933	6.6
Mexico	-0.4	-3.8	8.8		-96.0	18.5	4.8
Peru	2.0	-2.5	6.0		-44.0	3.42	9.6
Egypt	-4.0	-7.7	na		na	47.7	2.0
Israel	2.3	-5.1	3.9		-110	3.32	13.3
Saudi Arabia	-1.8	-3.3	na		na	3.75	nil
South Africa	-0.8	-4.7	9.0		-17.0	17.4	1.1

Source: Haver Analytics §§5-year yield †††Dollar-denominated bonds

Markets

In local currency	Index Oct 15th	% change on: one week	Dec 31st 2024
United States S&P 500	6,671.1	-1.2	13.4
United States NAS Comp	22,670.1	-1.6	17.4
China Shanghai Comp	3,912.2	0.8	16.7
China Shenzhen Comp	2,478.0	-1.6	26.6
Japan Nikkei 225	47,672.7	-0.1	19.5
Japan Topix	3,183.6	-1.6	14.3
Britain FTSE 100	9,424.8	-1.3	15.3
Canada S&P TSX	30,637.1	0.4	23.9
Euro area EURO STOXX 50	5,605.0	-0.8	14.5
France CAC 40	8,077.0	0.2	9.4
Germany DAX*	24,181.4	-1.7	21.5
Italy FTSE/MIB	41,906.9	-3.6	22.6
Netherlands AEX	955.2	-0.6	8.7
Spain IBEX 35	15,570.3	-0.7	34.3
Poland WIG	108,729.4	0.4	36.6
Russia RTS, $ terms	1,017.0	2.7	13.9
Switzerland SMI	12,529.6	-0.9	8.0
Turkey BIST	10,464.5	-2.7	6.4
Australia All Ord.	9,299.0	0.6	10.4
Hong Kong Hang Seng	25,910.6	-3.4	29.2
India BSE	82,605.4	1.0	5.7
Indonesia IDX	8,051.2	-1.4	13.7
Malaysia KLSE	1,611.6	-1.0	-1.9
Pakistan KSE	165,686.4	0.3	43.9
Singapore STI	4,368.4	-2.0	15.3
South Korea KOSPI	3,657.3	3.0	52.4
Taiwan TWI	27,275.7	0.8	18.4
Thailand SET	1,286.7	-1.4	-8.1
Argentina MERV	1,912,738.7	5.1	-24.5
Brazil BVSP*	142,603.7	0.3	18.6
Mexico IPC	61,637.5	1.2	24.5
Egypt EGX 30	37,654.0	0.7	26.6
Israel TA-125	3,325.3	1.9	37.0
Saudi Arabia Tadawul	11,682.2	1.1	-2.9
South Africa JSE AS	111,634.6	0.6	32.7
World, dev'd MSCI	4,277.7	-1.7	15.4
Emerging markets MSCI	1,339.0	-2.4	24.5

US corporate bonds, spread over Treasuries

Basis points	latest	Dec 31st 2024
Investment grade	95	95
High-yield	374	324

Sources: LSEG Workspace; Moscow Exchange; Standard & Poor's Global Fixed Income Research *Total return index

Commodities

The Economist commodity-price index

2020=100	Oct 7th	Oct 14th*	% change on month	% change on year
Dollar Index				
All items	135.9	136.8	-1.6	4.2
Food	141.9	141.2	-6.9	1.8
Industrials				
All	130.9	133.2	3.4	6.5
Non-food agriculturals	126.8	126.7	0.4	-4.6
Metals	132.0	134.8	4.2	9.6
Sterling Index				
All items	130.0	132.2	1.0	2.7
Euro Index				
All items	133.1	134.8	0.5	-2.0
Gold				
$ per oz	3,987.0	4,141.2	12.4	55.5
Brent				
$ per barrel	65.5	62.5	-8.8	-15.3

Sources: Bloomberg; CME Group; FT; LSEG Workspace; NZ Wool Services; S&P Global Commodity Insights; Thompson Lloyd & Ewart; USDA; WSJ *Provisional

Obituary

- Saul Zabar was king of the Upper West Side

Obituary | Of bagels, Nova and blintzes

Saul Zabar was king of the Upper West Side

New York’s most famous lox-smith died on October 7th, aged 97

October 16th 2025

The most vital tool of Saul Zabar’s trade was a paper clip. Each Wednesday, with one of those safe in his pocket, he would do a little tour of the smokehouses of Brooklyn and Queens. In apron and hairnet he would stroll round the walk-in refrigerators—crammed with freshly-smoked sturgeon, whitefish, salmon, all that delicious stuff—hooking down the fish sides and, on a steel table, inspecting them.

First, he gave a good press of the flesh to check that it was not too dry, not too mushy, and smoothly grained. Then, unfurling the paper clip, he nicked a tiny sample, held it in his mouth for a while and thought about it. Those that met his exact specifications he left on the table, but even so he would discard almost half of them on delivery to his store. Once he stamped on a batch of whitefish that wasn't right. For Zabar's, it had to be perfect.

Of all the thousands of items stocked in the store, which covered (and of course still covers) a vast stretch of Broadway between 80th and 81st Streets, smoked fish was his favourite, with silky, beautiful Nova the bestseller. He kept close guard on that department. Coffee ran it close, though. For years he had insisted not only that Zabar's should roast and cup their own beans, but that this should happen in his office, with him as judge and jury. Light roast was his ideal. But that meant riding on a razor-edge, not shifting his gaze for a second, until the beans reached exactly the shade he wanted. (It was hard to describe it precisely, just as the ideal taste of fish was not too this, not too that—he knew it when he met it.) His coffee had to be like a symphony where no one instrument was playing too loud.

Proudly he inhaled the glorious aroma of Special Blend that filled Zabar's, smiling to think of 40,000 customers descending each week to buy 8,000lb of coffee and 2,000lb of fish. He exulted in the lines that formed before the doors opened, and the noisy crush through the famously narrow aisles to pick up olives (every variety, in all shades of green, black and brown), cheese (at least 800 kinds, firm, soft, blue, raw-milk, washed-rind) or hot-or-cold take-out meals. One flight up was cookware.

He was almost always around, in his polo shirt and khakis, sometimes coming raspily over the loudspeaker, taking care of his store as if it was his child. It felt that way, family. His parents, Louis and Lilly, Jewish refugees from pogroms in Ukraine, had set it up in 1934 as an "appetizing counter" in a Daitch store. By 1950 there were five Zabars scattered along Broadway, but Saul consolidated them in order to do one thing well. Eventually, four generations of Zabars worked there, as well as 250 mainly Latino staff whom he helped to pay off their debts and see their children through college. They were family also. When repairmen came in he liked to lend a hand, making sure the bricks and mortar and Tudor-style gables were treated with adequate love.

Not that he'd ever intended to wind up in the trade. He hoped to be a doctor, and even went off to Kansas to study, to everyone's amazement. His return in 1950 when his father died was just to help out, and taking over the business felt like diving in the deep end before he learned how to swim. But with his younger brother Stanley doing the books, he set about building Zabar’s into the finest deli in New York.

For him, tradition was key. His Jewishness wasn’t religious or cultural, more social and gastronomical. He kept kosher only at home (happily selling seafood and hams), but the wonderful Jewish foods of the shtetls were still at Zabar’s core. The chicken soup with light, fluffy matzo balls and chicken falling off the bone was Lilly’s recipe; so was the gefilte fish, topped with eye-watering horseradish, and the richly veined, yeasty babka (chocolate, cinnamon, apple or raspberry, take your pick). Mornings were fragrant with flaky rugelach, vying with the coffee. There were potato latkes and knishes and blintzes and Zabar’s Original Bagels, crispy outside and soft inside, in eight flavours. In short, the whole megillah. He was an old-fashioned kind of guy, and that was how he and Stanley ran the place, while so many of the former appetizings of the Upper West Side were disappearing.

There were hiccups, of course. By the early 1960s, when Zabar’s was losing $200,000 a year, he thought of selling. But no one wanted to buy, so instead he and Stanley hired an ex-employee, Murray Klein, to take over day-to-day operations. Klein was a hustler, an arms smuggler and a black marketeer back in Europe; he piled the goods high, hung salamis from the ceiling, turned Zabar’s into one big food bazaar and got on Saul’s nerves no end. In 1983 he launched a Great Caviar War with Macy’s, both stores driving the price to the bottom. Saul’s motto, like his father’s, was “Highest quality at the lowest price”. It didn’t mean he would sell at a loss; Klein would. Yet the war did wonders for Zabar’s caviar sales and, though Saul was not happy, it was clear that Klein’s three decades in charge had given the store a new lease of life.

It also flourished because the Upper West Side was changing. In his youth it was largely immigrant, commercial and rough; by the 1970s it was becoming an elegant, gentrifying neighbourhood of professionals. (His youngest brother Eli, inventor of the Signature Sourdough Rye, had already decamped to serve such people on the tonier Upper East Side.) These customers had travelled: they wanted Nocellara olives and Saint Agur, as well as Japanese knives. He stocked them all, and a thousand delights besides.

Twice more he toyed with selling, just for a change of direction. Each time he soon realised that there was nothing else he should be doing, nowhere else. To reach that conclusion, all he had to do was stand by his smoked-fish counter, watching as the fish was sliced so thin that you could read the New York Times through it; or bite into his own Nova, the best anywhere, on the best bagel, with the best schmear, in the best city in the world. ■


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