The Economist

Can Friedrich Merz save Germany?

How America and the EU get AI wrong

What the Letby case says about Britain

The man who understood parking

FEBRUARY 15TH–21ST 2025

BATTLE FOR THE PENTAGON

Can Donald Trump remake American defence?





February 15th 2025

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The world this week

Politics

February 13th 2025



Donald Trump held a phone call with Vladimir Putin and said he would "immediately" start negotiations to end **Russia's war in Ukraine**, announcing that he and the Russian president would hold talks that will be hosted by Saudi Arabia. Their conversation lasted 90 minutes and was the highest level of contact between the Oval Office and the Kremlin since the start of the war in 2022. Mr Trump then called Volodymyr Zelensky to inform him about the conversation. The Ukrainian president said they had talked about a "lasting, reliable peace". In an earlier interview with *The Economist* Mr Zelensky had warned about the dangers of excluding Ukraine from negotiations.

The newfound co-operation between America and Russia was also evident in a **prisoner swap**. Russia released Marc Fogel, an American teacher it has

held in detention since 2021. America returned Alexander Vinnik, a cyber-criminal.

Meanwhile, the UN monitor in Ukraine reported that short-range **drones**, equipped with cameras and able to distinguish civilians from troops, had caused more civilian deaths in January than any other weapon.

Klaus Iohannis resigned as **Romania's** president rather than face an impeachment vote in parliament. Mr Iohannis stayed in office after the result of November's presidential election was voided by the courts amid claims of Russian meddling. The election was won by Calin Georgescu, a hard-right critic of NATO. The decision to scrap the result has infuriated the right-wing opposition. A re-run of the election will be held in May, though it is uncertain if Mr Georgescu will be allowed to run.

Unplugged

Estonia, Latvia, and Lithuania disconnected themselves from Russia's electricity grid and joined the European Union's network in a two-day switchover. The **Baltic countries** have not bought electricity from Russia since 2022 but were still dependent on its grid for power flow. They joined the Russian grid in the 1950s when they were under the Soviet thumb.

The leaders of the main national-conservative parties in France, Hungary, Italy, the Netherlands and Spain were among the participants at a **Make Europe Great Again** rally in Madrid, where they urged the EU to adopt some of the policies Donald Trump has introduced in America. "Yesterday we were the heretics, today we are the mainstream", declared Viktor Orban, Hungary's prime minister. None of them mentioned tariffs.

The ruling Vetevendosje social-democratic party won the most votes in an election in **Kosovo**, though it fell short of enough seats for an overall majority in parliament. The prime minister, Albin Kurti, has rejected forming a coalition with opposition parties, describing them as "animals" and "thieves".

Talks led by the hard-right Freedom Party to form a government in **Austria** with the conservative People's Party collapsed over differences on Russia

and the EU. The Freedom Party wants a fresh election, hoping it may do even better than its showing at the polls in September.

In Britain the MP behind a controversial **assisted-dying bill** introduced an amendment that would remove the legislation's judicial safeguard of requiring a high-court judge's approval for individual cases. More than 140 MPs who previously voted for the bill at its second-reading stage because of that safeguard may now vote against it, according to reports. The bill passed its second reading last November with a majority of 55.

King Abdullah of **Jordan** visited the White House for talks with Donald Trump. The president reiterated his plan for America to take over **Gaza** and force the removal of more than 2m Palestinians who live there. He earlier suggested that he would stop aid to Jordan and **Egypt** if they did not allow Palestinians to settle in their countries. After the meeting King Abdullah reiterated his government's "steadfast position against the displacement of Palestinians". At a meeting with Marco Rubio, America's secretary of state, Badr Abdelatty, Egypt's foreign minister, said Arab states rejected Mr Trump's plan. Egypt is working on a plan of its own.

The **ceasefire** between Hamas and Israel in Gaza came under strain after the militant group said it would postpone the release of three hostages scheduled for February 15th. Hamas appeared to back down after Binyamin Netanyahu, Israel's prime minister, said he would end the ceasefire if the hostages are not returned.

The UN said that a worker in its World Food Programme had died while he was being held in detention in **Yemen's** Sa'ada region, and called on the Iranian-backed Houthis to release the couple of dozen UN staff that it is still holding.

Fighting erupted in eastern **Democratic Republic of Congo** despite calls from African leaders for a ceasefire between M23, a rebel group backed by Rwanda, and Congolese forces. Having captured Goma, M23 is advancing towards Bukavu, another big city 200km (125 miles) away.

Ecuador's presidential election will go to a run-off in April, after the centre-right incumbent, Daniel Noboa, and his left-wing challenger, Luisa

González, fell short of the 50% vote threshold to claim victory. It was thought that Mr Noboa's record of cracking down on gang violence would be enough for him to win the first round, but Ms González, who served in the government of Rafael Correa, a former leftist president, has promised to boost the economy and cut fuel prices.

Sexual violence against children in **Haiti**, including rape, has increased by 1,000% since 2023, according to Unicef. Children as young as eight are also being forcibly recruited into the warlords' gangs that control much of the country, and now account for half of all gang members.

Narendra Modi, **India's** prime minister, went to Washington for a meeting with Mr Trump. The leaders have a good relationship, forged over a shared interest in countering the rise of China, but they will also discuss trade and worker visas.

Don't be my Valentine



The number of marriages in **China** fell by 20% last year, according to the Ministry of Civil Affairs, a bigger rate of decline than during the pandemic. Only 6.1m couples tied the knot, less than half the number who were wed a decade ago. The state is pressing colleges to hold "love education" seminars

that emphasise the benefits of marriage and family as one way of increasing the country's low birth rate.

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Business

February 13th 2025



Emmanuel Macron hosted a**summit on artificial intelligence** in Paris that was advertised as a chance to speed up the development of the technology, while ensuring that "nobody is left behind". The French president announced private-sector investments and urged Europe to "resynchronise with the rest of the world" on AI. But America and Britain spoiled the party by not signing the official declaration, which mentioned international governance, and was signed by China. J.D. Vance, America's vice-president, warned against "excessive regulation", which could stifle innovation, and making deals with "authoritarian regimes".

Where does he find the time?

Elon Musk made an unsolicited $97bn bid to buy the non-profit group that controls OpenAI. Mr Musk was one of the startup's founders but has since had

a spectacular falling out with Sam Altman, another founder and its current boss, and has launched his own rival AI firm. Mr Altman is trying to convert OpenAI from a not-for-profit entity to a for-profit company. He rejected the bid, cheekily offering to buy X, Mr Musk's social-media platform, for $9.74bn instead.

SoftBank reported a quarterly loss of ¥369bn ($2.4bn), in part because of a drop in the value of the tech investments held by its Vision Funds. The Japanese conglomerate plans to raise the money for its recently announced investment in a joint venture with OpenAI on a project-by-project basis.

The EU said it would respond with "proportionate countermeasures" to Donald Trump's proposal to impose 25% **tariffs** on all steel and aluminium imports to America. The EU is hoping for talks with the Americans before the duties come into force on March 12th. Meanwhile, China went ahead and imposed its counter-tariffs on American goods, after a deadline passed to reach a deal.

BP's annual underlying profit of $8.9bn in 2024 was its worst since 2020. Amid a chorus of criticism from investors, the oil giant promised to "fundamentally reset" its strategy. Its stock did jump earlier, however, in response to news that Elliott Management, an activist hedge fund known for shaking up management boards, has taken a stake in the company. BP's market value is about half that of Shell's.

Following a disappointing set of earnings for the fourth quarter, **Chevron** announced a cost-cutting strategy that could see it shed 20% of its workforce before the end of 2026.

The world's biggest supplier of batteries for electric vehicles filed to sell shares in a secondary listing in Hong Kong, which is expected to be the city's biggest stock offer since 2021. Based in China, CATL wants to raise funds for its international expansion plans.

Foxconn, an electronics contract manufacturer that assembles the iPhone, confirmed that it was interested in buying Renault's stake in **Nissan**, after merger talks between Nissan and Honda reportedly fell apart. Foxconn is

interested in acquiring the stake only if the deal includes co-operation on EVs, which it is developing through its Foxtron venture.

Unilever announced that it would list its ice-cream business on the Amsterdam stock exchange, with other listings in London and New York. It expects to spin off the business, which includes Ben & Jerry's, by the end of this year.



America's annual rate of **inflation** rose for the fourth consecutive month in January. At 3%, it is back up to where it was last June, before the Federal Reserve embarked on a round of interest-rate cuts. In his first testimony to Congress since Mr Trump's return to the White House, Jerome Powell, the Fed's chairman, said he was in "no rush" to cut rates again.

The **British economy** grew by 0.1% in the last quarter of 2024 compared with the previous quarter. Markets had expected a contraction. For the year as a whole GDP expanded by 0.9%.

More firms abandoned their commitment to **diversity, equity and inclusion**. Disney ditched a DEI measure that contributed towards setting executive pay, replacing it with one on "talent strategy". Goldman Sachs dropped a rule that stopped it from advising firms about listing shares if the boards of those

firms were all male and white. And Deloitte US asked staff working on government contracts to delete gender pronouns in emails.

The penny dropped

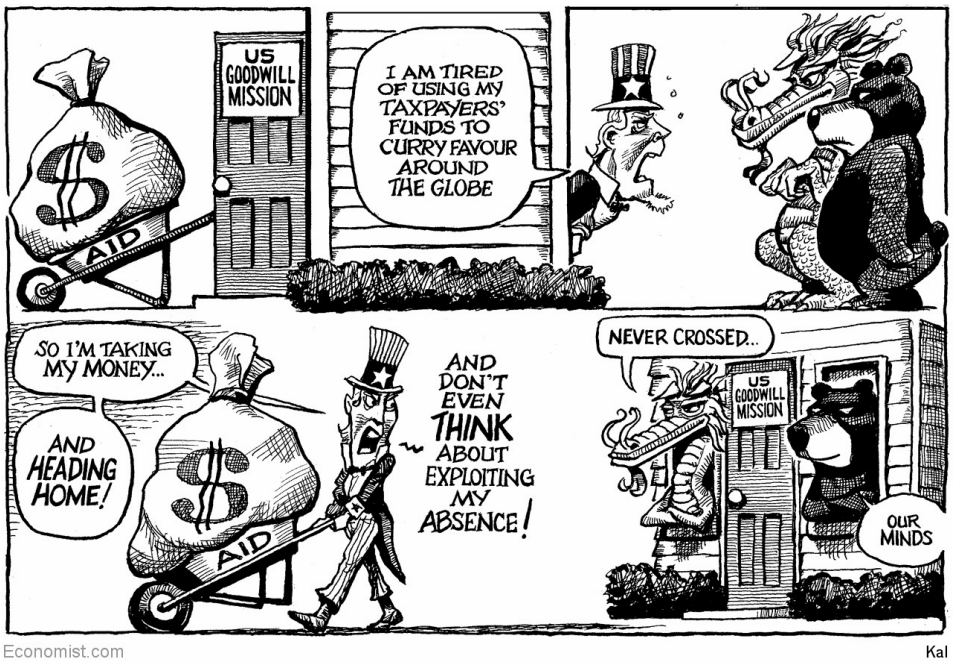
Donald Trump ordered the Treasury to stop producing **one-penny coins** because they are literally a waste of money. Each penny costs 3.7 cents to make. Canada got there first, eliminating its penny in 2012. But Americans for Common Cents, a group that wants to keep the coin, say consumers will be short-changed as demand for nickels would rise, increasing costs to the taxpayer. A nickel is worth five cents but costs 13.8 cents to make.

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The world this week

The weekly cartoon

February 13th 2025



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

What happened next at USAID
China's stunning new campaign to turn the world against Taiwan
Donald Trump turns an angry gaze south

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

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This week's covers

How we saw the world

February 13th 2025

WE HAVE TWO covers this week. In most of the world we contemplate Donald Trump's plans for the Pentagon. He recently declared that it would become a target for Elon Musk's Department of Government Efficiency. The work could not be more important. Not since the Soviet Union launched *Sputnik* and built huge tank formations at the height of the cold war have America's military vulnerabilities been so glaring. In the killing fields of Ukraine America is being out-innovated by drone designers; in the seas and skies off China it is losing its ability to deter a blockade or invasion of Taiwan. Pentagon angst is as old as the military-industrial complex, and it is hard to think that this administration will succeed where others have failed. But the hope is that it will. America's security depends upon it.



Leader: Will Donald Trump and Elon Musk wreck or reform the Pentagon?
Briefing: America's military supremacy is in jeopardy

In Europe our cover shows Friedrich Merz, the probable next chancellor of Germany after the election on February 23rd. As our interview shows, there is much to approve of in the leader of the Christian Democratic Union. He is confident, intelligent and remarkably calm considering the stakes. His instincts lie in the right direction and he bluntly declares that Germany's business model "is gone". But there are also reasons for doubt. Mr Merz seems a little too prone to favour what sounds like incremental change over the radical shake-up that Germany and Europe need. Too often, he behaves as if the hard part will be to get elected. Yet governing will be much harder. To command his coalition and to carry through difficult reforms in a time of turmoil, he will need a mandate for sweeping change. So far, he has been too timid to ask for one.



Leader: Can Friedrich Merz save Germany—and Europe?
Europe: Germany's "business model is gone", warns Friedrich Merz

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Leaders

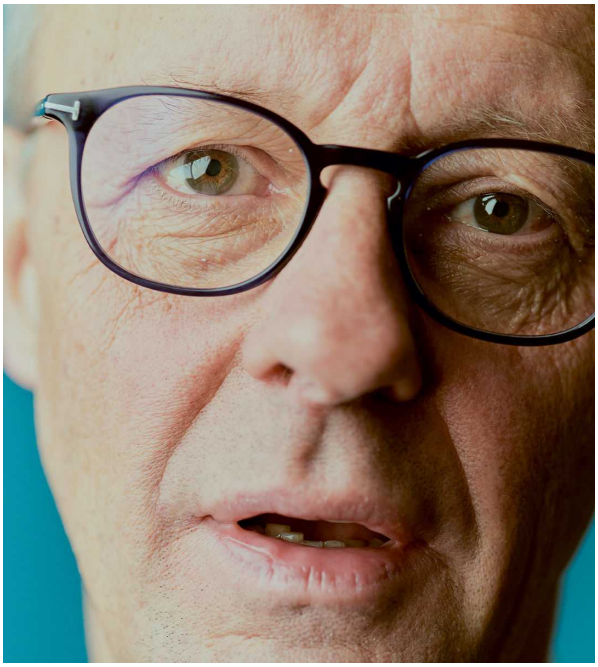
- Can Friedrich Merz save Germany—and Europe?
- Will Donald Trump and Elon Musk wreck or reform the Pentagon?
- After DeepSeek, America and the EU are getting AI wrong
- Countering China’s diplomatic coup
- The Lucy Letby case shows systemic failure and a national malaise

Leaders | European politics

Can Friedrich Merz save Germany—and Europe?

He is on track to win the election, but to fix Europe he will have to fix his country first

February 13th 2025



GERMANY IS THE hole at the heart of Europe. It accounts for a quarter of the European Union's output but it has been in recession for the past two years—and this year risks being the third. The perception that irregular migration is out of control has led to a surge in support for the xenophobic right, fragmenting German politics and causing paralysis in government and inaction in the EU. Its business model relied on manufacturing exports, especially to China, cheap gas from Russia and security provided by America. But that lies in ruins. The election on February 23rd is the most significant in Europe for years. There is a likely winner; but what happens next is both hard to discern and critically important.

That winner-in-waiting is Friedrich Merz, the 69-year-old leader of the Christian Democratic Union (CDU). Together with its Bavarian sister party, the CDU is predicted to win some 30% of the vote, far more than any party but not nearly enough for a majority. Coalition-forming will take months, and it is not clear whether Mr Merz will go for an alliance with the Social Democrats or the Greens. He may even need a second partner, which would be bad news: the unwieldy three-party coalition led by today's chancellor, Olaf Scholz, condemned Germany to three years of drift and, when it collapsed, an early election.

But the biggest mystery surrounds Mr Merz himself. As his detractors gleefully point out, he has never been a minister, and indeed has never run anything larger than the CDU's parliamentary caucus. His career in business was of the advisory and convening sort. Assuming he gets the top job, how will he transform a broken Germany? And since Europe functions best when it has strong Franco-German leadership, how will Mr Merz lead Europe when his French counterpart, Emmanuel Macron, is a busted flush?

In an interview, we try to shed light on the man. There is a lot to approve of. He is confident, intelligent and remarkably calm considering the stakes. His instincts lie in the right direction. He understands the concerns of business and promises a crusade against red tape, whether generated by Brussels or Berlin. He bluntly declares that Germany's business model "is gone". He believes in free markets, free trade and the Atlantic alliance, and his pledge to restore Germany to the heart of Europe is welcome. He knows that fixing immigration is crucial to weakening the appeal of Germany's hard-right party, the Alternative for Germany (AfD), warning that "This could be one of our last opportunities to resolve the problems before the populists [win] a majority."

All that is reassuring. But there are also reasons for doubt. Mr Merz seems, if not complacent, a little too relaxed, too prone to favour what sounds like incremental change over the radical shake-up that Germany and Europe need. Consider one example: he supports the completion of an EU-wide banking union, which is essential if Europe's single market is to match America's and China's. Yet in almost the same breath he objects to the proposed takeover of Germany's Commerzbank by UniCredit, an Italian

lender, because the bid is “hostile”. Such takeovers are precisely how a single market should work.

Or take something bigger: public spending and the “debt brake”, a constitutional provision that bars the government from running more than tiny deficits. Hobbled by this, Germany has not been able to invest adequately in its roads, railways, digital infrastructure or defence; spending on education and other social services also suffers. Pressed on whether he will seek to change it, Mr Merz will say only that “I’m open to discuss that, but it is not our first approach.”

Insiders say that work on the debt brake is under way, but that Mr Merz does not want to say so openly because German voters are a frugal lot. Anything more than a minor tweak will be contentious and difficult. It would be better for Mr Merz to signal now that he wants to be bold. Ideally he would seek to scrap the debt brake altogether, and say so. Being clear today would also strengthen his hand in coalition talks, which may otherwise land in the mushy middle ground.

This same incrementalism runs through much of what Mr Merz says. Even if talks between Donald Trump and Vladimir Putin lead to a ceasefire in Ukraine, Russia will remain an existential threat to Europe. Mr Merz and his fellow European leaders should be especially concerned that Mr Trump looks as if he means to negotiate over their heads.

NATO members have a target to spend 2% of GDP on defence each year. Germany was always a laggard, but after Russia’s full-scale invasion in 2022, Mr Scholz established a special fund to top up spending to the mark, which Germany now (just) meets. That fund will run out in the next couple of years. Given the threat from Russia, 2% is no longer enough. After a ceasefire, Mr Trump is likely to want to reduce America’s commitment to NATO. The experts’ consensus is that 3.5% of GDP needs to be the new benchmark. Mr Merz declines to commit to this, and firmly discourages talk of a joint European bond to pay for more defence spending. But if the EU’s biggest and richest member is not leading on rearmament, no one except the brave Poles and Balts on the front lines of the next war will be ambitious either.

The other crisis confronting Mr Merz and the wider EU is immigration. The toxic perception that Europe's borders are not secure has driven voters in many countries to support extreme parties, making it far harder to form stable moderate governments. Mr Merz has been bold here, but in a ham-fisted way. By introducing a non-binding motion into the Bundestag calling for a breach of Germany's commitments to passport-free travel in Europe, he achieved nothing. The vote passed with the support of the AfD, breaking a taboo against co-operation, galvanising his opponents, disquieting supporters and demonstrating a worryingly poor sense of what it is to lead.

Too often, Mr Merz behaves as if the hard part will be to get elected. Yet governing will be much harder. To command his coalition and to carry through difficult reforms in a time of turmoil, he will need a mandate for sweeping change. So far, he has been too timid to ask for one. ■

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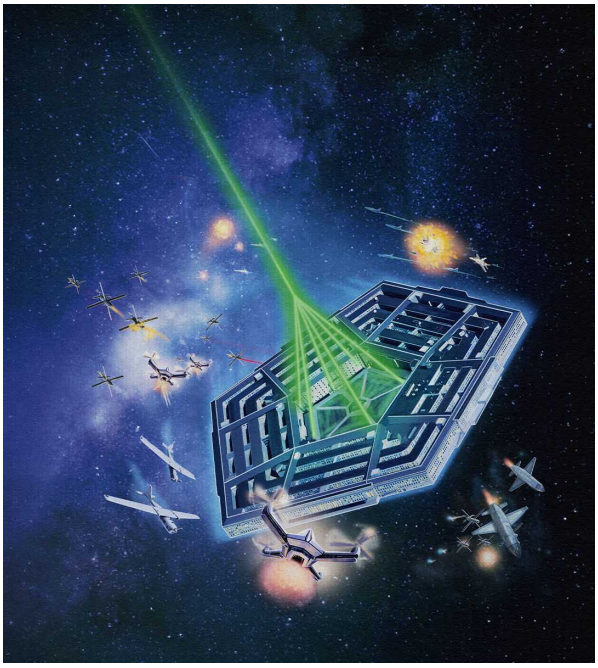
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Leaders | High alert

Will Donald Trump and Elon Musk wreck or reform the Pentagon?

America's security depends upon their success

February 13th 2025



IN THE PENTAGON they must surely be on high alert. On February 9th President Donald Trump declared that it would soon become the target for Elon Musk's Department of Government Efficiency (DOGE). Accusing it of "hundreds of billions of fraud and abuse", Mr Trump will unleash his insurgents, fresh from feeding foreign aid into the woodchipper. Their work could not be more important, or more risky.

That is because America's armed forces face a real problem. Not since the Soviet Union launched *Sputnik* and built huge tank formations at the height of the cold war have America's military vulnerabilities been so glaring. In the killing fields of Ukraine America is being out-innovated by drone

designers; in the seas and skies off China it is losing its ability to deter a blockade or invasion of Taiwan.

- America's military supremacy is in jeopardy

The stakes are all the higher because the Pentagon is a place where MAGA ideology meets reality. Mr Trump's foreign policy is transactional: this week he said he had begun talks with Russia on the future of Ukraine. But it is built on the idea that peace comes through strength, and that is possible only if America's forces pose a credible threat. And what if DOGE goes rogue in the Pentagon? If Mr Musk causes chaos or corrupts procurement, the consequences for America's security could be catastrophic.

The problems are clearest in the struggle to turn technology into a military advantage. The drones over Ukraine are upgraded every few weeks, a pace that is beyond the Pentagon's budgeting process, which takes years. American and European jammers in electronic warfare cost two or three times as much as Ukrainian ones, but are obsolete. Many big American drones have been useless in Ukraine; newer ones are pricier than Ukrainian models.

Another problem is that America's defence industry has been captured. At the end of the cold war the country had 51 prime contractors and only 6% of defence spending went to firms that specialised in defence. Today, just five primes soak up 86% of the Pentagon's cash. Wary of driving more primes out of business, the department has opted for a risk-averse culture. Contracts are typically cost-plus, rewarding lateness and overspending. The resulting lack of productivity gains helps explain why building warships in America costs so much more than it does in Japan or South Korea.

Behind this is the nightmare of budgets. Two-year delays are aggravated by congressional squabbling. Pork-barrelling politicians waste money by vetoing the end of programmes. They guard their control over spending so jealously that, without congressional permission, the Pentagon cannot as a rule shift more than $15m from one line to another—too little to buy even four Patriot missiles. When the Pentagon proposed diverting just 0.5% of the

defence budget to buy thousands of drones under its "Replicator" initiative in August 2023, winning approval took almost 40 congressional meetings.

Pentagon angst is as old as the military-industrial complex. Past secretaries of defence, including Bob Gates and the late Ash Carter, were philosopher kings next to their new and manifestly unqualified successor, Pete Hegseth. And yet the defence bureaucracy has always seemed to come out on top.

There are two reasons why this moment may be different. One is that the time is ripe. Not only is the threat to American security becoming clear, but a new generation of mil-tech firms, including Anduril, Palantir and Shield AI, is banging on the Pentagon's doors. Indeed, Palantir is now worth more than any of the five prime contractors.

More controversially, Mr Musk is eager to crack heads together, an enthusiasm which stems partly from the second reason to hope: his experience elsewhere. In the 2010s, to escape the ignominy of paying for rides to the International Space Station on Russian spacecraft, NASA put fixed-price contracts to provide such services out to tender. Boeing offered something called Starliner; Mr Musk's SpaceX offered Crew Dragon at a much lower cost. Crew Dragon has been a huge success. Starliner has yet to fly a successful mission (and has left Boeing having to absorb billions of dollars of budget overruns).

From 1960 to 2010 the cost of getting a kilogram into orbit hovered at around $12,000; SpaceX rockets have already cut that by a factor of ten, and promise much more. Helsing, Europe's only defence unicorn, takes a similarly nimble approach to development, continually updating its systems with data from the front lines.

Mr Musk's task is big and complex. American weapons need more AI, autonomy and lower costs. Where possible, they should be made from cheap off-the-shelf parts that ride on advances in consumer tech. The Pentagon should foster competition and risk-taking, knowing that some schemes will fail. A decade ago Carter set up a unit for innovation, but it was often seen as a threat. The Pentagon needs more of them. It should also listen to combatant commanders, too often drowned out by politics. Hardest of all,

Mr Trump will have to get congressional Republicans to give the Pentagon a freer rein to spend and innovate.

Reforming the Pentagon is much harder than other parts of government. America cannot focus on preparing for war in 2035 if that involves lowering its defences today. It cannot simply replace multi-billion-dollar submarines and bomber squadrons with swarms of drones, because to project power to the other side of the world will continue to require big platforms. Instead America needs a Department of Defence that can revolutionise the economics of massive systems and accelerate the spread of novel systems at the same time.

Mr Musk and his boss are conflicted. If Mr Trump prefers sacking generals for supposedly being "woke" or disloyal, he will bring dysfunction upon the Pentagon. If Mr Musk and his mil-tech brethren use DOGE's campaign to wreck, or to boost their own power and wealth, they will corrupt it. Those temptations make it hard to think that this administration will succeed where others have failed. But the hope is that they will. America's security depends upon it. ■

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Leaders | The Paris discord

After DeepSeek, America and the EU are getting AI wrong

Europe has a chance to catch up, whereas America should ease up

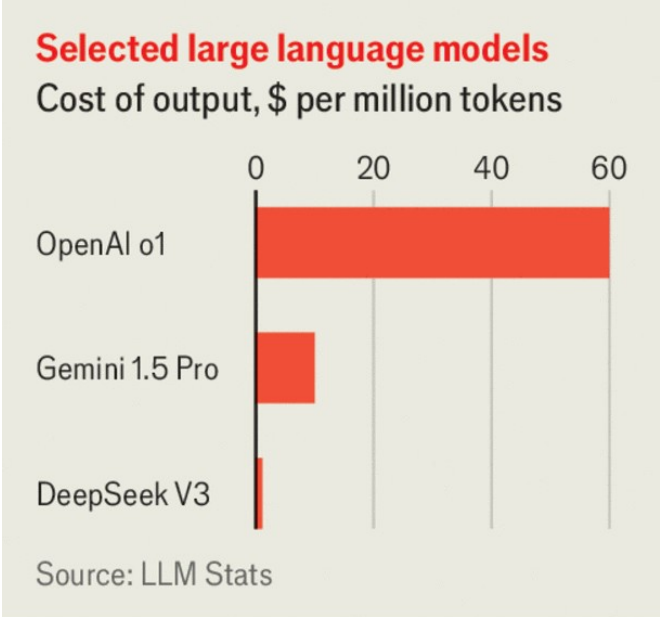
February 12th 2025



The attempt at global harmony ended in cacophony. As Emmanuel Macron's AI summit drew to a close on February 11th J.D. Vance, America's vice-president, bluntly set out an America-first vision for artificial intelligence (AI), castigated Europe for being too rule-bound and left before the usual group photograph. EU countries, for their part, struck a collaborative tone with China and the global south, while stressing the need to limit the risks of using AI.

Both Europe and America should rethink their approach. After the work by DeepSeek, China's hotshot model-maker, Europe has been given an unexpected chance to catch up—if it can cast off its regulatory straitjacket.

America can no longer behave as if it has a monopoly on AI. It should change how it wields power over its allies.



The Economist

The pace of innovation is astonishing. Barely six months ago AI looked as if it needed a technological breakthrough to become widely affordable. Since then reasoning and efficiency techniques have emerged, enabling DeepSeek to develop models close to the frontier even though it cannot use cutting-edge American chips. And DeepSeek is just exhibit A. Researchers everywhere are racing to make AI more efficient. Those at Stanford and the University of Washington, for instance, have trained models more cheaply still. Once there were concerns that the world did not contain enough data to train advanced systems. Now the use of synthetic data seems to be having good results.

For Europe, which looked hopelessly behind in AI, this is a golden opportunity. In contrast to Google's search engines, where network effects mean that a winner takes all, no law of computing or economics will stop European firms from catching up. Better policy can help close the gap. Mr Macron is rightly encouraging investment in data centres. But just as important is cutting through the red tape that prevents companies from innovating and adopting AI. The EU's AI Act is fearsomely stringent: a startup offering an AI tutoring service, by one account, must set up risk-management

systems, conduct an impact assessment and undergo an inspection, as well as jumping through other hoops.

Another hurdle is privacy rules. Even big tech firms, with their huge compliance teams, now launch their AI products in Europe with a delay. Imagine the costs for startups. German manufacturers sit on a wealth of proprietary data that could feed productivity-enhancing AI tools. But fear of breaching regulations deters them. A wise relaxation of rules, as well as harmonised enforcement, would help Europe exploit AI's potential.

Uncle Sam needs to wake up, too. China's advances suggest that America has less monopoly power over AI simply by having a hold over cutting-edge chips. Instead, it needs to attract the world's best talent, however distasteful that may be to MAGA Republicans.

America should also change how it engages with its allies. In Paris Mr Vance rightly warned against the use of Chinese infrastructure (and the fact that China signed the summit's declaration on AI governance may explain why America declined to). But America would more successfully discourage the adoption of Chinese AI if it were more willing for its friends to use its technology. In his final days in office Joe Biden proposed strict AI controls that would hinder exports even to partners like India. Revising those would nudge countries to use American tech rather than pushing them into China's embrace. American AI now faces competition. If it wants to reign supreme, Uncle Sam will have to entice, not threaten. ■

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Leaders | Words before war

Countering China’s diplomatic coup

China has turned much of the global south against Taiwan. That could be laying the ground for forced unification

February 13th 2025



IN JUST A few weeks the Trump administration has unleashed a dizzying number of initiatives and controversies abroad, from imposing tariffs and cutting America’s international aid budgets to starting talks with Vladimir Putin over the war in Ukraine and reimposing “maximum pressure” on Iran. Yet America’s biggest long-term challenge remains China and, as we report, amid the turmoil of America’s election campaign in 2024 and the disruption of Donald Trump’s first weeks in office, the People’s Republic has been busy strengthening its position.

Barely noticed, China has pulled off a diplomatic coup by turning more of the world against the self-governing island of Taiwan. Most countries,

including Western ones, recognise China rather than Taiwan. Until recently, most of them also either acknowledged that China claimed sovereignty over Taiwan, advocating a peaceful resolution of the dispute, or took no position on the question. But over the past 18 months a large number of countries in the global south have signed up to a new diplomatic position. They now support "all" efforts by China to unify the island with the mainland. *The Economist* reckons that 70 countries have now endorsed this harder language.

Such a tweak may seem semantic. But it matters because Taiwan is already a flash-point and the new language offers China diplomatic protection if it uses force. The Biden administration made great efforts to renew America's alliances in Asia, partly to deter a Chinese attack on Taiwan. Even so, the situation remains delicate. At times Joe Biden appeared to depart from the intricate American position of "strategic ambiguity". This is aimed at discouraging China from attacking, but without emboldening Taiwan so much that it declares independence. Before America's elections, China held military exercises that simulated a devastating blockade of Taiwan.

Since taking office, Mr Trump has not laid out his policy on Taiwan, though he has threatened to impose tariffs on its chipmaking industry. His administration includes China hawks, such as Marco Rubio, the secretary of state, and cheerleaders for China, such as Elon Musk. On February 7th, after talks between Mr Trump and Ishiba Shigeru, the Japanese prime minister, the two used tougher language than usual over Taiwan, saying that they "opposed any attempts to unilaterally change the status quo by force or coercion". But at points in the past Mr Trump has appeared to belittle Taiwan's desire to withstand Chinese bullying. He may yet be open to a deal that sells out Taiwan in return for concessions from China.

A full invasion of the island by China is possible, and Xi Jinping, China's president, has asked the People's Liberation Army to be ready to go to war by 2027. Another option would be a quarantine, or inspection regime, that seeks to cripple Taiwan's economy while falling short of an act of war.

China's diplomatic effort appears to be aimed at minimising the censure it would face in either scenario. By getting much of the world to formally legitimise "all" action taken by China, Mr Xi may hope to make it harder for

America to enforce sanctions against it. Already, the Western embargo of Russia, which lacks UN backing, has proved impossible to enforce fully around the world. Any attempt to impose similar measures on China in a Taiwan crisis may be even less successful. Alongside this pre-emptive lawfare, China is also seeking to increase its self-sufficiency in everything from semiconductors to food.

Mr Trump's return to the White House, along with his resentful and transactional America-first worldview, raises questions about America's commitment to its partners in Asia. The diplomatic coup over Taiwan is a reminder that, amid these doubts, China is busy making plans.■

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Leaders | Blind Britain

The Lucy Letby case shows systemic failure and a national malaise

Whether or not the neonatal nurse is guilty of murder, her saga is revealing

February 13th 2025



IT IS HARD to know which is more shocking. Is it the murder of seven babies and attempted killing of seven others at the Countess of Chester hospital in north-west England, for which Lucy Letby, who was a nurse there, is in prison for life? Or is it the possibility that Ms Letby is the victim of a miscarriage of justice? It looks increasingly likely that her convictions, in 2023 and 2024, were questionable. An international panel of experts has raised serious doubts about the medical evidence—and about whether the babies' deaths were even murder. The Criminal Cases Review Commission (CCRC), an independent body that probes potential wrongful convictions, may refer the case back to the Court of Appeal. Whether or not Ms Letby is

guilty, her saga exposes deep failures, as well as an overarching malaise afflicting Britain.

One area of failure is the justice system. British courts are not alone in finding it hard to interpret statistics (how likely was the spike in baby deaths at the Countess of Chester to have arisen by chance?) or to know what weight to put on the testimony of expert witnesses, especially when the evidence is entirely circumstantial, as in the Letby case. In America examples of dodgy science leading to the imprisonment of innocent people are all too common: deceptive forensic evidence and expert testimony played a part in 44 of the 223 exonerations officially recorded there in 2022. But Britain seems to be adept at suppressing doubts about verdicts. It took an article in the *New Yorker* and international health specialists to prompt more British voices, including this newspaper, to question Ms Letby's conviction.

- It increasingly looks as if Lucy Letby's conviction was unsafe

The CCRC is part of the problem. In 2021 a cross-party inquiry concluded that it was "too deferential to the Court of Appeal". Critics say its budget is too small, its approach too cautious and, crucially, its mandate too restrictive (it can refer cases for appeal only if it sees a "real possibility" that a conviction will not be upheld). The commission was set up in 1997 after a series of high-profile blunders to restore faith in the justice system. It is not succeeding.

A second failure is in the use of public inquiries. These often drag on interminably—such as those into the covid-19 pandemic or the Post Office scandal—only to produce recommendations that are largely ignored. An inquiry chaired by Dame Kate Thirlwall has been looking into what went wrong at the Countess of Chester hospital. But its remit does not include the Letby verdict, so risks being pointless.

The third, and craziest, failure relates to the National Health Service. The Letby case has highlighted its dismal state. In some years the NHS spends more on the costs of harm in the area of maternity than it does on maternity care itself. At the Countess of Chester, the spike in baby deaths led to a search for

a culprit before it triggered an alert to the regulator, the Care Quality Commission. But it may be that the culprit was the system. It is possible that what were thought to have been the crimes of a killer nurse were the result of shoddy care within the NHS that is far from unique.

In all this a common thread is that poor standards have set in to the point that perceptions become dulled. Hence the overarching malaise. In worrying ways Britain is blind. The public is slow to see that evidence is questionable. The fog around an inquiry may be so dense that people cannot spot fatal flaws. Vision in the health service may be too blurred to distinguish between systemic failure and murder. Yes, justice should be blind. But the Letby case shows that Britons need to keep their eyes wide open. ■

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Letters

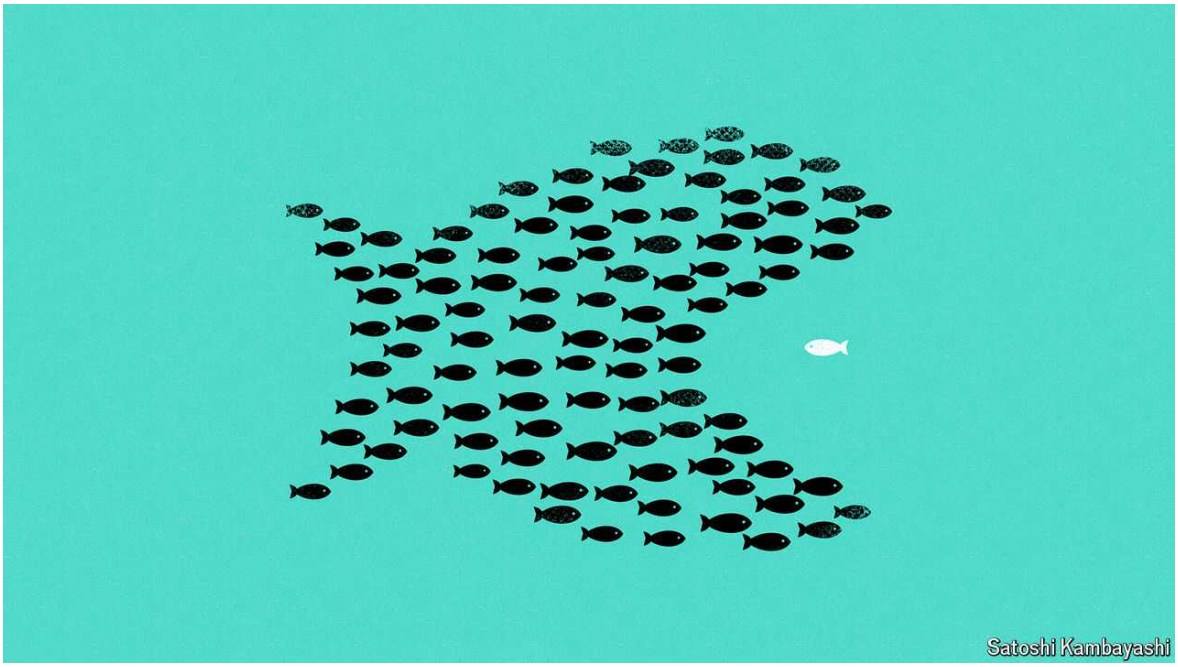
- Letters to the editor

Letters | On diversifying portfolios, the London Gazette, exit taxes, social media, red tape, braindance

Letters to the editor

A selection of correspondence

February 13th 2025



Letters are welcome via email to letters@economist.com

Stocks and bonds

Buttonwood's column on February 1st argued that diversifying portfolios across asset classes has become harder in recent years. Fair enough. But there are two other points to consider. First, the stock and bond correlation is determined by the nature of the shocks hitting economies. The recent positive correlation may be temporary, driven by unprecedented large supply-side shocks, such as the European energy crisis and the supply-chain disruptions from the pandemic.

Modern monetary policy based on an inflation-targeting framework is supportive of a negative stock-bond correlation. We expect the negative correlation to return. The reason being that equity cashflows tend to be driven by economic growth. And in response to growth above trend, central banks tend to raise rates, leading to a positive correlation between growth and rates, and thereby a negative correlation between equities and bonds.

The second point is that correlation, although important, is not everything. Investors also care about the protection that bonds offer in equity downturns. For instance, during the global financial crisis of 2007-09, global equities fell by over 50% and global bonds rose by 6%. Bonds tend to act as shock absorbers when you need them the most. Average correlation does not capture this feature.

GIULIO RENZI RICCI
Head of asset allocation
Vanguard Europe
London



Read all about it

Historians do indeed love the *London Gazette*, Britain's oldest newspaper ("Published by Authority", February 1st). But it is far more than just "a

treasure trove of trivia". Its advertisements and notices are vital evidence of the social and economic history of Britain from 1665. Unfortunately, its search function is woefully inadequate, based on an Optical Character Reader from the dark ages of digital scanning, which scrambles letters, and leaves sizeable gaps in its publication years without scanning at all. To be properly appreciated and used systematically it needs to be re-digitised in full to current standards.

JONATHAN BARRY
Ludwig Maximilian University of Munich



Pay before you leave

You argued that exit taxes, which, broadly, are paid when someone moves money out of a country, are dysfunctional ("In search of growth", January 25th). Although it is true that exit taxes do not raise much revenue, they can protect the capital-gains tax base. Without exit taxation, countries run the risk that paying capital-gains taxes becomes a voluntary act of the less mobile, while the wealthy mobile escape by planning to emigrate.

To support the principle of capital-gains taxation on realisation rather than on accrual, a compromise must be made when individuals emigrate. A stricter exit-tax regime imposes a burden on illiquid entrepreneurs, whereas

a laxer regime risks avoidance of taxation. Well-designed exit taxation of gains accrued while living in the country can support the tax system and ensure that stayers and leavers are treated similarly.

KRISTOFFER BERG
Lecturer and fellow
Trinity College
University of Cambridge



Social-media effects

I take issue with your review of Nicholas Carr's latest critical book on technology ("The bloom is off the rose", February 1st). You suggested that research and insights into how social media affect young people are not worth another weighty tome. Actually, we don't have enough of these books. As a father of three teenagers I have seen how their use of social media changes them. Social media do provide opportunities, but teenagers' brains seem to be ill-equipped to cope with the fancy new features designed by the engineers and product managers employed by Snap, Meta and the rest. And it looks like it's by design. Mr Carr's book is welcome amid an unequal fight that is changing societies.

EDOUARD CHABROL
Luxembourg



A global mess of red tape

There was a contradiction in your issue of February 1st between the leader praising deregulation ("The revolt against regulation") and the leader in favour of the global minimum corporate tax ("Tax harmonies"). The latter is the most demanding tax regulation the world has ever seen on such a scale.

Very few tax scholars or practitioners can master this massive set of extremely complicated rules in any detail. When they were adopted by the European Parliament there was scarcely any debate. That may partly be due to the fact that hardly any of the parliamentarians were willing to expose their uncertainty. African tax lawyers have said that the complexity of the new rules is simply beyond their tax administrations.

In Norway representatives of the tax authorities have, off the record, said that the potential tax revenues will never exceed the costs of implementing the rules. And that is not taking into account the compliance costs for corporate taxpayers.

America has not adopted the global minimum corporate tax. So this will be one more example of the European Union overregulating in spite of the clear advice in Mario Draghi's report on EU competitiveness that productivity should be the priority.

There is one clear winner from the global minimum tax: the big accounting firms. In total they are set to make literally hundreds of millions of dollars from assisting the taxpayers. But that is not an argument in favour of the tax, clearly the opposite.

OLE GJEMS-ONSTAD
Professor emeritus of tax law
Norwegian Business School
Oslo

You praised Argentina's deregulation efforts, and seemingly accepted the government's view that all regulation stems from some form of government capture by private interests. By equating regulation with burdensome red tape, you overlooked its crucial role in addressing market failures. You gave an example of unnecessary costly "standards on the flammability of children's pyjamas". As a parent, I can easily imagine that if properly enforced, such standards would be a source of substantial consumer welfare.

JAVIER ASENSIO
Associate professor
Department of Applied Economics
Autonomous University of Barcelona

I'm reminded of Bernard Woolley's slogans to make people look kindly upon bureaucracy: "Administration saves the nation!"; "Red tape is fun!"; "Red tape holds the nation together!" Forty years on, "Yes Minister" remains as relevant as it ever was.

VINCENT POIRIER
Quebec City



Selected ambient works

Legion of followers of braindance may have spat out their cornflakes when they saw their strange but nonetheless very real music genre declared all but non-existent in the august pages of *The Economist* ("(Don't) name that tune", January 25th). Braindance does exist, sold perhaps millions of records, and was the odd brainchild of Aphex Twin's Rephlex label, which even some of the once hip but now slightly less fleet-of-foot CEOs and business leaders who read your newspaper will surely remember.

ROBERT ROWLANDS
Nottingham

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By Invitation

- The neglect of Asia was the great failure of Yalta, writes Stephen Kotkin

By Invitation | Jaw-jawing at Yalta, 80 years ago

The neglect of Asia was the great failure of Yalta, writes Stephen Kotkin

Black grouse and caviar helped Stalin get much of what he wanted, but his Red Army counted for more, says a notable historian of Russia

February 11th 2025



Archive 1945 is a project republishing The Economist*'s original reporting on the final year of the second world war. Eighty years on, follow the course of the conflict week by week, in new instalments every Friday. In our entry of February 7th, we looked back at our coverage of Yalta.*

Eighty years ago the Big Three—America, Britain and the Soviet Union—assembled for eight days of jaw-jawing at the Crimean resort of Yalta, their second gathering to finish the second world war and adjudicate the post-war order. Yalta proved to be a vastly grander spectacle than the preceding meeting, in late 1943 in Tehran, with far larger delegations. Yet the results

proved to be less significant, precisely because of Tehran's decisions. "Yalta made less history than is generally believed," the left-wing journalist Louis Fischer noted just over a quarter-century on, voicing the new conventional wisdom. He was only half right, writing as if Asia did not exist.

Three old men worn down by the war gathered at Yalta: the imperialist and anti-communist Winston Churchill (71 years old), the communist Josef Stalin (67) and the anti-imperialist Franklin Roosevelt (63), who, although the youngest, had congestive heart failure and was to die that April. It was Adolf Hitler who brought the three together, and he was soon dead, too.

As Roosevelt waffled on about rich countries needing to help poorer ones, Churchill looked bored, while Stalin doodled. The drink and the delicacies—black grouse, partridge, venison and caviar—were sensational amid severe wartime deprivations. The despot's Georgian-Russian hospitality came in handy, but his Red Army was handier. It stood within striking distance of Berlin, while the Americans and the British were fighting in the forests of the Ardennes to regain lost territory.

Roosevelt was the first sitting American president to set foot in Russia. Having travelled a third of the way around the Earth, he achieved both of his main strategic goals. The first was Stalin's assent to the formation of a United Nations, with Soviet participation. That win was announced at the conference.

Unannounced, though, was a secret deal for the Soviets to enter the Pacific war against Japan in exchange for significant territorial concessions already set out at Tehran. Roosevelt was on the verge of a monumental victory over Nazi Germany, thanks in no small measure to, in effect, renting the Soviet land army in exchange for lorries, radios and Spam. (Best estimates suggest the Soviets lost more troops in Europe in the few weeks leading up to Yalta and just after than the Americans lost during the entire war in both European and Pacific theatres.) But he still faced a prolonged fight against Japan. The American president reasoned that Soviet territorial aggrandisement was embedded in victory, and that Stalin's appetites did not exceed those of the tsar in the first world war.

Churchill aimed to win a place for France in the victors' occupation of Germany, secure a democratic Poland and keep Britain relevant. He got the first. "He is trying to forget that he has achieved little," the prime minister's doctor observed as the parties left Yalta.

Stalin, a cold-blooded murderer and consummate charmer, relied for his aims on the correlation of forces. He obtained grudging recognition of his demand for German reparations, which, of course, he could (and did) seize anyway, carting off to Moscow everything of value. He got a formal invitation to smash his way into north-east Asia, which no one could have stopped. And he had already occupied Poland.

Like Churchill, Stalin signed up to Roosevelt's Declaration of Liberated Europe, which, echoing the Atlantic Charter of 1941, called for Europeans "to create democratic institutions of their own choice". The despot could apply his own definition of democracy. As for the UN, Roosevelt granted the Soviet Union a veto over its decisions.

In public, Roosevelt and his aides oversold the agreement at Yalta as a new dawn; in private, he described it as the grim best they could manage under the circumstances. Yalta's celebratory mood descended into recrimination, disillusion and second-guessing. A cold war came to replace the wartime coalition.

To this day many analysts insist that cold war could have been avoided, as if it were a mere misunderstanding between powers; such analysts squabble only over whom to blame. In fact, the cold war was an expression of a fundamental clash of interests and, at a still deeper level, of values. The protagonists who stood up to the Soviet Union without provoking an armed conflict deserve credit.

Almost no one had wanted a cold war. The idea that, in 1946, an American diplomat wrote a long telegram to Washington and a just-ousted British prime minister delivered a speech in Missouri and, *voilà*, the cold war was launched, is nuts. Reluctance to wage a new global struggle ran deep after the catastrophe of the second world war.

Stalin's repeated actions, however, ensured that the West could not live in denial for ever. A Soviet-backed communist coup in Czechoslovakia in 1948 would seem hard to pooh-pooh, yet many did so. A Soviet blockade of Berlin later that year did not overcome entrenched opponents of confrontation. It took North Korea's invasion of South Korea in 1950, finally, to break the remaining hesitancy.

Options for great-power rivalry are not infinite. The worst option is hot war. Another is appeasement—which, as Churchill once quipped, delivers dishonour and war anyway. Then there's the seduction of Pygmalion, whereby the leading power seeks to transform a street urchin into a lady, or, in the jargon, into a responsible stakeholder in the international system. This leaves only cold war, whose decisive advantages are that it is not hot and that it works.

Getting to cold war constitutes an achievement. It even allows for significant co-operation between bitter rivals. And in an age of mutually assured nuclear destruction, cold war increases the odds of the survival of all life on the planet. A decisive disadvantage, though, is that a cold war between great powers often means hot wars for others, whether as proxies or targets. That remains of burning relevance today.

Looking back at Yalta's eight plenary sessions, we see that Poland came up at seven, while China barely entered the deliberations. The chief exception, in the face of an incredulous Churchill and Stalin, was Roosevelt's stubborn elevation of poor, war-torn China to one of the great powers, as a permanent member of the UN Security Council. Yet neither Roosevelt nor his successors had a clue how to stabilise a vast country ravaged by Japan's aggression and rent by internal political divisions. The relative neglect of Asia was the great failure of Yalta. Poland's fate was tragic but of no strategic moment in the world order.

Stalin's participation in the spoils of the Pacific war required that he conclude a treaty with the Kuomintang government under Chiang Kai-shek. His representatives travelled to Moscow and got a surprisingly advantageous agreement. Chiang would squander the opportunity, however, failing to grasp Stalin's utter dismissiveness towards the Chinese Communists and his immense distrust of Mao Zedong.

Asia was riven by four post-war partitions: in China, over Taiwan; in Vietnam, informally at the 16th parallel and formally at the 17th; in Japan, at the Southern Kuriles or Northern Territories, but not the home islands, thanks to adroit manoeuvering by the Americans; and in Korea, at the 38th parallel, following maladroit American manoeuvering. In all cases, war or civil war broke out to enact, prevent or overcome actual or prospective partitions.

Before Yalta gave way gradually to a cold war that, given the alternatives, was necessary and welcome, it enabled finishing the rout of the second world war's chief aggressors, Germany and Japan. In the fullness of time, Germany attained peaceful unification. Japan joined the Western alliance immediately (as did Poland, eventually). Yalta's failures over Asia, unlike those over Europe, were real.■

Stephen Kotkin, a senior fellow at the Hoover Institution at Stanford University, is a scholar of Russian and global history and a biographer of Stalin.

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Briefing

- America’s military supremacy is in jeopardy

Briefing | Disrupting the Pentagon

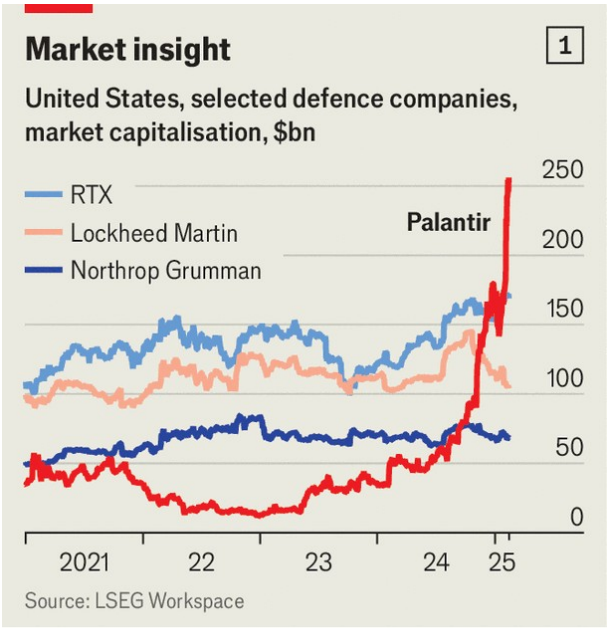
America’s military supremacy is in jeopardy

To win future wars it needs new weapons, new suppliers and a new system of procurement

February 13th 2025



ON THE FRONT lines in Ukraine, war is not nearly as foggy as it used to be. Satellites and drones equipped with many kinds of sensors are always scanning every inch of the battlefield, while artificial intelligence (AI) instantly interprets the data they gather. It is far easier than it would once have been for either side to spot and attack anything that moves—one reason why big, old-fashioned offensives have made so little headway.



The Economist

America has played a big part in these changes. It has helped Ukrainian forces build drones that are more capable yet cheaper than those deployed in Afghanistan and Iraq, for instance, and develop an AI "kill chain" in which targets are identified and munitions guided to them, often deep behind enemy lines. American firms, too, are in the vanguard of this new era. They visit Ukraine regularly to observe how their weapons are performing and adapt them accordingly. Private capital is flooding into American companies that aim to disrupt the conventional battlefield. In December Palantir, a data firm, became the world's most valuable defence contractor, supplanting RTX, an aerospace giant. Palantir's market capitalisation was a fraction of RTX's when Russia invaded Ukraine in 2022. Now it is much bigger (see chart 1).

Asleep at the cutting edge

Yet for all America's expertise and innovation, not to mention its vast defence budget, its own armed forces are struggling to adapt. Mark Milley, until late 2023 America's most senior soldier, argues that the military machine that he oversaw for four years is, in essence, unfit for purpose. In an article he co-wrote last year with Eric Schmidt, a former CEO of Google and backer of a fund investing in military technology, he notes that American firms make the best AI systems, but its armed forces struggle to absorb and deploy them. Troops lack the equipment and training to cope with a drone-

saturated battlefield. It takes America years to buy weapons that are evolving month by month. The Pentagon, the pair conclude, needs "a systemic overhaul" in how it fights, what it buys and how it does its shopping.

- Will Donald Trump and Elon Musk wreck or reform the Pentagon?

America's new president seems to agree. This week Donald Trump announced that he was directing Elon Musk, his woodchipper-wielding agent of change, to take on the Pentagon. Pete Hegseth, the defence secretary, complained in his confirmation hearing last month that the Pentagon is "too insular [and] tries to block new technologies from coming in". The new national security adviser, Mike Waltz, recently told an interviewer, "We do need great minds and we do need business leaders to go in there and absolutely reform the Pentagon's acquisition process." Mr Trump is appointing tech types, such as Emil Michael, a former executive at Uber, to senior defence jobs.

They have their work cut out. To remain a world-beating military power, capable of waging and winning a war with China, they will need to change three things. The first is the armed forces themselves: how they fight and what they fight with. The second is the defence industry that supplies them, which needs rebalancing towards newer, more innovative companies. The third is the least understood and the most resistant to change, but vital to fixing everything else: the pork-barrel politics of defence spending.

There is a heated debate about how much change is needed within the armed forces themselves. Some observers believe that technology is hyped and that orthodox measures of military strength, such as sound tactics, troop numbers and ammunition stockpiles will remain more important. AI will struggle with complex tasks and commanders will not trust it, they argue; difficult terrain will flummox robots. America, this camp thinks, should be pumping money into a bigger army, more shipbuilding and more high-end missiles.

At the other extreme are radicals who believe that everything has changed. An outspoken exponent of this view is Mr Musk. He recently responded to a Chinese drone display by harrumphing, "Some idiots are still building

manned fighter jets like the F-35"—implying that swarms of cheap drones could easily defeat a vastly more expensive warplane. A similar, if less abrasive assessment can be found in "Unit X", by Raj Shah and Christopher Kirchoff, in which the authors describe their struggle a decade ago to establish a forward-looking arm of the Pentagon called the Defence Innovation Unit (DIU). They, too, would do away with entire classes of weaponry. "In a world where hypersonic weapons and anti-ship missiles can easily destroy a navy vessel," they write, "it no longer makes sense to spend billions of dollars building destroyers and battleships."

In the middle are more cautious modernisers. They believe it is too early to shred America's existing force structure entirely. AI and autonomy have not yet advanced to the point where software can handle all the tasks of a human pilot, they insist. Uncrewed surface vessels have worked well in the Black Sea, but would find it hard to cross the Pacific or navigate mid-Atlantic storms. The Chinese drone swarm, they point out, was a choreographed light show which would have fallen to pieces in the face of jamming. Physics imposes hard limits: a small drone will never be able to carry serious firepower across oceans while evading Chinese air defences. "Not everything needs to be gold plated and have all of the capabilities," says Aditi Kumar, who was DIU's deputy director until January 20th, "but some systems do."

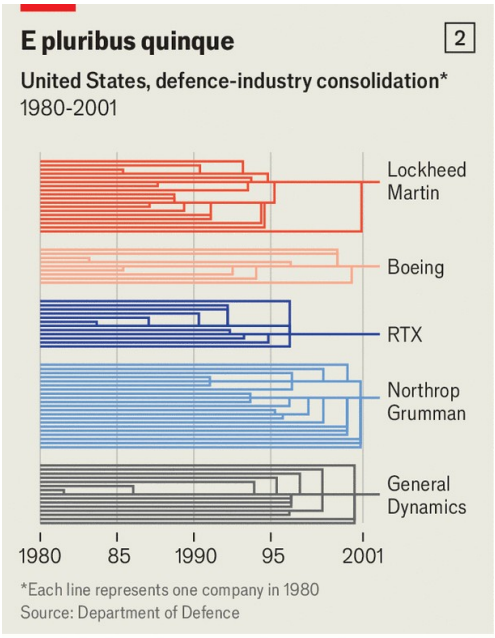
In this view, America needs what experts call a "high-low mix", in which a modest number of complex and high-end platforms and munitions operate alongside a much larger number of cheaper, simpler and mostly uncrewed weapons. Fancy weapons are still essential—American ATACMS and Anglo-French Storm Shadow missiles have made mincemeat of Russian air defences in Crimea, for instance. But they can be used to clear the way for cheaper ones. Or both sorts can be used in tandem, with "loyal wingmen" drones flying alongside crewed jets, for example.

The Goldilocks army

The optimal mix of forces is hotly debated. The question of which high-end weapons to scrap and which to keep is especially delicate. Speaking last year, Mr Milley proposed doubling the number of submarines. These are

some of the most complex and expensive weapons in America's arsenal, but their stealthiness means that they can survive on a sensor-saturated battlefield. But he cast doubt on aircraft-carriers. "We're going to have a ship that sails with 5,000…sailors on it and the thing will be dead in the water in 20 years, for sure," he argued. "We can do all the electronic magic [to jam missiles], but the bottom line is: it's a big piece of steel that saw its best day at Midway." Mr Milley was similarly doubtful about the F-35: "do we really think a manned aircraft is going to be winning the skies in 2088?" The risk of this approach is that if America finds itself at war before 2030, it could be caught short—equipped with too few legacy systems like the F-35 and not enough new tech to compensate.

Regardless of what America buys, the next question is who should build it. American defence contracts typically involve one buyer, the government, which sets the requirements and carries all the costs of research and development (R&D), which helps explain its conservatism about what it buys. This set-up allows private firms to take on projects with huge costs and long timelines, which would otherwise be too risky: think aircraft-carriers or bombers. But it is a hopelessly unsuitable approach to buying smaller, software-infused gear that has to be updated constantly to remain effective.



The Economist

In October Shyam Sankar, the chief technology officer of Palantir, published a 4,000-word manifesto titled "The Defence Reformation". He lamented that the number of big defence firms selling weapons to the Pentagon has shrunk from 51 in 1993 to five today (see chart 2). "Consolidation bred conformity," he argued, "and pushed out the crazy founders and innovative engineers." It also changed the identity and ethos of arms-makers. Mr Sankar, who turned down a top job in Mr Trump's Pentagon, notes that before the fall of the Berlin Wall only 6% of American defence spending went to specialist arms-makers. Most contracts went to companies that had both commercial and military arms. Ford made satellites until 1990, he notes, just as General Mills, better known for its cereal and cookies, made guidance systems for ICBMs.

The commercial world kept them competitive and forced them to invest in research and development at their own risk. Today specialist defence contractors account for 86% of defence spending. Michael Brown, a former head of DIU who is now a partner at Shield Capital, a venture-capital fund, notes that two-thirds of the business of the top ten suppliers to the Pentagon is defence only; in China, the equivalent figure is 30%. "Think about the difference in your mentality as a company."

As weapons become increasingly reliant on data and code, both the Pentagon and its suppliers are under pressure to absorb the tech world's risk-taking mindset and rapid development in the form of frequent upgrades and increasing use of AI. "We're taking cheaper, commercial off-the-shelf components, using software provided by the government," says Ms Kumar, referring to DIU's drone development, "and integrating the two and fielding a capability that is substantially lower cost than what the department has been able to do before."

Big Silicon Valley firms are coming around to working with the Department of Defence. On February 4th Google reversed a long-standing policy barring the use of its AI tools for military purposes. Tech giants and top AI model-makers, such as OpenAI, Anthropic and Meta, have also embraced military business. "They didn't want to do anything with DoD," says Yili Bajraktari, who used to work at the Pentagon and now leads the Special Competitive Studies Project, a research group. "Now you have the tech companies all in. They are gung-ho about DoD." So are investors. Venture-capital deals in the

defence industry have grown 18-fold over the past decade, from $500m in 2014 to about $8.7bn in 2024, according to Bain & Company, a consulting firm.

Money can’t buy you readiness

It will be difficult, however, to harness corporate America’s enthusiasm using the government’s procurement system. America’s defence budget, at over $800bn a year, is far and away the world’s biggest, but allocating it is a ludicrously slow and political process. In theory, the administration lays out its defence strategy, the service chiefs tell the secretary of defence what they need to fulfil those goals and the administration then requests the sums necessary from Congress. In practice, things are not nearly so simple. Service chiefs sometimes lobby Congress directly to approve pet projects. Lawmakers often prevent the Pentagon from retiring obsolete weapons if their home state will be harmed. And Congress micromanages, allowing the Pentagon to move around no more than $6bn within the budget, and even then only with the approval of senior members of Congress for each slice of $15m or more.

The most baleful consequence of all this is interminable delay. Drones in Ukraine have their software, sensors and radios swapped out every six weeks or so. Year-old AI is archaic. Yet the gap between the start of the Pentagon’s budget process and any money appearing is—at a minimum—two years. Political deadlock means that budgets are rarely passed on time anyway, leading to “continuing resolutions” in which new programmes cannot be started. Last year saw a six-month delay. Simplifying and accelerating all this, says Mike Horowitz, until recently a deputy assistant secretary of defence, is “the secret to unlocking the innovation problem”.

It is possible to persuade Congress to pay for innovative new schemes, but it is hard work. In August 2023 Kathleen Hicks, the deputy secretary of defence at the time, announced that the Pentagon planned to buy “multiple thousands” of easily upgradeable drones to be ready within two years. This “Replicator initiative” marks “huge progress”, argues Mr Horowitz, who helped run it. “Compared to ‘Pentagon standard’,” he argues, meaning overpriced and slow-to-arrive kit, “Replicator is delivering a lot of capability

fast at a low relative price point." Mr Brown notes that drones with a pricetag of $17,000 apiece during his tenure (2018-22) now cost less than a tenth of that.

But to talk Congress into allocating just $500m to Replicator—about half of one percent of the defence budget—Ms Hicks and her team had to conduct nearly 40 briefings. Moreover, this sort of streamlined procurement is not catching on across the Pentagon, notes Mr Brown: "That's the part that's been disappointing." Another example is Other Transaction Authority (OTA), a procedural innovation that allows departments to buy things without getting bogged down in the Federal Acquisition Regulation, a 2,000-page Talmudic set of rules that has spawned a priesthood of procurement officers. The Pentagon has spent $86bn via OTAs to date, mostly over the past five years, notes Austin Gray, who runs a defence startup. But their use has now "plateaued", laments Mr Brown.

The Pentagon's lawyers are wary of rocking the boat, Mr Brown says. "That kind of risk-averse mentality applies to so many things at DOD: don't take the risk and stick your neck out, because it could get chopped off." Mr Sankar of Palantir recalls that when ChatGPT was released to public acclaim in 2022 his firm offered to include a similar chatbot free of charge in a product it was making for the army. The army refused because it had not included a formal requirement for such a feature in the original contract.



The future is already here

Rocking boats is a speciality of Mr Trump and Mr Musk. Many in their orbit have big ideas about reform. Mr Hegseth has promised "to hire a lot of smart people". Even some former officials from Joe Biden's presidency believe that Mr Trump could shake things up for the better at the Pentagon. "If the Trump folks pursue the innovation that some of them say they want," says Mr Horowitz, "there's a real opportunity—if they can effectively operate the Pentagon bureaucracy."

Destruction +/- creativity

That is a big if. At the moment the new administration's focus seems to be cutting costs rather than reforming the process of procurement. "We're going to find billions, hundreds of billions of dollars of fraud and abuse," Mr Trump said of military spending this week. Mr Hegseth, for his part, seems concerned chiefly with rooting out wokeness in the ranks, although he is said to have recently met the CEO of Scale AI, a data firm. But even if he harnesses the brightest minds in IT, they may not have a winning formula for wrangling obstreperous members of Congress.

Yet the task could scarcely be more pressing. "I don't think we understand the sense of urgency," warns Mr Bajraktari. "In Washington there is not a

sense that there's a war in continental Europe…and we might likely have a war in Asia." America's armed forces will need a drastic overhaul if America is to remain the world's pre-eminent power. The sort of innovation that is required should come easily, given corporate America's strengths. Yet politics, as usual, is getting in the way. "Everybody understands the problem we're in right now," says Mr Bajraktari. "We're the number one global power in
software—and our military is not able to use it." ■

Correction (February 13th 2025): The original version of this story misstated the proportion of the business of the biggest suppliers to China's department of defence that is defence only.

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United States

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United States | Federalist capers

Donald Trump wants states and cities to do as they are told

But local governments are taking immigration into their own hands

February 13th 2025

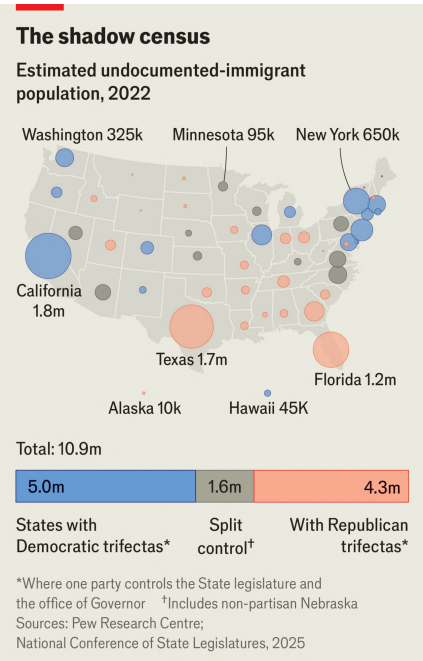


PAT BURNS carries Donald Trump around with him. Figuratively—he says the president gives him "hope"—but also literally. The Republican mayor of Huntington Beach, California brought a bust of Mr Trump to a recent council meeting. The city is California's MAGA capital. Last month the city attorney, Michael Gates, sued the state (again) to try to avoid complying with a law that limits California's co-operation with federal immigration authorities. Huntington Beach has also declared itself a "nonsanctuary city". The state government has a "tyrannical" mentality, argues Mr Gates. "Huntington Beach is just fighting for its local control."

Republican islands in Democratic states are not the only places crying out for that. Mr Trump is testing the limits of executive power in countless ways, including by trying to force states and cities to abandon policies he dislikes. Democrats who want to limit his influence find themselves arguing for states' rights, long a conservative rallying cry. The president wants to "kill" congestion pricing in New York, and release more water from California's reservoirs to farmers. But the best example of this fight over state sovereignty and the particulars of American federalism comes from local sanctuary policies and the backlash against them.

The sanctuary movement began in the 1980s, when churches near the southern border offered shelter to people fleeing brutal regimes in Central America propped up by the American government. That act of civil disobedience evolved into municipal policy when cities adopted sanctuary ordinances, limiting their co-operation with immigration authorities. These measures proliferated during Barack Obama's presidency as a protest against a policy that increased information-sharing between local law officers and Immigration and Customs Enforcement (ICE), which carries out deportations. Mr Trump's animus towards immigrants during his first term supercharged the movement. Eleven states have sanctuary laws on the books.

Sanctuary laws can prevent cops and jails from co-operating with ICE, stop police from asking about someone's immigration status or provide legal aid and benefits to unauthorised immigrants. None of these measures prevent ICE from operating independently in Democratic states. But because the agency depends on local law officers to voluntarily hand over migrants, such laws can reduce deportations. This is the reason for Mr Trump's ire: carrying out mass deportations gets tricker when the leaders of big diverse states say no thank you. As of 2022 about half of America's 11m undocumented immigrants lived in Democrat-run states; and at least 5m live in "trifecta" states where Democrats control both the legislature and the governor's mansion (see map).



Mr Trump's attempts to withhold Department of Justice (DOJ) funding from sanctuary jurisdictions during his first term failed because the Tenth Amendment "prevents the federal government from forcing, commanding, coercing their co-operation", says Pratheepan Gulasekaram, a law professor at the University of Colorado, Boulder. That has not stopped Mr Trump from trying again. Pam Bondi, his attorney-general, issued a directive threatening to withhold DOJ funds from sanctuary jurisdictions and prosecute local governments for resisting federal immigration operations. Ms Bondi's first targets were Illinois and New York. "If you are a state not complying with federal law, you're next, get ready," she said in a press conference. San Francisco has already sued the administration on Tenth Amendment grounds.

Although the federal government has so far failed to crack down on local sanctuary policies and the officials who enact them, Republican-run states—home to at least 5.2m unauthorised immigrants—are succeeding. There is no Tenth Amendment equivalent for cities and counties, which are considered "creatures of the state", a definition that leaves little room for legal autonomy. Bill Miller, a Republican strategist in Austin, says that Texas's governor, lieutenant-governor and attorney-general chose not to take cabinet jobs because they reckon they can wield more power at home. "The federal government is taking their cues from Texas," he adds.

Anti-sanctuary bills, which are multiplying in Republican states, fall into two categories. The first set bans sanctuary laws and comes with penalties for non-compliance. Last year Georgia passed a law that revokes state funds from sanctuary cities, and Louisiana ensured that the state's top lawyer can sue them. A new law in Tennessee makes voting for a sanctuary-style policy a felony punishable by up to six years in prison. Chris Carr, Georgia's attorney-general, who is running for governor, argues that more progressive cities like Athens and Savannah that try to thwart the state's immigration agenda "undermine the rule of law".

The second set mandates that cities must co-operate with state and federal raids. Several states want to force law-enforcement agencies into a hitherto voluntary ICE programme that deputises police to act as immigration agents. A bill in Florida, the state with the third-biggest unauthorised immigrant population, would make illegal entry a state crime and allocates $250m for local sheriffs to enforce immigration rules.

The states' justifications for these laws are largely untested, and cities may soon sue. Their strongest case will probably be against state laws that limit their free speech and democratic process, says Rick Su of the University of North Carolina. Cities may also succeed in arguing that by forcing them to do immigration enforcement, states are mandating extra work without pay. Eric Johnson, Dallas's Republican mayor, says that although his city is prepared to "do what we are asked", he does not want to raise taxes to "take on new responsibilities". The sheriff of Orleans Parish, Louisiana, says she does not have the funds to detain immigrants for as long as ICE wants her to.

Republican cities in Democratic states are equally unhappy. Huntington Beach argues that its city charter makes it less a creature of California than its own sovereign entity. But Mr Gates is not sticking around to see how his lawsuit pans out. He is heading to Washington, DC to work for Ms Bondi, where his remit may include cracking down on sanctuary cities. He admits that "It's probably a good fit."■

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United States | Dodgy politics

Donald Trump and the art of the quid pro quo

The president likes to kneecap prosecutions of his friends

February 12th 2025



Corruption in politics is occasionally clear-cut: think wads of cash handed over in a briefcase. More often it is blurry; trading favours is part of politics. This week New Yorkers were treated to an unsolicited lesson in the squishy concepts of quid and quo courtesy of their mayor and their president.

On February 10th the Department of Justice (DOJ) dismissed an indictment against Eric Adams, New York's mayor. Three days later he was set to meet Tom Homan, Mr Trump's border czar, to talk up joint work on immigration enforcement. Mr Homan said he foresees a "great agreement". Mr Adams's eagerness to co-operate with the feds differentiates him from practically every other high-profile Democrat across the country.

Mr Adams has been currying favour with Mr Trump ever since he was indicted in September. He paid tribute at the president's Florida estate and at the inauguration. Some called this grovelling. Others saw it as shrewd participation in the transactional politics so extravagantly practiced by Mr Trump. It paid. Mr Adams has been spared a trial, previously set for April, over allegations that he took bribes from a Turkish official. These included free flights on Turkish Airlines and discounted stays at the Istanbul St Regis. Prosecutors alleged that in return he fixed a fire inspection at the Turkish consulate in New York. He denied all wrongdoing.

In its memo to shelve the charges, the DOJ cited matters of politics, not law. It said that fighting the case would distract Mr Adams from immigration enforcement and from campaigning for re-election ahead of the mayoral primary in June. The indictment can always be revived—pointedly, the DOJ said nothing about the merits of the evidence—giving Mr Trump leverage over Mr Adams until his term ends next year. Al Sharpton, a fixture of city politics, called Mr Adams a "hostage".

As far as corruption allegations go, those against Mr Adams were small-bore. What makes the saga striking is the Trump administration's transparent use of prosecutorial power to turn Mr Adams into an ally or, more cynically, a client, says Jacob Eisler of Florida State University. The notion that politics should stay out of law enforcement—an aspiration since Watergate—seems dead and buried. This tension was present (though rarely so public) during Mr Trump's first administration. During Joe Biden's presidency it was explicit, in the prosecutions of Mr Trump and the pre-emptive pardons of Liz Cheney, Mark Milley and others.

Mr Trump's impulse to harness law enforcement for political ends manifests in two ways. He has often threatened to go after his political enemies for what he calls their corruption; meanwhile he has undercut prosecutions of his friends and allies. In his first term he granted clemency to seven former Republican congressmen convicted of various forms of self-dealing. This week he pardoned Rod Blagojevich, a former Democratic governor of Illinois who appeared on his reality-TV show. Mr Blagojevich went to prison for trying to sell a Senate seat. He was caught on tape calling it "fucking golden". Mr Trump released him in 2020. Mr Blagojevich now calls the president a "great effing guy".

If Mr Trump meant to telegraph a more permissive approach to graft this week, it was not just at home. He also ordered a six-month pause on enforcement of the Foreign Corrupt Practices Act (FCPA), a law that makes it illegal for businesses to bribe foreign officials. His executive order called bribes "routine business practices in other nations". The implication seems to be that American firms should have licence to bribe too. It names "critical minerals" and "deep-water ports" as assets that American firms lose out on by being too persnickety about graft. If and when the DOJ resumes FCPA enforcement, it may focus on pay-offs to cartels and organised crime; these are a preoccupation for Mr Trump.

What to make of Mr Trump's moves? Firms will not give up on FCPA compliance en masse; the statute of limitations for a bribe paid today will outrun his presidency. As for corruption at home, pursuing it may fall increasingly to prosecutors in state courts rather than federal ones. And to voters. In a few months New Yorkers will deliver their verdict on Mr Adams. He polls in the single digits among Democrats. ■

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United States | Plane to see

Inside the world's most famous aeroplane boneyard

What are 3,200 military aircraft doing in the Arizona desert?

February 11th 2025



FOR INFANTRY and armoured cavalry, target practice is relatively straightforward. Load up on training rounds and aim for paper bullseyes, plywood cutouts or life-size models of enemy vehicles. Air-defence forces have a trickier time. Despite the exception of the occasional Chinese spy balloon, the skies do not offer a wealth of objects to shoot at.

One solution comes from the armed forces' own fighter jets. Since 2010 Boeing has converted retired F-16 fighter jets into unmanned QF-16s (the Q designates a drone). They are easily identified by their orange tails. The Air Force uses them as chase planes or shoots missiles by—but not at—them. After some 300 hours of being chased and shot at, they end their service

lives as targets over the Gulf of Mexico, where they are shot down with live ordnance. The debris ends up as an artificial reef at the bottom of the sea.

The source of the converted F-16s is the 309th Aerospace Maintenance and Regeneration Group, or AMARG, at the Davis-Monthan air-force base in Tucson, where the Department of Defence and some civilian agencies such as NASA and the Department of Agriculture store surplus aircraft. It is better known simply as "the Boneyard". AMARG is a perpetual source of fascination on internet forums frequented by aviation nerds, who pore over satellite imagery of the 3,200-odd aircraft of 75 different types scattered over 2,600 acres of desert. AMARG describes itself as "America's National Airpower Reservoir".

The reservoir is topped up and drawn down as needed. In 2021, as America hastily withdrew from Afghanistan, many Russian-built Mi-17 helicopters purchased for the Afghan armed forces happened to be at maintenance sites abroad. With no question of sending them to the Taliban, they were transferred to AMARG and put into storage. After Russia invaded Ukraine the following year, Joe Biden included the helicopters in an $800m military-aid package to Ukraine. They still bear their desert camouflage, albeit with blue-and-yellow stripes painted on the sides.

In the imagination of the public, the Boneyard is where ex-service planes go to decay. In practice, AMARG is a temporary storage site, a source for spare parts and a "regeneration" facility, where stored planes are made fit to fly again. "Nothing that you see out here is junk," says Robert Raine, AMARG's spokesman. Even what is obviously junk—a bunch of decaying B-52 bombers with their wings and tails chopped off—is there for a reason. They are kept in that state so that Russian spy satellites can verify America's compliance with the Strategic Arms Reduction Treaty.

Whole-aircraft transfers such as those to Ukraine (or other allied countries) are less common than the reclamation of parts from stored aircraft for use on serving fighters, bombers, transport carriers and others. The parts could be anything from engine components to entire horizontal stabilisers (those are fins at the back of a plane, jutting out sideways underneath the tailfin). Mechanics—whom AMARG calls "artisans"—go out into the desert, locate the part, extract it, and bring it to a warehouse where it is cleaned, checked,

packaged and shipped. The reservoir can process up to 30 such requests every day. AMARG sent out thousands of parts during Operations Desert Shield, Desert Storm, Iraqi Freedom and Enduring Freedom.

Once an aircraft has been stripped of its usable parts, its owner—the Air Force, Forest Services and others—usually asks AMARG to get rid of it. The first step is to pull off anything classified and to "demilitarise" the plane. Hazardous bits such as hydraulic fluid, materials like asbestos, and explosives like those in the ejection seat system are all removed. So are composite materials. Contractors then take over, running what's left through a shredder, twice. The ex-plane emerges on the other side in pieces about half a centimetre in length. "This stuff is high quality aluminium. It becomes, at a minimum, car parts," says Mr Raine. Other metals, such as titanium, are also reused. "You get a lot of golf clubs out of a wing box on an F-14."■

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United States | Foreign aid

What happened next at USAID

A textbook case of how not to cut wasteful government spending

February 13th 2025



ON JANUARY 28th the secretary of state, Marco Rubio, issued an "emergency humanitarian waiver" to exempt life-saving aid from Donald Trump's freeze on all foreign assistance. Two weeks later, in Malawi, a country of 20m in southern Africa that is the world's seventh-poorest by GDP per person, most local charities have stopped working and about 5,000 people—many of them health workers—have lost their jobs, says Mazisayko Matemba of the Health and Rights Education Programme, an NGO. "We expect more people to get infections and start dying."

From South Africa to Afghanistan, the picture is similar. Mr Rubio issued two edicts that sought to rescue PEPFAR, a successful anti-AIDS initiative, as well as other "core life-saving" medical, food and shelter programmes from Elon

Musk's demolition crew at the Department of Government Efficiency (DOGE). Mr Musk has rapidly dismantled USAID, but DOGE tore apart foreign aid systems so quickly—closing offices, firing thousands of contractors, freezing bank accounts—that Mr Rubio's waivers have so far proved meaningless, say aid workers in multiple countries. "Even when a waiver has been issued, there's no way to execute it because the payment system has been broken," says Kate Almquist Knopf, a former USAID Africa director based in Nairobi.

In Malawi, the antiretroviral drugs PEPFAR pays for are one of the major reasons why life expectancy has risen from 45 in 2000 to 63 in 2022. In South Africa, the $440m America spends every year fighting HIV and TB in the country accounts for about 17% of the government's budget for tackling the diseases. Jeremy Nel, who runs one of the biggest HIV clinics in South Africa, in Johannesburg, says the staff in the hospital who were funded by PEPFAR were told on January 27th they could not come to work. They are still waiting for instruction from USAID, "but it is unclear whether USAID even exists anymore," he says. "The number one problem has been the abruptness of the transition."

Francois Venter, who runs a health NGO in the same city, points out that HIV programmes cannot be stopped and started "at the drop of a hat". Charities don't have financial reserves or access to loans; they need to know that the invoices they send will be reimbursed. The disruption in recent weeks "won't cause death overnight but what it will do is set our progress back years," says a doctor who until recently was funded via PEPFAR.

Mr Rubio has sounded defensive about the rapid and performatively cruel way that USAID has been dismantled. Initially, he blamed USAID staff for not co-operating. On February 10th, Mr Rubio conceded that there had been "some hiccups about how to restart the payment programmes, but all that's going to get taken care of here very quickly." PEPFAR and other lifesaving programmes "will continue", he added, but he warned that PEPFAR is likely to shrink.

In the meantime, local and international charities face insolvency. A few large commercial and non-profit groups with diversified revenue may survive, executives in the sector say, but the business model for many charities reliant on USAID contracts is largely cash-in, cash-out, with little scope to build up reserves or borrowing power. When DOGE stopped payments, it cut

off $750m to $1bn in money owed to contractors for work already completed, one executive estimates.

Across Africa, aid workers are parsing just how life-saving a programme must be to qualify for the Trump administration's backing. Direct food aid may be allowed, but how about cash vouchers to buy food in the market? Medicine to fight HIV may be allowed, but how about education programmes to stop transmissions? Does the provision of seeds to villagers who will starve if they don't plant before the next wet season count as life-saving? In Washington, there is no one to answer the phone and sort out such questions, aid officials say. "This was done so ignorantly, without an understanding of what's required at both ends of the implementing chain," says Nathaniel Raymond, executive director of the Humanitarian Research Lab at Yale University's School of Public Health.

Mr Rubio, a supporter of PEPFAR and other foreign aid during his Senate career, may yet have a chance to repair some of the damage he has overseen. But Mr Trump has offered his top diplomat little cover to do so and appears more impressed by Mr Musk's claim that foreign aid is essentially a corrupt racket. ■

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United States | America’s payment system

Elon Musk has been pushed out of the Treasury

But court filings reveal quite how deep DOGE got

February 13th 2025



As admissions go, it was an uncomfortable one. In one of several affidavits filed on the night of February 11th, Joseph Gioeli, a Treasury official in charge of technology at the Bureau of the Fiscal Service, said that Marko Elez, a former Twitter engineer associated with Elon Musk’s Department of Government Efficiency (DOGE) had in fact had the ability to write code into the bureau’s sensitive payment systems. Mr Elez’s computer, Mr Gioeli testified, had “mistakenly been configured with read/write permissions” on one system. This came after officials insisted to Congress and to journalists that DOGE’s access was “read only.”

This was revealed in a lawsuit filed by the attorneys-general of various Democratic-led states, seeking to keep Mr Musk and his team out of the

Treasury's payment system. On February 8th a judge issued a court order that no political appointees should have access to the payment system, and that any copies of data they might have downloaded from it should be destroyed (this was later amended to allow Senate-confirmed officials access).

The court order—should it stand, and assuming it is adhered to—has suspended for now a saga that has gripped Washington for the past two weeks. That is, the question of what exactly has Elon Musk and DOGE been getting up to inside one of America's most sensitive computer systems. The drama broke into the open on the morning of January 31st, when David Lebryk, the bureau's long-standing boss and a career civil servant, suddenly resigned. As *The Economist* previously reported, Mr Lebryk often told staff members that if the bureau was in the news, the country was in serious trouble.

Mr Lebryk's departure seems to have been sparked by a demand from Tom Krause, a software executive close to Mr Musk. Mr Krause ordered Treasury officials to halt payments made by the US Agency for International Development (USAID), according to emails obtained by the *New York Times*. Mr Lebryk refused, arguing that the Treasury's job is not to refuse payments—only agencies can do that. He was put on leave, and then resigned. In the days after, USAID was all but shut down, though a legal battle over the status of many of its staff continues.

The Bureau of the Fiscal Service makes the vast majority of federal payments, worth almost a fifth of America's GDP. Its system contains the bank details, Social Security numbers and tax identifications of almost every individual and organisation ever paid money by the federal government. Its access by political officials really has only one precedent: that of Richard Nixon's use of Internal Revenue Service data to target people on the president's "enemies list". Not only that, the system has been built over decades on top of a 1960s "COBOL" mainframe. Hasty messing around with its code could produce damaging errors that would be difficult to fix.

Treasury insiders feared that Mr Krause, who retains his job as CEO of Cloud Software Group, a big contractor, and Mr Elez were trying to find a way to shut down payments directly. In the days after Mr Lebryk resigned, Mr

Musk repeatedly suggested on X, his social-media platform, that his team was doing exactly this. Treasury officers "literally never denied a payment in their entire career", he tweeted.

The affidavits—by career civil servants under oath, not political officials—do suggest that Mr Elez did not succeed in directly blocking payments using the Treasury's system. Or at least, this hasn't been discovered yet. Instead they suggest Mr Elez was working to develop a way to automatically identify USAID payments and flag them, so that they could be blocked upstream. The court submissions do not yet shed light on what may have happened to many payments to contractors not associated with USAID that remained stalled, in defiance of two different court orders.

Yet even assuming the code-writing privilege really was an accident, the extent of access given to Mr Elez does suggest something serious was afoot. And the frustration of the project has sparked MAGA outrage. On February 6th Mr Elez resigned after the *Wall Street Journal* revealed he had previously posted a string of racist comments on social media. Mr Musk and J.D. Vance, the vice-president, immediately demanded he be reinstated. After the court ruling, Mr Musk called for the judge to be impeached, while Mr Vance suggested the government could defy his order.

Judge not

Appearing in the Oval Office with Mr Musk on February 11th, Donald Trump criticised the judge, but said he would comply with the ruling. The affidavits say that Mr Elez's laptop was returned when he resigned, and that it had been fitted out with software intended to stop him from extracting any data he might have accessed. Since resigning, he has not yet resurfaced. Unless Scott Bessent, the treasury secretary, intends on doing a lot of coding himself, that suggests it will now be difficult for DOGE to get back in.

Yet fears about DOGE more generally seem unlikely to subside. Even as the court fight over the Treasury gathered pace, other young engineers were going into the Consumer Finance Protection Bureau, where they were also given complete "root" access over the data systems. This too includes access

to sensitive information, such as the details of enforcement actions. The Treasury should resume paying its bills, but DOGE is not done yet. ■

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United States | The Treasury

What is Elon Musk getting up to with America's payment system?

Nobody is sure, many are worried

February 9th 2025



ON THE MORNING of January 28th April Mullins-Datko, the director of ADVOCAP, a social-services provider in Fond Du Lac, a city of 40,000 people in Wisconsin, put in her usual request to draw down $250,000 to pay staff salaries and other expenses connected with Head Start, a federal programme that provides child care, education and food to families on low incomes. Every other time ADVOCAP has done this the money has arrived within 48 hours.

This time it did not. As of February 9th ADVOCAP has received just $44,000 of the $250,000 they were expecting. To pay their workers, they have had to use bank credit. If the money does not materialise soon, they will have to begin

laying off staff and shutting down their Head Start programme. The result will be 202 children without services and 80 staff members without jobs.

ADVOCAP appears to be a victim of Donald Trump's seizure of the federal government's payment systems. Its money should not be missing, according to the White House. A memo that froze much government funding, issued late on January 27th, was quickly rescinded after an outcry and a court ruling. Yet ADVOCAP's money has not turned up and nobody seems able to explain why.

Ms Mullins-Datko says she has been calling anyone she can, but "they're not responding. I've heard nothing from them." She has received only one insight: "I called the Office of Head Start central office in DC and they said, 'Oh, we're sorry. This isn't an Office of Head Start problem. This is a Treasury Department issue.'" Guidance sent to NGOs by the National Head Start Association, which represents service providers, confirms they too have been told that the problem is with the Treasury.

That clue connects ADVOCAP's glitch to a bigger question that has roiled Washington over the past week: Exactly what has Elon Musk's "Department of Government Efficiency", or DOGE, been doing inside the Bureau of the Fiscal Service, a once-obscure but sensitive area of the Treasury? This is the part of the government responsible for paying out roughly 80% of the nearly $7trn that the government spends each year.

The drama broke into the open on the morning of January 31st, when David Lebryk, the bureau's longstanding boss and a career civil servant, suddenly resigned. Until then, the bureau was among the most anonymous of federal offices. According to Don Hammond, a former official there, Mr Lebryk often told staff members that if the bureau is in the news, the country is in serious trouble. Ever since he stepped aside, it has been in the news an awful lot.

A few days after Mr Trump took office, Tom Krause, a software executive now working with DOGE, ordered Treasury officials to halt payments made by the US Agency for International Development (USAID), according to emails obtained by the *New York Times*. USAID has subsequently been all but shut down. In the emails, Mr Lebryk argued that refusing payments was not the

Treasury's legal or technical role--only agencies (like USAID) can do that. He was put on leave and subsequently resigned. His defenestration has sparked something close to panic among seasoned government watchers and career civil servants about what DOGE might be doing.

What is clear is that allies of Mr Musk, including Mr Krause, and also a 25-year-old former Twitter engineer, Marko Elez, have been given access to the bureau's payment system, under the orders of Scott Bessent, Mr Trump's new Treasury secretary. They may have asserted the authority to write new code into it, although politically-appointed officials deny that. Nobody disputes that they have acquired the ability to read details of some of the most sensitive data the government holds, including the bank details, social security numbers and tax identifications of essentially every individual and organisation ever paid money by the federal government. In the past only non-partisan career civil servants have had access to this information. Mr Krause not only is partisan, he retains his previous job, as CEO of Cloud Software Group, a tech-services company.

What could they have done? Contradicting the Treasury's own spokesperson, Mr Musk has repeatedly suggested on X, his social-media platform, that his team are shutting down payments to government contractors directly. He claims to be fighting corruption. Before DOGE came in, Treasury officers "literally never denied a payment in their entire career", he scoffed. If they are blocking payments, it could violate two court orders. Yet Treasury insiders are concerned that DOGE officials may have found ways to implant code that could delay payments to recipients while hiding that from career civil servants.

Another possibility is that DOGE could be asserting authority over a system, Do Not Pay (DNP), designed to prevent bad payments by automatically freezing out accounts known to belong to dead people, tax delinquents and recipients out of compliance with federal rules. The firing of 17 inspectors-general, one of Mr Trump's first acts in office, might facilitate this, since they have oversight of the DNP system.

Even if Mr Musk's claims that he is blocking payments are nonsense, the system is vulnerable to accidents caused by tinkering. Programmes like these have been built up over decades, literally on top of 1960s "COBOL"

mainframes, says Mikey Dickerson, a former head of the United States Digital Service. “No living person understands more than a small piece of it.” Small changes made without extensive testing can produce catastrophic errors.

The Treasury says Mr Musk’s team has been limited to “read-only” access. Yet Mr Musk says he is issuing instructions to others. These could impinge on several privacy laws. And the payment system could be used against political opponents in a devastating fashion, by cutting transfers to unfavoured organisations. There is only one real precedent for political appointees going into these sorts of federal systems, some older officials note. That was when Richard Nixon’s team used Internal Revenue Service records to work out how to target people on the president’s “enemies list”.

On February 8th a federal judge in New York, citing a risk of “irreparable harm”, stopped DOGE temporarily from gaining access to the payment system, and ordered that any data retrieved be destroyed. But Treasury workers fear that this order will simply be ignored. Mr Musk’s response was to call the judge “a corrupt judge protecting corruption” and to call for him to be impeached. J.D. Vance, the vice-president, retweeted a claim that the order amounted to “judicial interference”.

For ADVOCAP, the consequences are already serious. Ms Mullins-Datko says her employees are worried that they may not get their next pay cheques, and some have been looking for other jobs. The money ADVOCAP is owed, she stresses, is for work already done, and she has a five-year contract to continue providing services. The terms of this contract include extensive auditing to prevent any fraud or misuse of funds. “The government is in breach of contract,” she says. ■

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United States | Lexington

How Bob Dylan broke free

The biopic "A Complete Unknown" tells only part of the story

February 13th 2025



"Bob Dylan didn't have this to sing about/You know it feels good to be alive." So sang the band Jesus Jones in 1990 in "Right Here, Right Now", an anthem about the liberation of eastern Europe. It's a lovely line, but of course it's wrong about Mr Dylan. In 1990 he wasn't even at the midpoint of his glorious career; you can buy tickets now for his Rough and Rowdy Ways Worldwide Tour this year. He *did* have the fall of the Berlin Wall to sing about. He just didn't do it.

Not to pick on Jesus Jones—it's a great song—but the implication that Mr Dylan would have sung about the end of the cold war speaks to an enduring disappointment, or wistfulness, that he does not lend his genius and influence to great political causes. His early protest music created that

appetite, at least on the left, and it has been whetted anew in every subsequent generation by reverential singalongs of "Blowin' in the Wind" in elementary-school music classes and undergraduate sit-ins.

But Mr Dylan veered away from politics early in his career. That choice is downplayed in the diverting biopic "A Complete Unknown", a contender for top honours at the Oscars next month. The film focuses instead on the musical choice Mr Dylan made around the same time, to disappoint the mandarins of folk music by exchanging his acoustic guitar for an electric guitar and backing band at the Newport Folk Festival in 1965. It's too bad the film couldn't explore his motives for both choices. The musical one mattered more, but at least in retrospect it seems like a no-brainer, and the political choice has more relevance to our own time.

Mashing fact and fiction, discarding some influences on Mr Dylan and inventing or exaggerating others, the film identifies him with left-wing causes and coyly leaves things there. After he arrives in Greenwich Village, a new girlfriend urges him to read a leftist writer and takes him to a civil-rights demonstration. Mr Dylan's guitar acquires a sticker reading "This machine kills fascists" (though the only authorities he winds up confronting, folk purists such as Pete Seeger, are surely the gentlest fascists imaginable). As the Cuban missile crisis reaches a terrifying climax we see him before a small audience in a subterranean Village bar, belting out "Masters of War", that didactic tirade.

For Lexington's money, one of the film's most moving scenes is when Mr Dylan performs "The Times They are a-Changin'", supposedly for the first time, before a young audience that almost immediately begins to sing along with the refrain, in bright sunshine at the Newport Folk Festival in 1964. That scene and others capture the ways Mr Dylan spoke to his moment and, by restoring his music to its context, they summon its urgency and power, which a wireless speaker in a contemporary living room tends to dissipate.

By 1964 the real Bob Dylan was turning away from activism. That year he told a writer from the *New Yorker*, Nat Hentoff, that he was done with "finger-pointing songs". He didn't want to be a spokesman for anyone, and he was "never going to have anything to do with any political organisation again in my life". That was also the year Mr Dylan released "My Back

Pages", with its declaration that "I'd become my enemy/In the instant that I preach", and its mocking, uplifting refrain looking back at more righteous days: "I was so much older then/I'm younger than that now".

What had happened? There is no reason to suspect Mr Dylan of the "Republicans buy sneakers too" calculation that Michael Jordan once said kept him out of politics. With his fierce curiosity and magpie ways, Mr Dylan has always prized the particular, not the mass, as well as his freedom from the loyalties or obligations beyond personal principles that he saw as constraining so many Americans. "I can't tell them how to change things," he told Hentoff, "because there's only one way to change things, and that's to cut yourself off from all the chains. That's hard for most people to do." Years later, in the first volume of his autobiography, Mr Dylan would reveal that his favourite politician in the early 1960s was Senator Barry Goldwater of Arizona, a right-winger who declared, when he ran as the Republican nominee for president in 1964, "Extremism in defence of liberty is no vice." Just as, even after Mr Dylan went electric, his music would remain rooted in the American folk tradition, so did his personal politics grow from old American ideals, of self-reliance and self-creation.

Don't need a weatherman

The political stakes seemed high enough in the America of the 1960s. In today's hyperpolitical era, when social media has granted audiences new power and sharpened their tribal edges, artists seem to feel even more tempted or compelled to offer themselves as leaders, or political "influencers". For the most famous to opt out can bring a hail of abuse, as Taylor Swift discovered when she failed to endorse Hillary Clinton in 2016. Mr Dylan is more out of step than ever. One appraisal of "A Complete Unknown" in the *New York Times* zeroed in on Mr Dylan's real-life "baffling neutrality", noting that that attitude "most likely leaves you poorly suited to contributing to collective action".

Surely that is the point. Mr Dylan felt sick, he once wrote, to witness his "meanings subverted into polemics". His lyrics challenge listeners not to march together but to derive meaning for themselves. It is not hard to imagine a thoughtful musician, alone on a stage, staring out at a sea of faces

chanting his words while he holds a machine that supposedly kills fascists, and feeling not just a thrill at his success but a stab of revulsion, even fear, at his power. He might wonder why his fans so clearly yearned for someone strong to defend them, whether they were right or wrong. Under those circumstances, it would seem not a nihilistic but an exemplary choice, a potentially enlightening one, to decide that that just wasn't going to be him, babe. ■

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The Americas

- Most Latin American migrants no longer go to the United States
- Guatemala is grappling with a globetrotting Jewish “cult”
- Javier Milei’s liberal reforms are hurting yerba mate growers

The Americas | Migration

Most Latin American migrants no longer go to the United States

Can the region cope with a new wave?

February 13th 2025



Esther Hernández fled Venezuela to Colombia in 2017 with her husband, three daughters and a sewing machine. Her voice cracks as she recalls sleeping in a shelter, cooking on an open fire and at times going hungry. Her husband left for Chile in 2018, desperate for work. He eventually got a construction job in Puerto Montt, some 8,000km (5,000 miles) away. Ms Hernández built up a sewing business. Saving furiously, and with regularised legal status in Colombia, the family eventually bought land in El Zulia, a small village near the Venezuelan border. Brick by brick she built a house there. Now, after six years away, her husband is coming home at last. “I am a Zuliana now,” she smiles.

If you listen to American politicians you might think that every migrant in Latin America is heading for the United States. In the past most did, but not any more. The Hernández family, rather than those who make for the United States, is now typical of Latin American migrants. Between 2015 and 2022 the number of intra-regional migrants in Latin America and the Caribbean soared by nearly 7m to almost 13m. Over the same period the number of migrants from the region living in the United States increased by just 1m.



The Economist

Most of those migrants are Venezuelans fleeing dictatorship and economic chaos. Some 8m now live outside Venezuela, 85% of those in Latin America and the Caribbean. They are joined by Nicaraguans, also ditching dictatorship, who tend to make for Costa Rica. Haitians, escaping the horror of their gang-run state, also tend to settle in Latin America and the Caribbean, particularly in the Dominican Republic and Chile.

With a 2,200km border with Venezuela, Colombia is on the front line. Some 2.8m Venezuelans live there, one in every 20 people in Colombia. The country has been remarkably welcoming. In 2017 it opened the first of a series of schemes giving some Venezuelans access to health care and education, and the right to work, for two years. In 2021 it went further, guaranteeing Venezuelans who had arrived before February that year most of the rights enjoyed by Colombians, even if they had entered the country

irregularly. This scheme lasts for a decade, and provides a path to permanent residency and citizenship. Almost 2m Venezuelans, including Ms Hernández, have already received their new identity card under this scheme. Some 350,000 more applications are being processed.

This warm welcome can be seen at the Centro Abrazar (roughly, hugging centre) in Bogotá, a kindergarten-cum-migrant-centre funded by the city's government. Mere days after long, scary journeys, dozens of Venezuelan children twirl and sing, wearing paper sashes decorated in crayon with their favourite word about themselves ("happy", "beautiful", "brave"). The centre is free, open every day of the year and, crucially, helps new arrivals quickly get their papers in order and their children registered in Bogotá's school system.

A nativist might expect such a welcome to lead to severe economic disruption. Yet migrants did not push up unemployment among local workers, even in Colombia. The wages of less-educated and informal workers did fall in Brazil, Colombia and Ecuador, but the decrease was usually small and temporary. The IMF estimates that since 2017, Venezuelan migrants have increased annual GDP growth by an average of 0.1 percentage points in receiving countries like Panama, and by 0.2 in Colombia, a boost which will last until 2030.

Hospitals and schools feel the strain, nowhere more so than in Colombia. In 2019 the country spent 0.5% of its GDP looking after migrants, according to the IMF. Spending has declined since then to around 0.3% of GDP. The IMF says the costs will be balanced over time by rising tax revenues as more migrants enter the labour force. Quick regularisation is helpful, as it brings down health-care costs as well as boosting the tax take.

Many Latin Americans, especially Chileans, think migrants bring crime. A study by Nicolás Ajzenman of McGill University and co-authors, which examined data from between 2008 and 2017, found that when the proportion of migrants in a given part of Chile doubles, the share of people there who say crime is either their biggest or second-biggest concern jumps by 19 percentage points, relative to the nationwide mean of 36%. But they found no impact on crime of any sort. Colombia saw an increase in violent crime

near the border in 2016, when migration was surging, but the victims tended to be Venezuelan, suggesting it is migrants who bear the risks.

Still, crime has risen overall in Chile in recent years. Politicians blame migrants. The influx of black Haitians also "triggered much more evident racism", says Ignacio Eissmann of the Jesuit Migrant Service in Chile, an NGO. Attitudes are hardening elsewhere, too. Between 2020 and 2023 the share of Costa Ricans who say migrants damage the country jumped by 15 percentage points to 65%. In Peru and Ecuador four in five people believe the same.

Governments—most of which were welcoming initially—are reaching their limits. From 2018 Chile demanded that Venezuelans and Haitians must get a visa before coming. Peru and Ecuador started demanding the same of Venezuelans in 2019. It is now nearly impossible for Venezuelans to get a visa at home; after Nicolás Maduro stole the election in July, all three countries closed their embassies there. Chile's leftist president, Gabriel Boric, says the country cannot take more migrants. Regularisation has stopped, and he is pushing to widen deportation powers. Peru's government has made it much harder for migrants to regularise their status. In theory migrant children can attend school regardless. In practice the missing paperwork often blocks them.

Brazil and Colombia remain relatively generous. Carlos Fernando Galán, the mayor of Bogotá, says political leaders have a responsibility "to ensure there is not more xenophobia, to show the benefits that migration can bring". Yet angry voices are growing louder. Almost 70% of Colombians think that migrants cause an increase in crime. That may be why Gustavo Petro, Colombia's president, has been slow to introduce new regularisation schemes for recent Venezuelan arrivals. (He recently announced a scheme so restrictive that few will benefit.) "The central government has gone backwards," sighs Gaby Arellano of the Together We Can Foundation, an NGO which helps Venezuelans.

Mr Maduro's rule in Venezuela is becoming more despotic. Arrivals to Colombia have increased since July 2024, though official numbers are unreliable. The border is riddled with *trochas* (illegal crossings); at official crossings people are often waved through without a document check.

Some say the Maduro regime's persistence makes little difference to migration. "Whoever comes will be manageable," says Jorge Acevedo, mayor of the border town of Cúcuta. His words reflect Colombia's welcoming spirit, but his city is now dealing with an influx of Colombians displaced by violence in the nearby region of Catatumbo. More Venezuelans could break a strained system.

Whoever comes, Colombia, Peru and the region, not the United States, will again feel the biggest impact. ■

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The Americas | Showdown

Guatemala is grappling with a globetrotting Jewish “cult”

The government is holding about 140 children that it seized from the Lev Tahor sect

February 8th 2025



Officials in Guatemala are dealing with a strange situation. They have seized about 140 children from Lev Tahor, a fringe Jewish sect that has long faced charges of child abuse. The group claims merely to be strictly Orthodox, but in reality resembles a personality cult; former members have claimed that core Jewish texts are not studied, just the writings of its deceased founder, Shlomo Helbrans. The sect has been wandering the world since Helbrans founded it in Israel in the late 1980s. Most of its members are citizens of Canada, the United States, Guatemala or Israel. The seizure of children in Guatemala is Lev Tahor’s most dramatic encounter yet with state power, and has thrown the sect’s future into question.

Outside a children's shelter in Guatemala City Lev Tahor mothers, wearing garments resembling burqas, lie on the street in protest. "We are just victims," says a Lev Tahor woman in her 20s, who claims that officials took her breastfeeding baby.

Nancy Lorena Paiz, who heads the anti-human-trafficking unit of the Guatemalan prosecutors' office, maintains otherwise. She says the parents knew about the alleged abuse, which includes the marriage of girls as young as 12, forced pregnancy and physical punishment. "They didn't protect their children," says Ms Paiz.

For years, officials all over the world have fielded complaints about Lev Tahor ("Pure Heart"). The sect is thought to have 300 members and has been called a cult by Israel's government. Several of its leaders are in prison in the United States. On December 20th, after four Lev Tahor children came forward with testimony, Guatemalan police raided the sect's compound in a rural area a two-hour drive from Guatemala City, and took the rest of the children to a shelter. Authorities have arrested several Lev Tahor men for human trafficking.

Up to now, Lev Tahor has mostly managed to dodge child-protection agencies. Helbrans (who died in 2017) left Israel shortly after founding the sect. His adherents followed him to New York in the 1990s and in the 2000s to Canada, where child-welfare authorities eventually investigated the community. Lev Tahor fled to Guatemala in 2014, and around early 2022 some families crossed over into Mexico. A police raid there took several children into custody, but, aided by Lev Tahor adults, they overpowered guards and escaped.

Guatemalan officials avoided similar embarrassment. Two days after the raid in December, officials in the shelter heard a commotion. The children had escaped, but they were soon caught and returned.

Mothers were initially allowed inside the shelter, but after they refused to identify themselves or their children a judge ordered their separation. Julio Saavedra, the government's most senior legal adviser, says there was a "credible threat" of mass suicide. Marvin Rabanales, Guatemala's social-welfare secretary, acknowledges that family separations are traumatic. Sixty-

five of the children are between two and nine years old; 15 are younger than two. Mothers of the infants must get permission from a judge to breastfeed. Officials have identified many of the children. Several have been reunited with parents who have left Lev Tahor.

Lev Tahor says it is a victim of religious persecution—driven by Israel—due to its rejection of Zionism. “Their decision is to destroy the community,” says Uriel Goldman, a sect spokesperson. He says former members are bribed to speak ill of it.

Hasidic Jews have condemned Lev Tahor. A delegation of rabbis, led by David Weis, a prominent rabbi from Antwerp (who belongs to the Hasidic Satmar group, which is also anti-Zionist), recently visited Guatemala. They met members of Lev Tahor, which one rabbi had labelled a “terrorist cult”, and praised the Guatemalan officials for their work.

In New York, rabbis have been discussing ways to help Lev Tahor children. People who have tried for years to extricate family members are waiting anxiously. Some have court-approved guardianship of sect children. Shie Blum, a rabbi whose sister has several children in the sect, has flown to Guatemala multiple times since the raid. “It is now or never,” he says. ■

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The Americas | Slashing the state

Javier Milei's liberal reforms are hurting yerba mate growers

But consumers now pay some 30% less for Argentina's national drink than they did in 2023

February 13th 2025



Many Argentines sip *mate* daily. The brewed, bitter drink is made by infusing leaves of the *yerba mate* plant, a relative of holly. It is grown by some 13,000 farmers, mostly on a small scale across 230,000 hectares (568,000 acres), predominantly in the northern province of Misiones.

Argentina's president, Javier Milei, deregulated the industry in December 2023, ending the power of the National Institute of Yerba Mate's (INYM) to set minimum prices. Now growers are struggling. Prices for their crop have dropped by more than 50% in real terms. "It doesn't cover costs," says María Ferreira, a *yerba mate* grower, sitting by a road in Misiones. She and

other growers say they are now at the mercy of the ten mills that buy, grind and package more than 70% of the supply.

They have been here before. The industry was regulated for nearly 60 years until the then-president, Carlos Menem, dissolved the commission that set planting limits in 1991. Subsequent overproduction saw a steep decline in prices over the next decade. Farmers blocked roads with their tractors in protest and in 2002 regulation returned with the creation of the INYM.

The institute's 12 directors, from different parts of the supply chain, set minimum prices through unanimous agreement. The federal government arbitrated disagreement. "Artificially high" prices resulted in over-planting, says Gerardo Alonso Schwarz, an economist in Misiones. In recent years the INYM began to limit how much could be planted. "The reality is that the regulatory entity that could have controlled the cycles didn't do it," he says.

Argentina's deregulation ministry has applauded the reduced price that consumers are paying for their brew, which in November was 30% lower in real terms than a year earlier. Industry leaders attribute the 50% price reduction that some farmers have seen to an improved growing climate, and to the use of the black market. "Many producers don't want to pay taxes, so they sell to other people who pay them less," says Victoria Szychowski, who runs the Amanda *mate* brand.

María Soledad Fracalossi of the INYM has encouraged farmers to diversify their crops. Although a federal court has ordered the suspension of Mr Milei's deregulation measures with respect to *yerba mate*, Ms Fracalossi says the INYM cannot set prices until all of its directors' seats are filled. The federal government appoints its president. It has not done so.

Strikingly, even though growers are upset, many don't harbour hard feelings towards Mr Milei; his budget cuts have helped the country reduce inflation dramatically. Jorge Lizznienz, a second-generation *yerba mate* farmer, says that the libertarian has given Argentines hope. When it comes to *yerba mate* though, he ventures that "the president of the country is being badly advised." ■

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Asia

- South-East Asian producers are being hammered by Chinese imports
- Is MAGA great for India?
- New Zealand and the Cook Islands fall out over China
- Can Indonesia make its Top Gun dreams a reality?

Asia | A tidal wave of trade

South-East Asian producers are being hammered by Chinese imports

Deep ties with China stymie a protectionist response

February 13th 2025



In Bangkok, THAILAND'S capital, a shopkeeper hawking trendy clothes made in Vietnam and Bangladesh complains that business has slowed to a crawl. In Indonesia plans are being hatched to steer more ships to its eastern ports. And in Malaysia, one politician decries a "burdensome" new tax that will hurt the poor. Behind all three seemingly unrelated instances is a deluge of Chinese goods bearing down on the world. China's neighbours in South-East Asia are on the front line.

The phenomenon begins in China. Because of a property slump, dispirited consumers and the state's resistance to large fiscal stimulus, demand is weak. In search of new drivers of growth, China has doubled down on

manufacturing. Much of this is bound for export markets: in 2024 China's net exports made up almost a third of GDP growth, the highest share since 1997.

This dynamic, in which China's sluggish demand and strong production spills abroad, is not happening evenly. As the West throws up barriers to Chinese goods, they are flowing to emerging markets instead. In the past three years, the value of Chinese exports to the Association of South-East Asian Nations (ASEAN) has risen by 24%. Imports flowing the other way have not grown. As a result, China's trade surplus with ASEAN has doubled.

To some extent, rising Chinese exports to ASEAN reflect how firms have adjusted to trade tensions between America and China. Many have added production nodes outside China, particularly in South-East Asia. But this is not the whole story. Several lower-value-added sectors in the region have seen a rush of Chinese import competition. To illustrate this, *The Economist* has examined changes to the Chinese share of total imports for five ASEAN countries between the first nine months of 2024 and the same period in 2022.

In aggregate, the changes look manageable: ASEAN saw a two-percentage-point rise in the Chinese share of imports. However, a closer look at individual products reveals rapid shifts. In two years the Chinese share of plastics imports across Indonesia, Malaysia, the Philippines, Thailand and Vietnam has risen by six percentage points; for iron and steel, the increase was 12 percentage points. Meanwhile the Chinese import surge is happening while ASEAN's exports to the world stagnate.

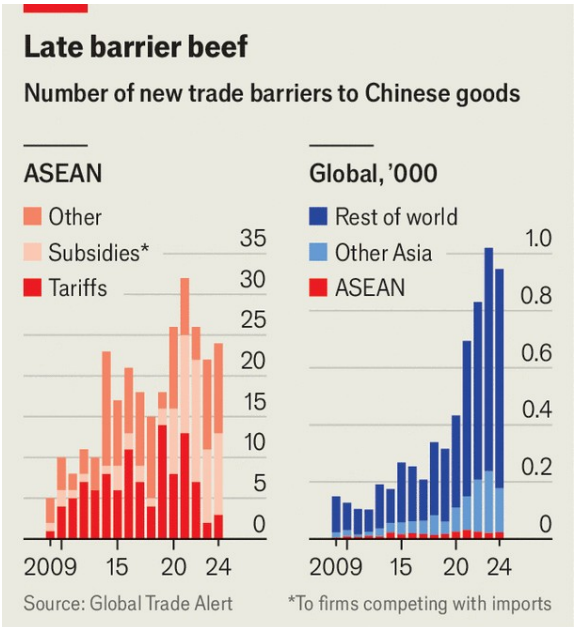
Producers in the region are squirming. In Thailand manufacturing production has fallen by 11% since December 2021. In Indonesia fears of mass layoffs in labour-intensive textiles abound. The industry lost 80,000 jobs in 2024, according to the country's manpower ministry. The government thinks 280,000 textile jobs are at risk this year. Smaller firms are bearing the brunt, but larger ones are teetering, too. Sritex, a listed Indonesian giant which sews clothes for fast-fashion groups such as H&M, has gone bankrupt; its finance director blamed "an oversupply of textiles in China".

Stagnation has set in more broadly. On average, industrial production in South-East Asia's five biggest economies (excluding rich Singapore) is stuck at the levels of 2022. The fear is that this is only the beginning. Unrelenting pressure from China's manufacturing juggernaut could slowly deindustrialise South-East Asia. "Our industrial base just isn't as competitive as China's," says Burin Adulwattana at Kasikorn Bank, a Thai commercial lender. "We lack both the financial and human capital to stop its current deterioration." That view is shared by some policymakers: the threat to smaller firms is nothing short of "collapse", Indonesia's then-trade minister said last year.

South-East Asian governments have begun to push back. Prime targets are popular Chinese e-commerce apps such as Lazada and TikTok Shop, which deliver goods straight from factories to consumers. Several countries have raised taxes or tightened limits on cheap imported goods sold online. A few Chinese-dominated product categories have been hit with anti-dumping duties. Customs enforcers are being put on high alert for imported goods.

Indonesia, with its long history of protectionism, has gone the furthest. It has put restrictions on e-commerce, including banning most transactions on social-media sites such as TikTok and stopping overseas merchants from selling on Indonesia's online platforms. In October Indonesia moved to take one Chinese platform, Temu, off the country's app stores. In recent months it has also thrown up levies on imports of iron and textiles, among other products. On February 5th Budi Santoso, the trade minister, appeared at a press conference flanked by armed guards showing off piles of allegedly Chinese-made illegal clothes seized from smugglers.

The showmanship deceives. Even in the toughest trade-restricting countries, Chinese imports continue to grow. In Indonesia and Thailand the most recent six months of data show a 25% and 20% rise, respectively, from the previous year. And ASEAN remains remarkably open to Chinese goods, not least thanks to a free-trade deal struck in 2002 with China.



The Economist

Since the start of 2021, ASEAN has introduced 104 new trade restrictions on Chinese goods, including both tariffs and subsidies to offset import competition, according to Simon Evenett of Global Trade Alert, a trade-policy monitor. That is a moderate uptick in anti-Chinese protectionism compared with the decade before. But ASEAN's response looks puny when compared with the rest of the world. During the same period, Asian nations other than those in ASEAN enacted 670 new import curbs on China; in the rest of the world beyond Asia, it was 2,716. As a result, ASEAN's share of new trade restrictions has fallen for a decade (see chart).

Governments taking a more protectionist response would result in higher costs for price-sensitive South-East Asian consumers. At Bangkok's Chatuchak night market, vendors and shoppers cheer the affordability of Chinese-made clothes. It is not only about price. Momo, an older lady selling her own branded clothes produced in China, praises Chinese factories' handiwork. In Malaysia politicians slammed last year's 10% tax on low-value imported goods for harming "B40", the bottom 40% of earners.

The region's economies are also deeply integrated with China's. It is the largest trading partner for nine of ten ASEAN countries, and the third-largest source of foreign-direct-investment inflows to the bloc. Informal business

ties through the “bamboo network” of the Chinese diaspora in South-East Asia give China additional leverage, says Priyanka Kishore of Asia Decoded, a consultancy in Singapore.

As a result, South-East Asian governments are struggling to decide what to do. In June Indonesia’s then-trade minister announced plans to slap 100-200% across-the-board tariffs on Chinese goods, but a week later it was walked back. “We are not targeting any particular country, especially China,” claimed another. Ministers in Malaysia and Thailand are similarly cautious.

More disruptions loom. Should Donald Trump ramp up tariffs on exporter economies like ASEAN’s, the bloc could find itself caught between an America which refuses its goods and a China which is displacing many of its own producers—leaving it bereft of a clear economic niche. The region’s businesses should focus more on higher-value-added services, or pivot to becoming suppliers to Chinese manufacturers, says John Lee of East-West Futures, a consultancy in Berlin. But that seems unlikely to happen soon. ■

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Asia | America and India

Is MAGA great for India?

Ahead of an Oval Office confab, we explore the next chapter of the Trump-Modi bromance

February 11th 2025



When Narendra Modi walks into the White House this week, he will do so as the prime minister of the world's fifth-largest economy. By the end of President Donald Trump's second term, it may be the third. America is betting on India's inexorable rise. In Mr Trump's first term, "Howdy Modi" and "Namaste Trump" mass rallies, headlined by the two men, became a visual shorthand for a relationship which many in India hope will deepen.

But the president that Mr Modi meets now is different: more than ever he is unconstrained by norms. Trump 2.0 is as likely to coerce partners as co-operate with them. As a result there are more potential points of friction than India's diplomats might like. Trade remains a flash point. And a triumphalist

America-first agenda could lead to new flare-ups over migration, defence and technology.

The relationship rests on a bipartisan article of faith: both need each other to hedge against China. A deadly border skirmish between China and India in 2020 pushed Delhi further into Uncle Sam's arms. Total trade has doubled in the past decade, to about $200bn in 2024. American firms employ 1.7m people in India. America's economy benefits from a 5m-strong Indian-American diaspora, of whom 80% have university degrees. Indian-origin bosses lead Alphabet and Microsoft.

Mr Trump's election victory has been welcomed by Indians, 84% of whom believe that he will be good for India, the highest share among 24 countries surveyed in November 2024 by the European Council on Foreign Relations, a think-tank. As well as geopolitical and economic ties, he brings other benefits. Mr Trump may temper American criticism of India's oil purchases from Russia. He is uninterested in imparting the lessons on human rights that have long exasperated India's elites. And on February 10th Mr Trump signed an executive order suspending the enforcement of the Foreign Corrupt Practices Act, which American authorities used to launch a probe against Gautam Adani, a billionaire ally of Mr Modi. Mr Adani faces charges in American courts. (He denies wrongdoing.)

Yet America's hyper-assertive nationalism and desire to draw economic activity within its borders could create stresses with India, which views itself as a wholly independent actor rather than a partially subordinate ally, and is keen to build up its own manufacturing base.

One problem is trade. In his first term, Mr Trump cancelled India's preferential-trading-partner status, which grants lower or zero tariffs. He also curbed India's Iranian oil imports through sanctions and raised tariffs on Indian steel and aluminium. Since then, America's trade deficit with India has almost doubled, from $24bn in 2020 to $46bn in 2024. In order to pre-empt any spat over trade, Mr Modi is already making concessions. India's budget on February 1st lowered tariffs on an eclectic list of items. Indian importers of LNG have been negotiating larger purchases from American suppliers, too.

Tensions over undocumented migrants in America also loom. At around 725,000 people, Indians were the third-largest group in 2022, according to Pew Research Centre, a think-tank. As with trade, Mr Modi has vowed to co-operate. In the first week of February 104 such individuals were marshalled in handcuffs into an American military aircraft bound for Punjab. But the issue will continue to rumble. Political friction over undocumented migrants could sabotage legal flows of people, particularly those from India's tech-services industry. Some 72% of the foreigners awarded an H-1B skilled-worker visa in the year 2022 to 2023 were Indian. Within MAGA circles these visas are intensely disliked, although other Trump-confidants, including Elon Musk, have defended them.

The third issue is defence. Joe Biden pursued containment of China in a predictable way. A deal in December 2024 authorised a $1.2bn sale of MH-60R helicopters and related equipment to India. The Biden administration also played to India's desire to build its defence industry by approving the co-production of General Electric's F414 jet engines, encouraging American defence firms to manufacture in India, and giving India access to military technology. One goal was to help wean India off Russian military equipment, which accounts for 36% of defence imports.

Mr Trump is far less likely to help India's manufacturing push and has already urged Mr Modi to buy more American equipment. And he may lose patience with India's "multi-alignment", or doctrine of engaging with multiple partners while formally allying with none. He could push India to beef up its security partnership with America, Japan and Australia. At the other extreme, his penchant for surprise deals could produce a great-power detente between America and China over Taiwan, which could sideline India.

The final issue is tech. India is aligned with America in many respects: it has pushed to remove gear made by Huawei, a Chinese telecoms giant, from Indian networks, for example, and has attracted big investments from Amazon, Apple and other Silicon Valley giants. But India's ultimate ambition is to become a major tech player in its own right. Mr Modi's government wants to fund the creation of an Indian large language model and is subsidising semiconductor plants. It has pushed programmes such as Aadhaar, a home-grown digital-identification system, hard.

Mr Trump's techno-nationalism could cut against such ambitions. On February 11th J.D. Vance, the vice-president, told an audience in Paris that "The Trump administration will ensure that the most powerful AI systems are built in the US, with American-designed and -manufactured chips." India's best hope is to argue that its home-grown tech offerings augment American power. Its cheap payment and identification systems could offer alternatives to Chinese models to countries elsewhere in the global south—without competing with upscale American ones.

For years American analysts have wondered what their country gains from working with a sometimes prickly India, asking if the "India bet" will pay off. The second Trump term may lead more Indians to ask the same question about America. ■

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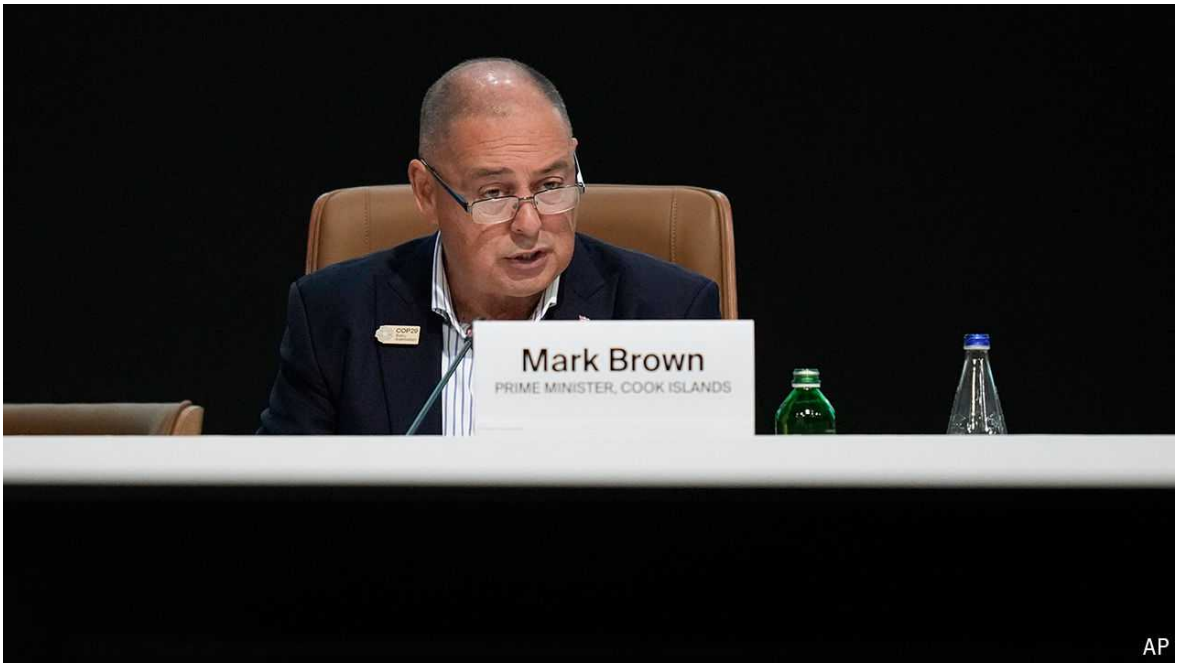
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Asia | Three’s a crowd

New Zealand and the Cook Islands fall out over China

That is New Zealand’s second diplomatic dispute in the Pacific this year

February 13th 2025



IN THE strategic contest under way in the Pacific, a familiar pattern has emerged. China signs an agreement with an island nation. America’s regional partners get spooked. The Cook Islands, a sparsely populated string of 15 islets, is the latest to set off alarm bells. Its prime minister, Mark Brown, was preparing to sign a “comprehensive strategic partnership” to “expand economic opportunities” with China as *The Economist* went to press. That has sparked a fight with New Zealand, the Cook Islands’ former colonist.

The Cook Islands needs trade and investment. Its economy depends on tourism, and, having graduated to “high-income” status in 2020, it is no

longer eligible for aid. As Mr Brown sees it, China is part of the solution. Details of his deal have not yet been made public, but the agreement could set a path for Chinese engagement in deep-sea mining—which both China and Mr Brown are itching to develop, though many other Pacific nations oppose it. Mr Brown is so keen on digging up critical minerals that he dishes out nodules of them at conferences.

New Zealand complains about being "blindsided". It has long been the Cook Islands' biggest donor. Under a "free association" agreement, Cook Islanders hold New Zealand passports, and the two countries are required to collaborate on security and foreign policy. New Zealand's conservative government claims that Mr Brown has flouted this arrangement by refusing to share details of his deal. This "lack of transparency" could "have major strategic and security implications", wrote a spokesperson for Winston Peters, who is both foreign minister and deputy prime minister.

In reality, the arrangement between New Zealand and the Cook Islands sketches out only vague expectations about "co-operation" and "consultation". Mr Brown argues that New Zealand had fair warning. He says he is not seeking security assistance from China—a matter of concern since China struck a security deal in the Solomon Islands in 2022, fuelling fears about a military base there. Still, an economic deal may have security implications, for instance by giving China access to strategic minerals, points out Anna Powles of Massey University in Wellington. Mr Brown did nothing to allay such concerns when he described China in an interview as a "like-minded country". Many Cook Islanders are worried and on February 13th the opposition party filed a no-confidence motion against Mr Brown.

New Zealand's dispute with the Cook Islands is its second in the Pacific this year. On January 27th Mr Peters announced that he would review all aid funding to Kiribati, Hawaii's closest neighbour, after Taneti Maamau, the president, cancelled a meeting with him. Kiribati has cosied up to China in recent years and a policing agreement has stationed Chinese officers in Kiribati's capital. Officials in New Zealand and Australia complain of trouble speaking with counterparts in Mr Maamau's government. Together the countries account for almost half of Kiribati's aid.

New Zealand is not likely to cut that funding, says Dr Powles. Mr Peters "knows that heavy-handed tactics do not go over well in the Pacific". But for that reason, grandstanding may not serve its interests. Australia's centre-left government, by contrast, has taken a softer approach to Pacific diplomacy. Its defence minister and deputy prime minister, Richard Marles, was also snubbed by Mr Maamau on a recent trip to Kiribati, but still delivered a patrol boat and praised their "close friendship" on social media. Such tactics work. Since 2023 Australia has signed agreements with Tuvalu and Nauru giving it veto rights over security partnerships with other countries (ie, China). In the grand competition, the tricky partners normally get more, not less, aid and attention. ■

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Asia | Banyan

Can Indonesia make its Top Gun dreams a reality?

An aircraft-carrier is the last thing its navy needs

February 13th 2025



Indonesia's navy chief dropped a bombshell when he stopped to speak to reporters ahead of a meeting with his top brass earlier this month. "It seems", he began tentatively, "that we need an aircraft-carrier for non-war military operations." If this pitch was not entirely convincing, it is because the idea was probably not his own. Most big decisions about which military kit to buy in Indonesia these days are made by Prabowo Subianto, the former special-forces commander and defence minister who was elected president last year.

In fact, an aircraft-carrier is the last thing that Indonesia's struggling navy needs. Its ageing fleet can claim only eight vessels with a range of more than 5,000km (3,000 miles). They patrol an archipelago wider than Europe,

which sits astride key sea lanes for commerce and the geopolitical contest between America and China. Even more than ships, Indonesia lacks bases to sustain the navy's operations and technology to help it understand what—and who—might be in its waters.

Carrier operations are among the hardest things that a navy can attempt. America makes launching and recovering aircraft on a pitching deck look routine. But it has been doing it for more than a century and still sustained high casualties well into the cold war. Moreover, carriers require escort ships and air-defence capabilities that Indonesia does not have. China is still working through the challenges of operating aircraft-carriers, more than two decades after buying its first one.

And carriers are expensive. Indonesia might look to buy a used item; China's maiden carrier came from Ukraine. Speculation in Jakarta, the capital, has focused on a recently decommissioned Italian carrier, *Garibaldi*. Even this would not come cheap—and costs would soon pile up. The navy would need to acquire carrier-capable jets for the ship and train its pilots. It would be impossible to do all of this within the navy's modest budget of just over $1bn a year.

You might wonder how Mr Prabowo, whose political programme has long been tied to his military reputation, could make such a blunder. But a retired general who served with him says that even in the army, his decisions were "very rarely based on a firm concept of operations". He acted on instinct, and with an eye to politics as much as strategy. An aircraft-carrier would give Mr Prabowo something that he and many of his supporters crave more than military might: prestige.

Thailand offers a cautionary tale. The only other South-East Asian navy to boast an aircraft-carrier, it ordered a ship based on a Spanish design. Fully equipped when Thailand took possession of it in 1997, its Matador fighter jets were withdrawn from service in 2006, and it rarely goes to sea. It now sits alongside a pier south of Bangkok, the capital, where Thais can tour what was once intended to be a symbol of national greatness.

If Mr Prabowo's Top Gun dreams are getting ahead of the navy, then his plans for the army risk taking it back to the "dual-function" military and

civil role that it performed under his then-father-in-law, the late dictator Suharto. The defence ministry has announced plans to add new units to mirror the structure of the civilian government in each province and district. Meanwhile, a bill in the legislature would allow active-duty officers to serve as ministers. Both steps reverse important reforms made following the army's return to the barracks in 1998, during the restoration of democracy. Civil-society activists say these moves degrade democracy; security analysts worry that they distract the government from more urgent national defence priorities.

These debates about the structure of the army and navy go back to the 1980s, when Mr Prabowo was a young major. His early mentor was General Benny Moerdani, a visionary strategist, who argued for a smaller, more professional force. Moerdani fought prestige acquisitions and sought to roll back the army's civil role.

But Moerdani and Mr Prabowo had a falling out. Moerdani recalled Mr Prabowo from his role of leading patrols in East Timor, accusing him of disobeying orders. In response, Mr Prabowo set about undermining his former patron. Mr Prabowo's father-in-law dismissed Moerdani, and his career once again took off. Now, the maverick officer is president himself. There is no one to stop him from reversing Moerdani's legacy, or chasing the trappings of military glory. ■

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China

- Tensions with the West are fuelling China’s anxiety about food supplies
- Hail China’s new “ice-and-snow economy”
- Panama symbolises the Sino-American struggle for influence

China | Food security

Tensions with the West are fuelling China's anxiety about food supplies

Grain pains are growing

February 13th 2025



American soyabean farmers could draw some comfort from the tariffs that China imposed on an array of American imports on February 10th. Foodstuffs like theirs were not affected by China's countermeasures against the 10% levy on Chinese imports that had been ordered a few days earlier by President Donald Trump. But growers in farming states like Illinois and Iowa still have reason to worry. China's leader, Xi Jinping, wants to wean his country off food from the West. Amid rising geopolitical tensions, he sees self-sufficiency and diversity of supply as an increasingly urgent need.

In Mr Xi's calculations, much has changed since Mr Trump launched his first trade war against China in 2018, during his previous term in the White

House. American soyabeans—which China imports mainly for feeding farm animals—were then a prime target. China slapped tariffs of up to 25% on American farm products. Its state media highlighted the impact this would have on Mr Trump's rural supporters. The pain was felt less in China: it turned much more to Brazil instead. The tariffs were mostly removed in 2019, but Mr Xi had made his point. China—which previously had imported 40% of its foreign soyabeans from America—no longer had to rely so heavily on it.

Since then, the People's Republic has gained yet more leverage. America now provides less than one-fifth of the soyabeans that China buys from abroad. For American soyabean farmers, China remains nearly as important as it was: it still takes nearly half of their exports (down from just over 60% in 2017). But for Mr Xi, any dependence on the West remains uncomfortable. In the past few years, as the contest with America and other Western countries has intensified, China has become ever more preoccupied with maintaining food security, stressing that it is a vital component of national security. In 2023 China published a book of Mr Xi's thoughts on the topic. Last year the country introduced its first food-security law.

All this has expanded the way China views food security. The usual term for it is *liangshi anquan*, which literally means grain security. It commonly refers mainly to rice, wheat and maize as well as soyabeans (an oilseed). Now it is promoted with another term: *da shiwu guan*, or the "big food concept", covering all types of commonly eaten foodstuffs. "We cannot allow others to control us! This is a major matter of national security!" Mr Xi told rural-affairs officials in December 2020.

Yanking your supply chain

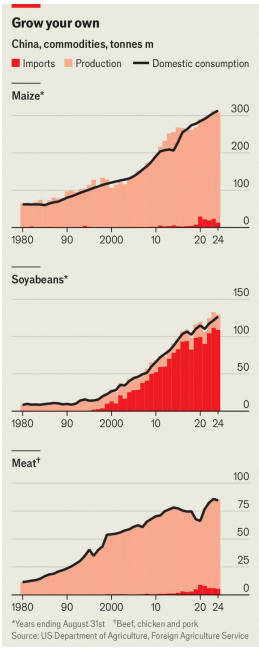
That year China experienced the first of two global shocks that focused its attention on food (after an outbreak of swine flu that in 2019 cut swathes through the country's pig stocks). During the covid-19 pandemic, stockpiling, poor harvests and disruption to shipping caused global prices of farm produce to surge, sounding a warning bell in China. Then in 2022 came the Russian invasion of Ukraine, an agricultural giant. The country accounted for over a quarter of China's imports of maize and barley. The

impact on food supply in China was mild: stockpiles enabled the country to stabilise prices, and it found other sources. But the war highlighted the vulnerability of global supply chains. In a conflict with America over Taiwan, say, many of China's imports, including food, would be imperilled.

That could be a serious blow to China. The country is the world's biggest producer of food. Its grain harvest last year (including soyabeans) hit a record high of more than 706m tonnes. It is over 95% self-sufficient in the production of main staples for human consumption: rice and wheat. But the country's growing wealth has fuelled demand for a much more varied diet. Since 2004 China has been a net importer of foodstuffs. It is now the world's biggest buyer of them. Imports in 2023 were worth $140bn. It relies on foreign supplies for 80% of its soyabean needs, 70% of its edible oils, 30% of its milk and nearly 10% of its meat (see charts).

Xi's cheese

Mr Xi worries about all this. He sees a robust agricultural economy as a great-power necessity. In 2013 he said that the strength of countries like America, Russia, Canada and Europe's major powers was "closely linked with their capacity to produce grain". He does not say China should aim to end all imports, but declared in 2019 that "Chinese people's rice bowls should mainly be filled by their own food. That includes the main non-staples."



To boost food security, China has stepped up efforts on a variety of fronts. One has been to ensure that it has sufficient stockpiles of staple grains. In his 130-page book on food security, Mr Xi barely mentions climate change, but it is a huge problem. The grain harvest in 2024 was helped by the weather: the crop area damaged by natural disasters was unusually low. Last year, however, the president of China Agricultural University, Sun Qixin, said that global warming could reduce China's yields of wheat by over 6%, maize by over 7% and rice by more than 9%.

Amounts in stock are a closely guarded secret. They could now be at "record levels", says Gustavo Ferreira of the US Department of Agriculture (USDA). But Chinese leaders are not content. They point to "grain rats": officials who buy low-quality grain for storage, or siphon off supplies and sell them. In December a former minister of agriculture, Tang Renjian, was arrested for bribery, though details have not been made public. "We must always keep tight control of food security—very tight. It is better to produce and store a little more than necessary," Mr Xi said in 2022, soon after Russia's invasion of Ukraine.

The Chinese like to point out that their country has 18% of the world's population but just 7% of the world's arable land. They now try to ensure that 120m hectares (300m acres) are preserved for farming, mostly for staple

crops. This “red line” is close to being breached: in 2023 China had fewer than 129m hectares of arable land, down from 135m hectares a decade before. The new food-security law is partly intended to warn officials that unauthorised use of land could result in criminal sanctions. In recent years farmers in some areas have been pressed to use land where they were growing cash crops for producing grain instead (subsidies have helped, but since land is, in effect, owned by the government, they have little choice). In the past couple of years China has been accelerating efforts to encourage farmers to merge their tiny plots to make it easier to farm more efficiently with machinery.

Officials have their eye on tech, too. While he was minister, Mr Tang called seeds the “computer chips” of agriculture. As with semiconductors, China is putting much effort into producing the best. But Americans control much of the intellectual property for genetically modified (GM) types, which has stiffened the resistance of Chinese officials to allowing their use. Widespread public concerns about food safety have compounded obstacles to GM food production. But it is expanding. In 2023 only 1% of maize-growing land was planted with GM seeds. The USDA predicted in 2024 that this could grow to 15% in the next few years.

Chinese leaders used to raise population growth as a reason to fret about food security. That is becoming much less of a concern: last year China’s population fell for a third consecutive year. But since geopolitical turbulence is unlikely to subside, leaders are as nervous and uncertain of the implications of Mr Trump’s second term as many of America’s allies. “The greater the risks and challenges we face, the more we must stabilise agriculture and ensure the safety of grain and key non-staple foods,” Mr Xi said when Mr Trump was last in power. Even beyond Mr Trump, rivalry with the West will continue. Mr Xi will keep thinking about food. ■

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China | Get your skis on

Hail China’s new “ice-and-snow economy”

The country is betting on winter sports and tourism to boost growth in its rustbelt

February 13th 2025



It is not known whether Xi Jinping has ever strapped planks to his feet and raced down a mountain at speed. But at a banquet welcoming dignitaries to the opening of the Asian Winter Games in the north-eastern city of Harbin on February 7th, China’s leader made clear that he hoped more compatriots would soon be shredding the gnar. “Ice and snow are as valuable as gold and silver,” he said, suggesting that frozen water could be an engine for Harbin’s “high-quality development”. Plastered across national media, his comments are a push to develop everything from snowboard lessons and winter homestays to self-heating ski socks and snow-making machines as part of “the ice-and-snow economy”.

Exhortations of this sort have helped Harbin—one of China's coldest cities with temperatures regularly falling below -20°C—become one of its hottest destinations. Last winter, the city received 87m visitors, a fourfold increase from the previous year (helped by a post-covid rush). Tourism revenue shot up sixfold. Some 12m tourists visited Harbin during the recent lunar new year holiday, up by 20% from last year, according to state media.

For decades, locals have cut blocks of ice out of the frozen Songhua River and carved them into statues. In recent years, the sculptures have become grander in scale and design. The city became a social-media sensation last winter, with whole ice buildings lit up. Most tourists are domestic. "Chinese people, especially we southerners, yearn for snow," says Ms Chen, visiting with her son from Hangzhou.

With growth slowing, China is betting on winter sports and tourism to give its economy—especially in the north-east—a lift. The government says it wants the sector to be worth 1.5trn yuan ($205bn) by 2030. Some progress is being made. During last year's winter season, 26m people visited China's national-level ski resorts around the country, creating 19bn yuan in revenue, up 140% from the previous year. In 2014 Mr Xi said he wanted to get 300m (nearly the population of America) into winter sports. The government says it hit that target before hosting the 2022 Winter Olympics, which further spurred middle-class demand. By the end of 2023 China had 1,912 skating rinks, triple the number five years previously, and the number of ski resorts had nearly doubled, to 935.



The frigid rustbelt needs all the help it can get. The provinces of Jilin, Liaoning and Heilongjiang—roughly the area formerly known as Manchuria, and now called "Dongbei" meaning "north-east"—were among the country's wealthiest during the Mao era. But after economic reforms were launched in 1978, the region's dependence on the state sector and heavy industry meant that it fell behind southern cities better positioned for light manufacturing and exports. The state has tried to revitalise Dongbei for more than two decades, to little effect. An ageing population and over-reliance on hard-to-reform state-owned enterprises are difficult problems to resolve. In 2023 Heilongjiang had the second-lowest GDP per person and a population shrinking at the fastest rate of all Chinese provinces. With or without crampons, Mr Xi has a mountain to climb.

Plenty of people are sceptical that the ice-and-snow economy can lead to long-term change. More tourism can help at the margins, but "the ski resort does not solve the structural-adjustment problem," says Andrew Batson of Gavekal Dragonomics, a research firm in Beijing.

Something is better than nothing, though. The latest efforts to diversify the Dongbei economy have created new, well-paid jobs for young people whom the region has struggled to retain. On the outskirts of Daqing, an oil city west of Harbin, the slopes are busy. Gao Yu, a ski instructor, says he is paid

about 7,500 yuan each month, almost double the average salary in Daqing. Local authorities are now trying to boost the summer-tourism trade, not least for those fleeing the southern heat, so that income keeps flowing even after the ice and snow have melted away. ■

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China | Own goal

Panama symbolises the Sino-American struggle for influence

The superpowers use soft and hard power

February 13th 2025



Panama responded quickly to Donald Trump's rhetoric about Chinese influence in the Panama Canal. On February 2nd it said it would not renew participation in the Belt and Road Initiative (BRI), China's global-development scheme, and it has launched an audit of the Hong Kong firm that runs the ports at each end of the canal. Leaders are reported to be considering cancellation of the contract.

Already Chinese state media are decrying America's expansionism and, having made similar noises on Greenland and Gaza, have restated China's credentials as a supporter of smaller states in the face of big, bad America. "No more pretending! Trump claims he will expand American territory",

read a *China Youth Daily* headline after the inauguration. “The world is not blind to the truth of who is keeping the canal neutral and thriving and who keeps threatening to ‘take back’ the canal,” said a foreign-ministry spokesperson. Panama is in danger of becoming a case study of how an American hard-power win could become a soft-power loss.

America did not need to resort to threats to combat Chinese influence in Panama, says Nehemías Jaén, a former Panamanian diplomat. The peak of China hype was in 2017-19, he says. Then-president Juan Carlos Varela switched recognition from Taiwan to China in 2017, as a result of China’s aggressive diplomacy. He signed a flurry of bilateral agreements that included joining the BRI. But very little of the promised prosperity materialised.

China has committed only $386m in loans and grants to Panama since it joined the BRI, according to AidData, a research lab at William and Mary University. Most of it was before 2020. Since then many of the Chinese infrastructure projects have been quietly cancelled or reassigned, partly because of American pressure. A free-trade agreement was put on ice. In 2021 Panama revoked a concession for a Chinese consortium of firms to build a port on the Caribbean coast. In January the first contract for a railway line from Panama City to the border with Costa Rica (originally a Chinese proposal) was awarded to an American firm. China has not made significant inroads in Panamanian public opinion either. A survey in 2023 by the Centre for Insights in Survey Research found that 62% of Panamanians were not aware of any major Chinese investment in their country.

But Mr Trump’s belligerence has re-awakened some anti-American ghosts. With the country using the dollar as one of its official currencies, Panama’s government has little choice but to appease America and distance itself from China. But some citizens are angry. Protesters burned effigies of Mr Trump and Marco Rubio, the new secretary of state, during Mr Rubio’s recent visit. Panama’s president reiterated that ownership of the canal is not negotiable. Rubén Blades, a famous musician and former presidential candidate, wrote that “Panama has to prepare for the eventuality of another invasion.” Labour unions have organised protests.

Such sentiments may not change Panama's political stance. But anti-Americanism in the region is tilting some others towards China. Neighbouring Colombia, with whom Mr Trump locked horns early in his presidency, is joining the BRI and launching a new shipping route to Shanghai including a stop at a Chinese-built megaport in Peru that opened last year.

For years Chinese leaders have accused America of hegemonic behaviour. They now claim to be the upholders of the rules-based order, and point with some justification to America's disregard for international norms when it suits its interests. But if they fail to cut through with those arguments, the Panama affair has another implication. With Mr Trump apparently signalling a return to spheres of influence in international affairs, China will not hesitate to push harder for its own in Asia. ■

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Middle East & Africa

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- How to go from fish lover to fish farmer
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Middle East & Africa | Volk music

For Donald Trump, South Africa is DEI in the form of a country

His enmity will hurt the rainbow nation

February 13th 2025



One of the first things Donald Trump did on retaking office was to halt America's programme to settle refugees. That is bad news for Africans who might want to flee war or oppression. But the White House is making an exception for a group of white Africans: the roughly 2.5m South Africans of mostly Dutch, French and German descent known as Afrikaners. On February 7th Mr Trump issued an executive order that stopped aid to South Africa, citing the country's "aggressive" posture towards America, and pledged to admit "Afrikaner refugees" fleeing ostensible persecution by their government.

Even if this is a genuine offer, there is unlikely to be an exodus. Contrary to what Mr Trump suggests, Afrikaners—or any of the 63m South Africans—are not experiencing Zimbabwe-style land seizures. They also feel deeply rooted in their homeland. "Africa is in our blood," explains Theo de Jager, a farmer, in an open letter declining the American president's offer.

But the order is still significant. It symbolises how after 30 years of giving South Africa the benefit of the doubt, America is now doubting the benefits of its ties to the "rainbow nation". The African National Congress (ANC), in power since the end of white rule in 1994, failed to see that its questionable friendships abroad and the economically harmful laws passed in the name of racial redress at home might eventually incur a cost.

The order also reflects the success that some Afrikaner groups have had in promoting their agenda in America, especially among MAGA Republicans. And it shows how Mr Trump will punish countries for both their foreign and domestic policies. The latter makes South Africa especially vulnerable because, for those of a Trumpian persuasion, South Africa is "diversity, equity and inclusion" (DEI) in the form of a sovereign state.

Under the ANC South Africa has had a history of welcoming American aid and investment while being friendly with America's adversaries. The ANC has long stood accused of accepting donations from countries that are hostile to the West, including China.

When geopolitics was more placid, that was merely irksome. But in recent years Washington has woken up to South Africa's antipathy to Israel and its ties to China, Russia and Iran. Michael Waltz, Mr Trump's national security adviser, was one of the congressmen leading calls for a review of relations between America and South Africa, partly because South Africa brought a case of alleged genocide against Israel at the International Court of Justice (ICJ). As a senator Marco Rubio, now secretary of state, criticised South Africa for acceding to China's demands that Taiwan should move its representative office away from Pretoria, the capital. He says he will not attend a meeting of G20 foreign ministers this month in Johannesburg.

But South Africa's alleged sins go beyond international relations. Joel Pollak, a South-African-born editor at Breitbart, a right-wing media outlet,

and potentially America's next ambassador to the country, has connected Mr Trump's opposition to DEI policies in America with the president's approach to South Africa. "[W]hen you look at the political debate in South Africa, it's very much about redressing the past…And the world is tired of it," he told News 24, a South African outlet.

One policy that has provoked ire is Black Economic Empowerment (BEE), which among other things can require firms investing in South Africa to give equity stakes to black-owned businesses. The policy was sold as a way to help correct centuries of systemic racism. In reality it has enriched a black elite while raising the costs of doing business. Elon Musk, whose attempt to bring Starlink internet to his home country has been hampered by BEE requirements, has accused South Africa of having "openly racist ownership laws".

Another area identified by Mr Trump is property rights. In a move that America's president seems to have conflated with actual land seizures, on January 23rd Cyril Ramaphosa, his South African counterpart, signed the Expropriation Act, which gives the state new powers to expropriate property in the "public interest".

Those close to the president argue it is a modest reform that will be used to streamline infrastructure projects. To its critics, including groups representing Afrikaners, the law will make it easier for the government to confiscate your property on the pretext of righting historical wrongs.

To Afrikaner groups the law adds to a sense that they are under siege. It is a message they have taken to America on lobbying trips, where they have also highlighted cases of murdered farmers. Though these ought to be seen against the backdrop of widespread violent crime across South Africa, nuance is usually lost by the time the subject is aired on American right-wing media. In conspiratorial quarters of the far right such cases are taken as evidence of a deliberate "white genocide" (a claim that has no basis in reality).

Mr Ramaphosa has said that South Africa "will not be bullied". But he is preparing to send a team of envoys to Washington. A potential olive branch under discussion is amending the law to allow satellite services such as Mr

Musk's Starlink to operate without having to hand over equity in their local operations. The Democratic Alliance (DA), a liberal party that is the ANC's key coalition partner in government, has been calling for a change in the policy since before Mr Trump won re-election.

Broad concessions are unlikely, however. Mr Ramaphosa's allies say he is unlikely to drop its case at the ICJ. Nor will there be any rethinking of the wisdom of BEE. If the Expropriation Act is revisited, it will be as a result of court challenges rather than Mr Trump's demands. Many in the ANC will be tempted to deepen their relationships with other BRICS countries.

Yet shrugging off the potential effects of Mr Trump's punitive actions is naive. South Africa, which has more people living with HIV than any other country, receives around $440m—17% of the government's budget for combating HIV and TB—in annual American aid to tackle the virus. Under a Trump administration South Africa's participation in AGOA, legislation that grants African countries tariff-free access to America for certain exports, is under threat. Mr Trump is unlikely to champion South Africa's exit from the grey list of countries seen as not doing enough to combat money-laundering. And it is hard to imagine a Trump-appointed ambassador promoting South Africa as an investment destination for American businesses.

Mr Trump's mendacious interventions will not benefit South Africa. They will amplify extremist voices, both black and white. They could lead to further hardship among the poorest. And yet the rational response by the ANC would be to see the current fracas as something of a wake-up call. For while Donald Trump has told some lies about South Africa, he has hit on some truths, too. ■

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Middle East & Africa | Tasty Tilapia

How to go from fish lover to fish farmer

Expanding aquaculture in Africa could have many benefits

February 13th 2025



AFTER you travel away from shore on a speedboat for about 40 minutes, Lake Volta, the largest man-made lake in Africa, feels like the open sea. Yet parts of the Ghanaian lake are actually a giant fish farm. Millions of tilapia, a popular freshwater fish Ghanaians believe is best fried whole, live in cages that resemble bottomless paddling pools. Out in the deep it is easier to control oxygen levels to prevent the fish from dying of stress or disease, explains Vicente Maldonado of Tropo Farms in Mpakadan.

The lake has space for many more fish cages. Yet Tropo is one of only a few big fish farms in west Africa. Despite its large lakes, long coastlines and plentiful fish lovers, the continent lags behind in aquaculture, which has

fuelled the fishing industry's global expansion over the past decade. Catching up could have many benefits, but obstacles persist.

Unlike elsewhere in the world, where farmed fish accounts for some 60% of consumption, Africans mostly eat wild fish. In Ghana only 17% of all fish consumed is farmed. With climate change and overfishing endangering wild stocks, farms could provide more reliable supplies, reducing the need for expensive imports (40% of the fish Africans eat comes from abroad). Done right, it could also be better for the environment and bring in foreign currency from exports.

Why has fish farming not taken off? The main problem is money. Once set up, aquaculture can be more lucrative than traditional fishing, but it takes several months for baby fish to grow big enough to sell. Most fishermen do not have enough cash or credit to afford to switch. Once a farm is up and running, feeding the fish and making sure they don't overheat or die of disease is more expensive in areas with poor infrastructure. Unreliable electricity grids make it hard to power reliable cold chains. Bad roads and high tariffs hamper the fish's route to regional and foreign markets.

Better trade links and infrastructure would help, too. So would cheaper credit for aspiring fish farmers. If west Africa manages to take a deep dive into aquaculture, the splash could reverberate far beyond its borders. ■

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Middle East & Africa | The new disorder

Homs's troubles show the challenges facing Syria's leaders

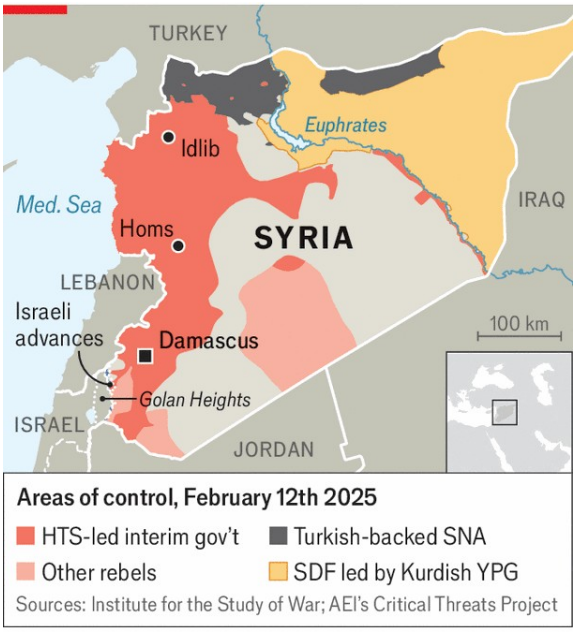
Both supporters and opponents of the old regime are unhappy with the new rulers

February 13th 2025



The city of Homs in central Syria has long held a unique position in the Syrian psyche. Home to a mix of ethnic groups, it became a symbol of resistance to Bashar al-Assad's regime in 2011, when activists gathered around the clock tower that stands at its centre before the dictator brutally suppressed their protest. At the same time, it was a significant regime stronghold. Much of the population depended on government jobs, and the local military academy churned out officers for Mr Assad's army. The family of Mr Assad's wife comes from Homs.

Two months after the fall of the regime, former supporters and opponents of Mr Assad in the city increasingly have something in common: a sense that the government of Ahmed al-Sharaa, Syria's new president, has left them to fend for themselves. Mr Sharaa's supporters are waiting in vain for redress following decades of dictatorship, even as he is failing to protect members of Mr Assad's Alawite sect from retributive violence.



The Economist

The mounting chaos in Homs exemplifies the challenge Mr Sharaa faces all over Syria. His government must ensure the safety of all ethnic groups while paying heed to the desire for justice among the formerly oppressed. It must also create economic opportunities across the board.

In Homs, things are not going well. Dozens of people have been killed or kidnapped in rural areas outside the city in recent weeks. Some, mostly Alawites seen as loyal to Mr Assad, have been targeted in sectarian revenge attacks; others by gangs hoping to extort ransom money. Locals say it is increasingly difficult to distinguish one from the other.

Crime is rampant. In the centre of town, the owner of a van parked on the kerb was cursing the thieves who had just made off with two rifles from the driver's cab as your correspondent passed.

Local residents, though impressed with Mr Sharaa's rhetoric, bemoan a gap between words and actions. Alaa Ibrahim, an Alawite activist attempting to mediate between the families of the kidnapped and Homs's new rulers, believes Mr Sharaa's fighters have no interest in meting out revenge. But he says he has found that Alawite concerns are being ignored. "Sometimes our messages to the chief of police go unanswered," says Mr Ibrahim.

It does not help that the government's attempts to impose order have been ham-fisted. Having dismissed most of the security forces and judges who served under Mr Assad, the new leaders lack the manpower to police the city or ensure that the courts function. Instead they have conducted showy raids of neighbourhoods associated with the old regime, summarily rounding up hundreds of young men and detaining them for weeks. With Mr Sharaa's more obedient fighters tied up in Damascus, members of less disciplined and more radical groups are plugging the gaps.

Many are locals who were forced to flee Homs for Idlib, Mr Sharaa's stronghold, a decade ago and have returned in recent weeks to find their homes destroyed. Hassan, a young fighter with Mr Sharaa's rebels, was just 13 when he and his family fled Baba Amr, a Sunni neighbourhood associated with the resistance to Mr Assad. They returned to find that looters affiliated with the regime had stripped their house down to the rafters. Now Hassan patrols the streets, his wispy beard a testament to the Islamist worldview he adopted in Idlib. "People feel they have been denied justice since the liberation," says Kinan al-Nahas, an Islamist community leader.

The economic malaise is making things worse. Little outside support has materialised since Mr Sharaa's victory two months ago. International sanctions on Syria's financial sector remain in place, stalling economic recovery. The job market in Homs is so dire that young people speak of a looming "hunger revolution".

Ziad Kashu, a Christian activist, says he fears the rise of organised crime and gangs far more than a sectarian explosion. Kidnapping for ransom, he says, became a lucrative line of business during the final years of the Assad regime and has remained so. Creating better job opportunities might reduce young people's propensity to turn to crime or revenge, he suggests: "The solution is economic."

For now, many in Homs hope that moderation will prevail. Suhail Junaid, the city's most influential sheikh, says he is preaching tolerance. "This regime is rooting out sectarian division," he promises. Much depends on whether the new government can deliver on such promises. Unless Mr Sharaa can put money in people's pockets, deliver justice to the many who have been wronged by Mr Assad and ensure that minorities are safe, things are sure to get worse in Homs and all over Syria. ■

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Middle East & Africa | Raiding a bookshop

Israel mounts an attack on Palestinian intellectual life

The arrest of a prominent bookseller in Jerusalem bodes ill for freedom of expression

February 13th 2025



On a busy thoroughfare in East Jerusalem, the predominantly Palestinian part of the city, sits a literary oasis. The Educational Bookshop, run by Mahmoud Muna, himself a Palestinian from East Jerusalem, and his family, has long been regarded as one of the finest in the region. A pillar of Palestinian intellectual life, the shop on Salahuddin Street stocks anything from in-depth studies of Gaza to the latest bestsellers by Yuval Noah Harari. The only thing that is hard to find is a book that Mr Muna has not read, as your correspondent discovered during recent visits.

On the afternoon of February 9th Israeli police raided the shop on Salahuddin street along with another branch. They arrested Mr Muna and his nephew on charges of disturbing public order after initially accusing them of "selling books containing incitement and support for terrorism". They were released from detention into house arrest on February 11th, following a court order issued the previous day. The sole evidence presented so far for the alleged offences is a children's colouring book. Mr Muna's brother said the police confiscated any book bearing a Palestinian flag and used Google Translate to search for references to "Palestine".

Read all our coverage of the war in the Middle East

The raid and arrests have prompted outrage in the region and beyond. A group of Israeli intellectuals issued a statement condemning the raid, arguing it was part of a broader pattern of repression against freedom of expression. Palestinian public life in Jerusalem has been increasingly curtailed in recent years. Flying the Palestinian flag in public was banned in 2023. The construction of illegal Israeli settlements has accelerated dramatically since the war in Gaza erupted following Hamas's massacre on October 7th 2023.

In this highly charged environment, Mr Muna's bookshops continued to provide a rare space for dialogue in the divided city. He hosts lectures from Israeli authors and Palestinian dissidents alike. Just about everyone who passes through Jerusalem and works on the conflict between Israel and the Palestinians knows him and his shop. Diplomats who have recently arrived in the city stop by for his recommendations. Journalists milk him for story ideas and bite-size analysis. "They'll be really stuck if our bookshop goes out of business too," he wrote in November 2023.

For now, that looks unlikely. Business was heaving in the days after the raid (Mr Muna's brother opened the shop in his absence). Yet the scars left by it will undoubtedly linger. As Israel's oldest civil-rights organisation put it: "A police raid on a bookstore and the arrest of its owners are reminiscent of dark periods in history." ■

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Middle East & Africa | Militants, disempowered

Hizbullah's decline is a boon for Lebanon's new government

But it will not be able to ignore the armed group entirely

February 13th 2025



THE BILLBOARDS are the same as before. Drive from the airport into Beirut, Lebanon's capital, and leaders of Hizbullah, the armed Shia movement, smile down at you. One board depicts two backs draped in Iranian and Lebanese flags, the arm of the first wrapped around the shoulder of the second. Cars still carry portraits of Hassan Nasrallah, the Hizbullah leader Israel killed in a strike on Beirut in September. After his funeral on February 23rd, a huge shrine will be built where the road cuts through Hizbullah's stronghold in the southern suburbs.

But look beyond appearances, and Lebanon has changed. Hizbullah's Shia heartlands in south Beirut and Lebanon's southern villages are reeling from

the war. What remains of its leadership is in Iran, the militia's sponsor. And the Lebanese state, freed from the militia's clutches, has begun to function again.

Read all our coverage of the war in the Middle East

Almost three years after elections in May 2022, Lebanon has a new president, Joseph Aoun, and prime minister, Nawaf Salam. A new government, made up of able technocrats, was formed on February 8th, though it is still awaiting parliamentary approval. Unlike previous administrations, it is not subject to an effective veto by Hizbullah, with only five of the 24 new ministers approved by the militia. "It's the best government since the end of the civil war" in 1990, says Emile Hokayem, an analyst at the International Institute for Strategic Studies in London.

The composition of the government reflects Hizbullah's declining influence. Israel's war, which targeted Hizbullah's Shia base while leaving the rest of the country mostly intact, has levelled the playing field for other sects. The group's control over Beirut's airport and the country's ports is waning. With the Assad regime gone and neighbouring Syria ruled by Ahmed al-Sharaa, a Sunni, Hizbullah has lost its landline to its patron, Iran, its means of rearming and its hold on the captagon trade, another key revenue stream. With hostile governments on all sides, Hizbullah feels increasingly cornered.

The hope is that with Hizbullah sidelined, the government will be able to make headway on economic reforms and on implementing the ceasefire deal with Israel and UN resolution 1701, which calls for the disarmament of Hizbullah and other armed groups. In his inaugural address on January 9th Mr Aoun, a former army boss, said that Lebanon's armed forces alone had an "exclusive right" to bear arms. The active involvement of America and Saudi Arabia in shaping the government has raised hopes for reconstruction funds from the Gulf and fresh loans from the IMF.

Still, the new government will not be able to ignore Hizbullah entirely. Political power in Lebanon is allotted by sect, and the Shias comprising Hizbullah's base are the largest group. The militia still has some cash to compensate followers who lost their homes in the war with Israel, though less generously than it used to. Along with its allies it forms the largest bloc

in parliament, at least until elections next year. It managed to force through its choice for finance minister, Yassin Jaber. He could stymie the banking reforms that are required to end a six-year depression and unlock IMF funding after a war that the World Bank says has caused $3.4bn of damage.

The group is also unlikely to give up its weapons, despite Mr Aoun's insistence. Though Hizbullah has lost its leadership, Israel reckons it still has tens of thousands of fighters and around 30% of its arsenal. Mr Salam, who as prime minister will be in charge of overseeing the disarmament, is "too nice" to confront the militia head-on, says a friend. He may also be too sympathetic to some of Hizbullah's positions. Moreover, a third of Lebanon's army is Shia and may be reluctant to turn on its own.

Failure to make progress on disarmament may endanger the ceasefire agreement with Israel, delaying the Israeli withdrawal from southern Lebanon due this month. That may prompt Hizbullah's angry supporters to clamour for another fight. Lebanon is not out of the woods. ■

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Middle East & Africa | Playing with fire

Instead of luxury condos, Gaza faces a resumption of war

Donald Trump's chances of a grand bargain in the Middle East are shrinking

February 12th 2025



For nearly a month both Israel and Hamas, the Palestinian Islamist movement that controls Gaza, have largely honoured the ceasefire agreement they reached on January 15th. Even though each side has accused the other of violating the agreement, Israeli forces have withdrawn from most parts of the war-ravaged strip. In return, each week Hamas has released small groups of hostages.

Then, on February 10th it said it would not release the next group as planned on February 15th, prompting Israel to threaten the resumption of "forceful warfare" unless Hamas relented. On February 13th Hamas said it would

release another set of hostages after all. Even so, the ceasefire looks desperately fragile.

Read all our coverage of the war in the Middle East

The back-and-forth reflects disagreement over the terms for the second stage of the ceasefire, set to begin in March. The conflict appears to have been exacerbated by the intervention of Donald Trump, America's president, who has proposed removing all Palestinians from Gaza and transforming the rubble-strewn strip into a massive luxury resort.

The next stage of the ceasefire is supposed to include a complete Israeli withdrawal from Gaza, the release of all hostages and talks on rebuilding the devastated strip. Binyamin Netanyahu, Israel's prime minister, stood next to Mr Trump when he outlined his plan at a press conference in Washington last week. Mr Netanyahu has made it clear he will not accept an end to the war while Hamas still rules Gaza.

But the Hamas commanders who control the fate of the hostages have no intention of going anywhere. During the latest release of hostages on February 8th, they paraded the three men in front of a banner in Arabic, English and Hebrew saying "We are the day after". The message was addressed to Mr Trump as much as to Israel.

Mr Trump wants the release of hostages to be speeded up from the original plan. "If all of the hostages aren't returned by Saturday at 12 o'clock...let hell break out," he said after Hamas's announcement. That bought time for Mr Netanyahu. It delighted the hard right in his government, who wanted a return to the fighting and "voluntary emigration" of Palestinians long before Mr Trump proposed it, and whom he has struggled to keep in his ruling coalition since the ceasefire began. But if Hamas relents, he may yet come under pressure from Mr Trump to stick with the ceasefire.

He is not the only leader in the region forced to navigate carefully around Mr Trump's unexpected ideas. In Mr Trump's telling, Jordan and Egypt are supposed to house uprooted Gazans. They oppose this, but know that angering him could result in losing American aid.

King Abdullah of Jordan was careful not to contradict Mr Trump while visiting Washington on February 11th. He said Jordan would accept 2,000 sick children from Gaza for medical treatment. Only after leaving did he post on social media that he had "reiterated Jordan's steadfast position against" the Trump plan. Abdel-Fattah al-Sisi, Egypt's president, has postponed his trip to America. His foreign ministry said on February 11th that it was working on its own "comprehensive vision" to rebuild Gaza without removing the Gazans.

By all accounts, Mr Trump still desires a grand regional alliance between America, Saudi Arabia and Israel. That has become hard to imagine. The best hope is that Mr Trump's threats help convince Hamas to continue releasing hostages, preserving the ceasefire. His unworkable plan for Gaza may spur much-needed thinking on how to actually solve Gazans' woes. But for now, the president's interventions have made things worse, not better. ■

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Europe

- Germany’s “business model is gone”, warns Friedrich Merz
- Ukraine’s fears are becoming reality, after Trump talks to Putin
- Ukraine fears being cut out of talks between America and Russia
- Robert Fico’s pleas for cheap Russian gas bring Slovaks onto the street
- A new crackdown is gathering strength in Turkey
- Le Chat, the cat-bot France has pinned its AI hopes on
- How India became an unexpected role model for Europe

Europe | The man who could lead Europe

Germany's "business model is gone", warns Friedrich Merz

Germany's probable next leader talks about Ukraine, saving the economy and beating the AfD in an exclusive interview

February 10th 2025



IT IS A calm and confident Friedrich Merz who greets *The Economist* on February 7th at a luxury golf resort in Stromberg, a small town in Germany's Rhineland where he will campaign later in the day. Two weeks ago controversy exploded around the leader of the conservative Christian Democratic Union (CDU), after he relied on the hard-right Alternative for Germany (AfD) to get a non-binding motion urging restrictions on migration through parliament. Hundreds of thousands took to the streets in protest. But the row does not appear to have fazed the man hoping to become chancellor after the election on February 23rd. Getting migration and the economy right are essential, he tells us, if the AfD is to be kept out of power.

Mr Merz is very tall, thin and has a no-nonsense rhetorical style worlds apart from Olaf Scholz, the incumbent he hopes to unseat. His energetic campaign performances belie his 69 years. Polls suggest that the AfD controversy has not derailed his goal of a solid victory for the CDU and its Bavarian sister party, the Christian Social Union (CSU). If so, Mr Merz will have first dibs on the chancellery.

German election tracker: who's leading the polls?

For worried observers, Europe risks being left behind as China and America race ahead in innovative industries like AI. Mr Merz insists that Germany has no choice but to change. "The business model of this country is gone," he states bluntly. His response begins with a war on red tape. "We have to do serious work on this burden of bureaucracy," he says, blaming Brussels as well as Berlin. Asked for examples, Mr Merz rattles off a list of troublesome EU rules, including the due-diligence reporting standards that German business leaders loathe.

Second, Mr Merz will take an axe to the benefits system. "We have to concentrate our public spending", he says, "on not paying people who are not willing to work." On energy, another bugbear for German industry, he promises grid reform and "to build at least 50 gas power plants". There will be no return to Russian gas "for the time being", but Mr Merz is "absolutely" open to signing long-term contracts for (pricey) American liquefied natural gas. New nuclear reactors will be considered.

Mr Merz also wants to slash taxes and raise defence spending. Pressed on whether his sums add up, he appeals vaguely to the revenues from the growth he hopes to inspire (Germany has been in recession for two years), and says that "there is a lot of room for changes" in the €460bn ($474bn) federal budget. But many think the gap between aspiration and reality, including Germany's vast public-investment needs, means the constitutional debt brake, which limits the federal government's structural deficit to 0.35% of GDP, must be relaxed. "I'm open to discuss that," says Mr Merz. "But it is not our first approach."



Merz meets media

For the fiscal hawks of the CDU/CSU, reforming the debt brake would be a big step. But elsewhere Mr Merz hardly comes across as radical. “German industry is still strong,” he insists. Despite the world’s protectionist turn, and the prospect of tariffs from America, he insists that Germany’s export-led model can “definitely” survive.

Although he seems uncomfortable with the word “leadership”, Mr Merz is serious about restoring energy to Germany’s European policymaking, something other governments have missed under Mr Scholz. Strengthening the EU’s voice is a leitmotif of the Merz worldview, stretching from China policy to his support for Emmanuel Macron’s ambitions to bolster Europe’s defence industry. Mr Merz promises to energise the “Weimar triangle” with France and Poland, musing on military co-operation as well as joint projects in AI and quantum computing. He can imagine working very closely with Giorgia Meloni, Italy’s right-wing prime minister.

More fundamentally, Mr Merz supports a “concentric circles” idea of organising Europe in which some countries integrate deeply while others share less sovereignty and receive fewer benefits from the single market. “To be completely in or completely out is not the right answer,” he says,

referring to Britain's link to the EU. Greater concessions should have been made on the free movement of people to avoid Brexit, he believes.

As for Donald Trump, Mr Merz claims the American president's transparent approach means preparing to negotiate with him will be "very easy…'America first' means that he is committed to do the best things for his own country." Brussels should meet America's promised tariffs on EU exports as it did during Mr Trump's first term in 2018, Mr Merz says, with a targeted response that inflicts sufficient pain to concentrate minds.

On defence spending, mindful that simply meeting the NATO floor of 2% of GDP will be tricky enough once a special fund expires in 2028, he hesitates to commit to higher numbers, though accepts "it has to be more" in the long term. And if America insists that he moves more quickly? "It is not my task to make President Trump happy," Mr Merz snaps. Meanwhile, calls from EU partners for tweaks to fiscal rules to enable higher defence spending, or even joint borrowing, will get short shrift in a Merz chancellery. "I'm very sceptical about that," he says. Changing the EU treaties is "extremely complicated, and I don't see it in the foreseeable future".

An early test for Mr Merz may be American demands that Europe should take the lead on security guarantees for Ukraine if peace talks, announced by Mr Trump on February 12th, succeed. At the Munich Security Conference this weekend he will meet American officials who want their European counterparts to take on more responsibility, including J.D. Vance, the vice-president. Peter Hegseth, Mr Trump's defence secretary, said on February 12th that "America will no longer tolerate an imbalanced relationship which encourages dependency." But the hawkish Mr Merz, who once said "Peace can be found in any cemetery; only if there is freedom will there be peace," has yielded to a more cautious chancellor-in-waiting.

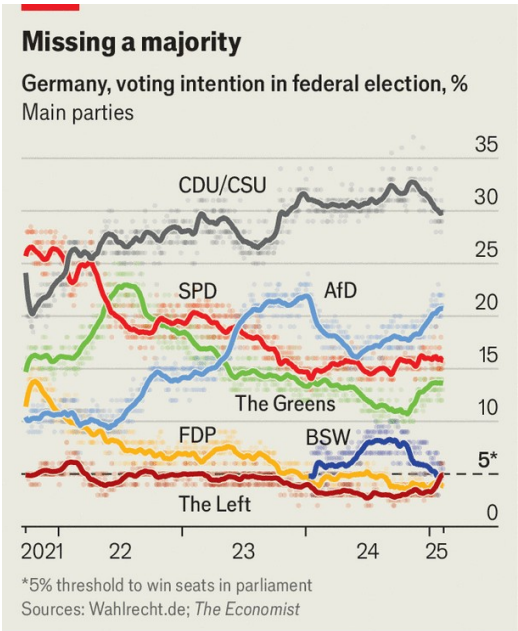
Sending peacekeeping troops to Ukraine "could be an option", he says, but "only after a reliable ceasefire". As for the security guarantees Volodymyr Zelensky demands, "a country at war is not a potential NATO member". Pressed, Mr Merz concedes he would eventually like to see Ukraine as "a country in peace in NATO", but adds it is too early to consider admitting a country without full control over its territory—at least until America has

clarified its policy. Mr Merz does, though, look favourably on American proposals to use frozen Russian assets to aid Ukraine.

Mr Merz's hesitancy is understandable. He has an election to win, and the constituency in Germany for fiscal splurges and placing troops in harm's way is limited. Yet even his stated proposals show flaws. The border controls and rejections of asylum-seekers he demands sit awkwardly with his professed pro-Europeanism; existing controls have already upset relations with Poland. Meanwhile, Mr Merz backs EU proposals to ease the flow of capital across the single market while rejecting what he calls the "extremely unfriendly" proposed takeover by Italy's UniCredit of Commerzbank, one of Germany's biggest lenders.

Defence of national champions aside, Mr Merz's zest for injecting America-style red-blooded capitalism into Germany's dozier model is genuine. He remains at ease in the world of boardrooms he inhabited in his decade in the private sector, notably as the chairman of the German arm of BlackRock, an asset manager. Acquaintances from that time, during which he became a multi-millionaire, speak of his quick-wittedness and leadership qualities.

He has certainly demonstrated resilience. Mr Merz quit politics in the 2000s after Angela Merkel bested him in a CDU power struggle. But in 2018, when she resigned the party leadership, Mr Merz shocked the political world by placing his hat in the ring. That bid failed, as did a second two years later. He got there in the end. Yet there remains frustration at his inability to seal the deal. Many think the CDU/CSU should be polling higher than its current 30%, given the travails of Mr Scholz's outgoing government. Mr Merz struggles with women and younger voters. And although his pledge never to enter coalitions with the AfD is serious, less than half of German voters believe it.



The Economist

As his opponents like to point out, Mr Merz has never run anything larger than the CDU's parliamentary bloc. But the tests will come quickly. He will need to woo either the Social Democrats or Greens (or both) into coalition talks, which he says he hopes to finish by Easter (April 20th). His team is frantically preparing a list of early actions to prove to cynical Germans that politics can still get things done. G7 and NATO summits follow in June.

Mr Merz ends with a stark vision of Germany's future. Fixing the economy and immigration, he says, will shrink the AfD—ideally below the 5% level needed to enter parliament. Fail, and a darker future awaits. "This could be one of our last opportunities to resolve the problems before the populists [win] a majority," Mr Merz warns. The German republic has long been one of Europe's strongest bulwarks against the far right. To some, Mr Merz's actions have weakened that firewall. To the man likely to take over the reins of Europe's largest economy, he represents its last chance. ■

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Europe | Going over their heads

Ukraine's fears are becoming reality, after Trump talks to Putin

A phone call sparks fear and dread in Kyiv and other European capitals

February 12th 2025



EVER SINCE Donald Trump vowed during his election campaign to end the war in Ukraine quickly, President Volodymyr Zelensky and his European supporters have feared abandonment by America. Their dread grew on February 12th, when Mr Trump spoke by phone with Russia's leader Vladimir Putin, without co-ordinating the details beforehand with Ukraine, and announced that negotiations to end the war would start "immediately". He later said he might meet Mr Putin in person in Saudi Arabia.

It was exactly the sort of unilateral American move that, just hours earlier, Mr Zelensky had warned against in an interview with *The Economist*. "If Russia is left alone with America, Putin with Trump, or their teams, they

will receive manipulative information," the Ukrainian president warned. European leaders said they should not be left out and insisted the West should seek to "put Ukraine in a position of strength".

Read more of our recent coverage of the Ukraine war

Supporters of Ukraine in the West accused Mr Trump and his entourage of making concessions to Mr Putin without getting anything in return. The Russian stockmarket rose. In global markets the oil price slipped by 3%, reflecting in part an expectation that negotiations could eventually result in the rehabilitation of the Kremlin and the lifting of Western sanctions on Russia's energy industry and wider economy.

Mr Trump has met Mr Zelensky twice in recent months—in New York in September and in Paris in December—and the two spoke after the call with Mr Putin. But Ukrainian officials say they were not consulted on the timing or the content of the call—a break with the Biden administration's stated policy of discussing "nothing about Ukraine without Ukraine" (though contacts between the White House and the Kremlin did take place behind the scenes).

Mr Zelensky nevertheless tried to sound positive after the news broke of the Trump-Putin conversation, posting on X, a social-media platform: "No one wants peace more than Ukraine. Together with the US, we are charting our next steps to stop Russian aggression and ensure a lasting, reliable peace. As President Trump said, let's get it done."

Mr Trump had once boasted he could get a deal done in less than 24 hours. That has not happened. But he is nevertheless moving fast, though with little sign of a real plan and much evidence of turmoil in his team.

Keith Kellogg, a former three-star general, had been designated as America's special envoy for Ukraine and Russia. But it was Steve Witkoff, Mr Trump's golfing buddy and now his Middle East envoy, who flew to Moscow on February 11th to bring home a detained American schoolteacher, Marc Fogel—a goodwill gesture by Mr Putin to prepare for the call with Mr Trump. Neither does General Kellogg figure in the negotiating team announced by Mr Trump: Marco Rubio, the secretary of

state; Mike Waltz, the national security adviser; John Ratcliffe, the CIA director; and the trusted Mr Witkoff.

Mr Zelensky has sought to position himself as a willing partner for peace, casting Mr Putin as belligerent, determined to press his meat-grinding advance into Ukraine. For a while Mr Trump seemed to share the view, even threatening tariffs and more sanctions against Russia if it refused to negotiate. Those close to his administration whispered that he understood that a deal would require much greater pressure on Mr Putin. Senior aides were sent to Europe to confer with Mr Zelensky and European allies at the Munich Security Conference that is starting on February 14th, and elsewhere.

But the president suddenly changed direction. On February 12th he announced on his Truth Social network his "lengthy and highly productive phone call" with the Russian leader. Mr Trump hailed their alliance in the second world war, gushed about the "great benefit" of working with Mr Putin and spoke of "visiting each other's Nations".

Negotiations require direct contacts. But Mr Trump is in effect starting to normalise relations with Russia without obtaining tangible concessions. Indeed, Mr Putin's spokesman said talks had to involve more than the cessation of fighting; it was necessary to "address the root causes of the conflict", which in Kremlin-speak means absorbing Ukraine into a Russian sphere of influence.



The Economist

If anything, it was America that seemed to make the early compromises. Pete Hegseth, the newly installed American defence secretary, said it was "unrealistic" for Ukraine to return to its international borders, given its territorial losses after Russia's intervention in 2014 and its full-scale invasion in 2022.

He conceded that "a durable peace for Ukraine must include robust security guarantees to ensure that the war will not begin again". But he seemed to stymie such guarantees in advance. He suggested that America would do little to provide them. Ukraine would not be admitted to NATO. Nor would America send forces to Ukraine to secure any peace agreement. Nor would it allow NATO to protect European troops that might be deployed there. Ukraine's security would be the task of European and non-European troops in a "non-NATO mission".

Future support for Ukraine is unclear. Mr Trump seems to be treating a possible agreement on American access to Ukraine's rare-earth minerals as compensation for tens of billions in past American assistance "with little to show". Mr Zelensky has suggested that he might agree to grant such access in return for continued aid, but Mr Trump has not yet accepted that.

Michael McFaul, a former American ambassador to Russia, posted on X: “Diplomacy 101: Don’t give anything without getting something in return. Don’t negotiate in public. Don’t negotiate about Ukraine’s future without first co-ordinating your position with Ukrainians.”

Mr Trump has long ignored American diplomatic conventions. Despite his unorthodox methods, though, some hope Mr Trump’s aides will shift him towards more orthodox policies. Kurt Volker, Mr Trump’s former envoy to Ukraine, thinks the president is trying “both to entice Mr Putin with warm talk and show he can put pressure on him”. In comments later in the day, Mr Trump seemed to adjust his position. “I’m backing Ukraine,” he insisted. He predicted that Ukraine might get some territory back, and said America would continue to support it as long as assistance was “secured”—perhaps a reference to a deal on rare earths. “If we didn’t do that then Putin would say he won,” added Mr Trump.

Even so, the mood among Ukrainian officials has greatly darkened. “I think it will all be decided without Ukraine,” says one. “Ukraine is fucked. And so is Europe, by the way.” ■

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Europe | An interview with Volodymyr Zelensky

Ukraine fears being cut out of talks between America and Russia

Hours before Trump's call with Putin, we spoke to an apprehensive Volodymyr Zelensky

February 12th 2025



Editor's note: *On February 12th President Donald Trump confirmed that he had spoken to Vladimir Putin. Mr Trump said they had agreed to start US-Russia negotiations "immediately", aimed at ending the war in Ukraine. Hours earlier we had interviewed Volodymyr Zelensky, who warned that negotiations that excluded Ukraine would be a dangerous betrayal.*

Volodymyr Zelensky, Ukraine's man of action, doesn't take to limbo easily. His five and a half years as president have been a series of brutal tests. But the waiting game is the most palpably frustrating. Three weeks after Donald Trump took office, the Ukrainian president still doesn't know what his plans

are for Ukraine. Mr Zelensky reveals only minimal contact with the new leader of the free world: just "a couple of calls" since a meeting in September. He says he is "sure" Mr Trump has no oven-ready peace plan. How could there be when no one has been consulting Ukraine about it? He is not being informed about contacts between the White House and the Kremlin; what he knows he gets from the press like everyone else. There are "probably" some ideas that he should know about, but he's yet to be told about them. "We haven't seen them, and we haven't heard any proposals." The fear for Ukraine is that a deal between Mr Trump and Vladimir Putin could be done over his head.

President Zelensky is in an oddly upbeat mood during an hour-long conversation in his presidential compound in Kyiv. His face is tired, but he has been keeping fit, the calloused palms of his hands testifying to the 7am gym sessions he squeezes in after sleepless nights of military reports and explosions. He even occasionally laughs, subduing the angrier edges of his personality, in what appears to be a communications push ahead of the Munich Security Conference that starts on February 14th. This conference could be the Trump team's signal to snap into action, he suggests. "There will be two large delegations [America's and Ukraine's], there will be meetings." Yet the mood music is ominous. Just a few hours after this interview, the American president declared on social media that there is "little to show" for support of Ukraine. "This war MUST and WILL end soon," he wrote. Mr Zelensky confirms he will sit down in Munich with Mr Trump's deputy, J.D. Vance, a man who once claimed to "not care what happens to Ukraine one way or another".

- A transcript of our interview with Volodymyr Zelensky

Mr Zelensky sidesteps that insult. "Honestly, I think the vice-president of the United States today is focused on domestic issues," he says. Ditto the rest of the Trump team. But he admits he still doesn't understand the new administration's real intentions. "We will be able to discuss some things at the meeting, and then I will find out their vision. I think the most important thing is that they hear our vision." He warns the Americans not to keep Ukraine out of the loop. That has been Mr Putin's aim from the start, he thinks, and he worries the White House could be easily misled: "If Russia is

left alone with America, Putin with Trump, or their teams, they will receive manipulative information."

The Ukrainian president is clearly concerned by some of the early signals coming from Team Trump. In January Marco Rubio, now secretary of state, suggested that both Russia and Ukraine must make "concessions" for peace. Too much, the Ukrainian president says, is being asked of the non-aggressor. Readiness to sit down with "the killer" (Mr Putin) is compromise enough. "Imagine that Hitler wasn't destroyed...Imagine that after everything he did to the Jews...people said, okay, let's look for a compromise." Mr Putin, he says, has "acted like Hitler" and the wrong type of diplomacy would rehabilitate him. Ukraine is ready to negotiate, but only with security guarantees that could hold Russia back from fresh aggression. A history of broken deals has shown that talks and ceasefires alone will not work. "Without a security guarantee, it's zero…[Putin] doesn't want any peace."

The trouble is that America and some European states appear unwilling or unable to make credible commitments of the kind Mr Zelensky is demanding. He admits that NATO membership is unlikely because of opposition from America, Germany and Hungary—though, he says, the latter would snap into line if ever Mr Trump asked. "No one is giving up." But if the door remains shut, Ukraine must "build NATO on its territory", meaning, he explains, a strengthened Ukrainian army. "We have to double it. Double. To be on the same level as the Russian army." Mr Trump can provide the security guarantees without asking Russia, he suggests, and Europe could help fund it, he insists. "Missiles, long-distance missiles and Patriot [air-defence systems]." Is there a plan B if none of this is possible? "This is plan B," he says.

Mr Zelensky has a warning for those who think that a quick deal undercutting Ukraine will make their lives easier. Western leaders focused exclusively on domestic politics are "delusional," he says. Mr Putin is coming for them too, he claims. "No one understands what war is until it comes to your home. I don't want to scare anyone. It will come. I'm just telling you the facts." Russia is increasing the size of its army, he says—by 140,000 last year and by 150,000 this year. He says he knows of plans to send most of them to Belarus under the pretext of training, in a worrying repeat of the exercises that preceded the full-scale invasion of Ukraine three

years ago. The assumption is that these troops might attack Ukraine. But what if they turned to attack Lithuania or Poland? “Why doesn’t anyone think that this will happen?” The maths do not look good for Europe, he insists. Russia has 220 brigades, roughly consisting of 3,500-5,000 men each. Ukraine has 110; Europe just 80. “Do you understand what is happening? Without Ukraine, Europe will be occupied.”

Mr Zelensky claims that his troops are holding their own against the Russian brigades, which remain focused on eastern Ukraine. The past year has seen Mr Zelensky and his troops struggle against a Russian war machine that is built on mass and fear. “If the guys aren’t going straight, they kill them.” Many have criticised Ukraine’s president for taking his time over mobilising more men, starving front-line units of soldiers and losing positions as a result. Mr Zelensky disagrees with them. Ukraine mobilised 30,000 a month over the last year, he claims. “It was, I think, a lot.” Yes, morale is up and down, people are tired. “This is life.” But the Russians feel it too, says Mr Zelensky. Western pessimism is misplaced. He denies that Ukraine’s lines are under serious pressure. If Mr Putin thinks he can win, it is only because he doesn’t understand the details, the losses. He cites intelligence that suggests the Russian leader is not getting information from his inner circle. “No one wants to spoil his mood, they’re afraid of him.”

Amid this moment of peril he insists that his own position is secure and he has public support. But there is growing dissent in the ranks, and he hints at it. “There are people who are very patriotic, and there are people who are not.” He dodges a question about his own future, and whether he will seek re-election, once an election can be held. That is not on his mind, he insists, perhaps unconvincingly. He is disdainful of comments made by Mr Trump’s special envoy for Ukraine and Russia, General Keith Kellogg, that Ukraine could hold elections during wartime. How could you run them in a city like Kharkiv, under daily Russian bombardment? “It’s interesting when General Kellogg thinks about the elections. He’s 82 [in fact, 80] years old, and he thinks about the elections in Ukraine.” The Ukrainian president insists that power has not poisoned him. That, after all, is what sets him apart from the man in the Kremlin. “And I have time, he doesn’t. He will definitely die soon.”

Mr Zelensky says he is determined that Mr Putin will not use a new American presidency to sideline Ukraine. “Look, I will not let Putin win. This is what I live by.” Ukraine’s president is sticking by his guns to get the maximum he can in the way of security guarantees. Less obvious is what, if anything, he can do if Mr Trump cuts a deal without him.■

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Europe | A populist turns towards Putin

Robert Fico's pleas for cheap Russian gas bring Slovaks onto the street

Protestors see him as a mini-Orban

February 13th 2025



OLD-TIMERS IN Bratislava still call Freedom Square "Gottko", harking back to Soviet times when it was named after Klement Gottwald, a communist leader of Czechoslovakia. On February 7th demonstrators packed it from end to end, protesting at the current Slovak government's overtures towards Russia. In total some 100,000 people turned out in rallies across the country. The flags of NATO and the European Union waved; demonstrators chanted "Slovakia is Europe" and called on Robert Fico, the prime minister, to resign. In Bratislava one of the heads of Peace to Ukraine, the main group organising the rally, accused Mr Fico of trying to "turn Slovakia into a Russian province".

The big Friday-night protests have been going on ever since late December, when Mr Fico flew to Moscow to meet Russia's leader, Vladimir Putin. They gathered force in January after Tibor Gaspar, an MP from Mr Fico's Smer party, blunderingly told an interviewer that Slovakia might one day consider leaving the EU. Mr Fico and other officials assured voters that the comment had no concrete implications. "All of Robert Fico's governments have fully declared their pro-European orientation," says Judita Lassakova, a Smer member of the European Parliament.

But the protests are about much more than foreign policy. Mr Fico has been prime minister four times, beginning in 2006. In 2018 he was forced to resign by huge anti-corruption protests, after investigations into the murder of Jan Kuciak, a journalist, revealed links between the government and underworld figures. Mr Fico was always a rabble-rousing populist, but his Smer party was originally left-leaning and pro-European. During his years out of government that changed: he began adopting the anti-vaccine, Russia-friendly language of Europe's far right.

After returning to power in October 2023 he abolished an anti-corruption police unit and a special prosecutor's office which was prosecuting Smer MPs. The government shortened the statute of limitations on corruption cases and reduced penalties for bribes. It transformed the state broadcaster into a pro-government mouthpiece. Heads of cultural institutions such as the National Gallery have been replaced by party loyalists. Mr Fico grew more radical after a failed assassination attempt last May. Many accuse him of leading an autocratic transformation of the state, like that of Viktor Orban in Hungary.

That is an exaggeration. The prime minister "is trying to follow [Mr Orban's] playbook, but he doesn't have the ingredients", says Beata Balogova, editor of *Sme*, an independent newspaper. He lacks the cadre of clever lawyers who helped Mr Orban reshape Hungary's legal code. Slovak oligarchs have not bought and neutered the major press organs. The courts remain reasonably independent. Where Mr Orban's party holds two-thirds of Hungary's parliament, Smer has a tentative majority dependent on fickle coalition partners.

Unlike Mr Orban, says Milan Nic of the German Council on Foreign Relations, a think-tank, Mr Fico has rarely obstructed EU support for Ukraine,

despite his pro-Russian rhetoric. His trip to Moscow was prompted by a practical issue: gas. In December Ukraine declined to renew the contract allowing Russian gas to flow through its pipelines to customers in the EU, chiefly Austria and Slovakia.

That struck at one underpinning of Mr Fico's popularity: low energy prices. Over two-thirds of Slovak households use gas, and consumer prices are fixed by the state. SPP, the government-owned gas distributor, has arranged to get some Russian gas via the Turkstream pipeline, but prices may rise by a third this year. Importing liquified natural gas through European ports is much more expensive, says Michal Lalik, head of SPP's trade division.

To close its fiscal deficit, which hit 5.7% of GDP in 2024, the government has raised the basic VAT rate from 20% to 23%. Inflation is rising. The business community is grumbling: the employers' association said Mr Gaspar's comment about leaving the EU was bad for the economy.

Mr Fico may yet serve out his term. But his coalition could soon fall to 76 of the 150 seats in parliament, or fewer. Several MPs have quit Hlas, a coalition partner founded by defectors from Smer. His other partner, the hard-right Slovak National Party, worries that Smer's turn to the right is cannibalising its electorate. With the party abandoning its focus on the welfare state, says Miroslav Beblavy, a former MP, "many Smer voters are not sure what it stands for."

The next demonstration, scheduled for February 21st—the anniversary of Mr Kuciak's murder—will probably be the biggest yet. Mr Fico has responded to the protests with wild charges. On January 31st he claimed, without evidence, that they were fomented by an armed Georgian group plotting with Ukraine and Slovak opposition parties to carry out a coup. Michal Simecka, the leader of Progressive Slovakia, the biggest opposition party, was dumbfounded. "You can repeat that it's a fantasy and that the only coup is taking place in Mr Fico's head, but you feel weird denying it because it's so absurd." ■

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Europe | Erdogan’s endgame

A new crackdown is gathering strength in Turkey

Opponents of all stripes are being targeted

February 13th 2025



TURKEY’s TV stars do not have it easy. The global success of the country’s soap operas, episodes that last up to three hours, and the frantic pace of production make for punishing work schedules. Actors regularly spend up to 16 hours a day on the set. But in the little spare time they have, some of them also plan and carry out armed coups.

That, at any rate, seems to be the view of prosecutors who ordered the arrest of Ayse Barim, a top talent manager, in late January on charges of “attempting to overthrow” Turkey’s government. The charges stem from Ms Barim’s involvement in the Gezi Park protests, which shook the country in the summer of 2013. Since her arrest, a number of celebrities who took part in the demonstrations, including Halit Ergenc, the star of “Magnificent

Century", a popular historical drama, have been hauled in for questioning by the authorities. Turkish prosecutors are now combing through archival footage of the protests, to determine which news outlets "legitimised" the unrest by reporting on them in an insufficiently critical manner.

Turkey's government, headed by President Recep Tayyip Erdogan, continues to frame the protests, which were triggered by the planned redevelopment of a popular Istanbul park but snowballed into wider demonstrations about freedom of assembly and expression, as a coup attempt. Five protesters, including Osman Kavala, a prominent businessman, have already spent years in prison, convicted on laughably weak evidence. (Turkey has ignored a ruling by the European Court of Human Rights ordering Mr Kavala's release.) But why prosecutors should now have ordered a new Gezi probe 12 years after the protests took place is unclear.

One reason may be to set the stage for a broader crackdown, signs of which are already apparent. On February 11th, police in Istanbul rounded up ten municipal officials from the opposition Republican People's Party (CHP) on terrorism charges. A week before that, prosecutors announced they would seek over seven years in prison and a ban from politics for Ekrem Imamoglu, the CHP mayor of Istanbul, Turkey's commercial capital and largest city, for "insulting" and "threatening" the city's chief prosecutor. Police have also arrested five journalists for broadcasting an interview with an expert witness said to have played a key role in the investigations against Mr Imamoglu and other CHP mayors.

Mr Imamoglu, a likely challenger to Mr Erdogan (or to his chosen successor if he does not run) in the next presidential elections is no stranger to such tactics. In 2022 a court sentenced him to more than two years in prison, pending appeal.

Mr Erdogan's Justice and Development (AK) party suffered a shocking defeat at the hands of the CHP in local elections last year. Turkey's leader is now out for revenge, and keen to brand the opposition as corrupt and beholden to armed groups, analysts say. The arrests, and the rehashing of the Gezi conspiracy, mean he may be preparing a decisive blow, through the courts, against Mr Imamoglu. "He's trying to intimidate artists and journalists," says

Berk Esen, a political analyst, “so when he decides to go after Imamoglu no one will dare protest or rally behind him.”

Kurdish politicians in Turkey have endured similar treatment, and worse, for years. Since 2016, well over a hundred democratically elected mayors from the country’s main Kurdish party have been sacked by decree and replaced by state appointees. Many have been arrested. The trend has continued since last year’s elections. The next in line may be Van, a city in south-east Turkey, whose co-mayor was recently given a prison term.

Another recent arrest, that of Umit Ozdag, a far-right politician accused of “insulting the president” and inciting public hatred against refugees living in Turkey, suggests that Mr Erdogan may also be looking to smother potential opposition to his government’s outreach to the Kurdistan Workers Party (PKK), the armed group Turkey has fought for the past 40 years.

On or around February 15th, the anniversary of his capture by Turkish agents in Kenya, the PKK’s imprisoned leader, Abdullah Ocalan, is expected to call on the group to disarm. The move, which follows months of secret talks, could put an end to a war that has claimed over 40,000 lives, and pave the way for concessions to Turkey’s 15m or so Kurds. Some Turkish nationalists, including Mr Erdogan’s allies in parliament, have dropped their long-standing objections to talks with the PKK. Mr Ozdag could be made an example to those who have not.

The next presidential and parliamentary elections in Turkey are scheduled for 2028. Mr Erdogan is preparing for them well in advance. ■

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Europe | A feline helper

Le Chat, the cat-bot France has pinned its AI hopes on

Mistral AI's chat assistant raises a pressing question

February 13th 2025



One pressing question at the artificial-intelligence (AI) summit in Paris this week was this: is Mistral AI's assistant a cat, or a chat? Called Le Chat and developed by a French startup as a competitor to ChatGPT, it launched as a smartphone app on February 6th. To the English speaker, Le Chat looks like a French twist on AI chat, which it conducts in English (and other languages). Yet at the jamboree President Emmanuel Macron plugged it using a soft "sh", rendering Le Chat distinctly feline. Arthur Mensch, Mistral's 32-year-old boss, says his baby is indeed four-legged. Look carefully at the icon in the shape of the letter M, he says: it is also a cat's face.

Days after it launched, Le Chat became the most-downloaded iOS app in France. Powered by chips from Cerebras, an American competitor to Nvidia, it is much faster to use than other AI assistants, including ChatGPT. Like China's DeepSeek, it uses open-source models; but unlike the Chinese AI assistant, Le Chat does not raise national-security questions. France's defence ministry, as well as Helsing, a German startup focused on intelligent strike drones, have signed deals with Mistral. "There's nothing like Le Chat anywhere else in Europe," says Verity Harding, a British AI specialist. "When you download it," declared Mr Macron, "you are helping a European champion."

As ever, trying to build champions was a core message in Paris, though one that was marred by a spat with J.D. Vance, America's vice-president, over regulation. The summiteers promised technology that would be "safe, secure and trustworthy"; he accused world leaders of wanting to "strangle" AI.

All the same, France unveiled €109bn ($113bn) in private, mostly foreign, AI investment over the coming years, much of it to go on data centres that can make use of the country's low-carbon nuclear electricity. This boost to France's AI sector well exceeds the £39bn ($49bn) that Britain says it will spend on AI. For all his political woes, Mr Macron was strikingly chirpy as he cajoled foreign tech bosses and leaders over *foie gras* and champagne at the Elysée Palace.

Le Chat has a long way to go. It is little known, even in Europe. Mistral is a dwarf among American tech giants. But in Paris it got the AI world talking. Ask Le Chat to explain its name wittily and it shoots back: "a conversation starter and a purr-fect marketing coup". ■

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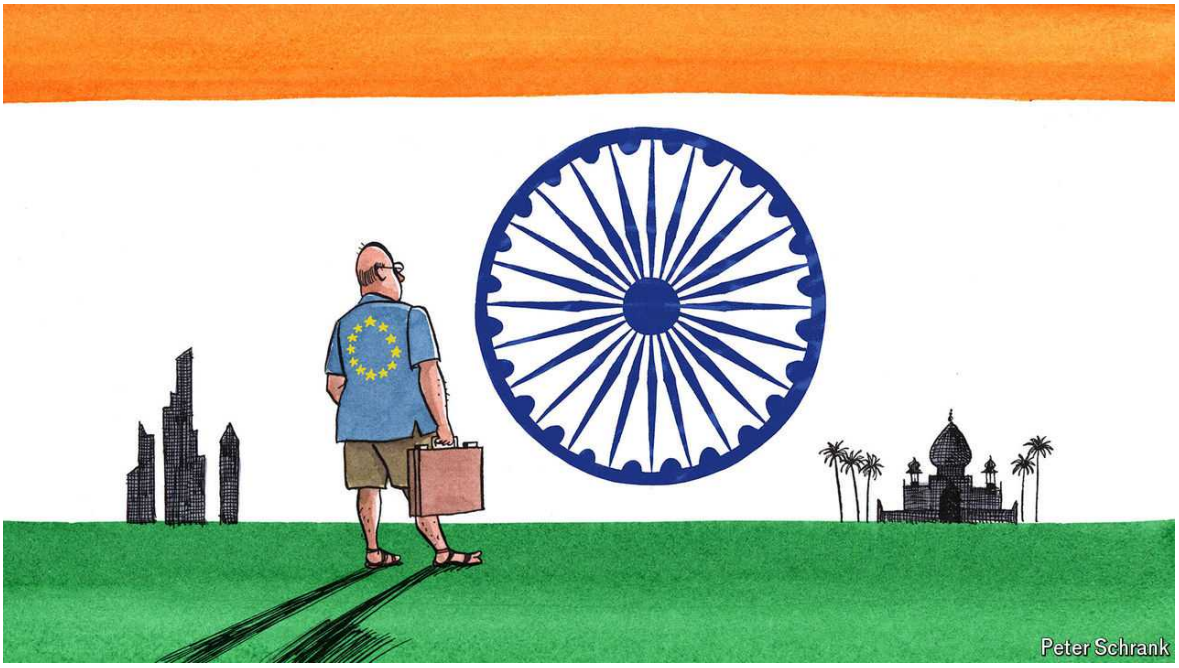
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Europe | Charlemagne

How India became an unexpected role model for Europe

Emulating India is not just about currying favour

February 13th 2025



Feeling a bit glum and in need of a reboot, plenty of middle-aged Europeans opt for a retreat in India, seeking the reinvigorating properties of a few yoga stretches and gallons of *masala chai*. Might the trick work for political federations as well? The entire team of 27 European Union commissioners is gearing up for a brief passage to India later this month, a rare mass excursion out of their small peninsula. For the Brussels-dwelling Eurocrats on tour, the bustling South Asian vibe on offer will mark a sharp contrast with their home turf, whose sclerotic economy is matched only by its gridlocked politics.

The visit will kick up lots of talk of a "strategic partnership" between the world's two biggest democracies. There will be earnest entreaties to agree on a trade deal, 18 years after talks began. Some touring officials will no doubt grumble about the grinding poverty, or the putrid Delhi smog. Europeans have long come to poorer countries with lectures on how backward locals should aspire to be more like them, with a focus on human rights, green rules and so on. That moralising tone might usefully be left behind in this case. For all India's flaws, an attentive European visitor will see much there that should make them envious—and that they might learn from. Once under the thumb of various European colonisers, India is an unexpected role model for today's EU.

The most desirable feature the wandering Europeans will come across on their trip is economic growth, something that feels as alien in their homeland as bland food might in Mumbai. True, the Indian economy has cooled of late, generating a mere 5.4% year-on-year growth at last count. Still, that is roughly 5.4% more than the euro area. For India, growing at an annual average rate of around 7% over the past decade or so has yielded more than higher living standards. The confidence in a bigger, richer future provides a spring in the Indian stride and geopolitical swagger that Europeans can hardly remember. As a rich place, the EU will not soon experience growth at Indian rates, nor will India soon reach European living standards (it aims to be a developed nation by 2047). Still, there are lessons for the EU to draw. Narendra Modi, India's prime minister since 2014, has sometimes been hesitant in his economic reforms. But the introduction of a pan-Indian Goods and Services Tax in 2017 removed internal economic borders between states to create a single market of the sort Europe harps on about endlessly, but fails to ensure works well.

Equally unattainable for Europe, but no less desirable, is its host's demography. India overtook China to become the world's most populous country in 2023—just as the EU population started shrinking for the first time since the Black Death in the 14th century. The median Indian, aged just 29, is in fine cricket-playing mettle. His European counterpart, in his mid-forties, needs a rest after softly kicking a football. India frets its "demographic dividend" may fizzle, and that it might get old before it gets rich. Europe, for its part, worries it will get poorer as it gets older, and its social-security system runs out of workers to pay for the swelling ranks of

retirees. If ever there was a place for EU policymakers to ponder the sustainability of their social model, India is it.

As representatives of federal Europe's top body, the commissioners will look with jealousy at India's governance. Though the EU is a concatenation of 27 nations that gel into an awkward polity, India is the mirror image: one proud nation divided into 28 states. The EU is a bloc with a few trappings of a country, such as a common currency, flag and a national anthem (though no lyrics). But European citizens lack a visceral attachment to their union, preferring their countries (or even regions) instead. Some assume it will always be so. How can a peninsula with two dozen official languages, different religions and cuisines ever spawn a coherent collective identity, with an army to boot? Europe is wondering; India has already shown the way. Not every facet of Indian politics is worth replicating. But whereas India suffers from bouts of crass majoritarianism, it can be hard for Europe's disparate coalition governments to come up with any sort of majority at all. India's polity is sometimes over-centralised; the EU's conversely can feel unworkable under the weight of vetoes wielded by national governments. Something for the Europeans to ponder over a biryani.

What of policies that Europe could emulate? India has pioneered digital public infrastructure that works. An "India Stack" of technology now links citizens' identity with their phones and bank accounts, making dealing with the still-hulking bureaucracy less daunting than it once was. Even more than Mr Modi, the Eurocrats should ask to meet Nandan Nilekani, an Indian tech grandee who pioneered the digital ID scheme, known as Aadhaar, and the whizzy services that go alongside it. A detour to Bangalore and its startup scene would prove enlightening for the EU brigade.

Indian summer

Beyond the elusive trade deal, much of the talk will be about geopolitics. India and Europe are both aspiring third wheels in a G2 world. Both fret about being dependent on China as a trade partner (and could use each other's help to diversify). Both also worry about America's Trumpian turn, though it is more obviously problematic for the EU. Without the kind of outside security guarantor that has underpinned European security for

decades, India has developed some measure of the "strategic autonomy" Europeans now crave. It has form when it comes to playing off potential partners against each other. Europeans winced when Mr Modi last year hugged Russia's Vladimir Putin in Moscow (perhaps unsurprisingly given Russia is still its biggest supplier of arms) while also getting closer to America. That is the type of diplomatic contortion even a yogi would struggle to pull off. Europeans may not like it, but they should at least try to understand it. ■

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Britain

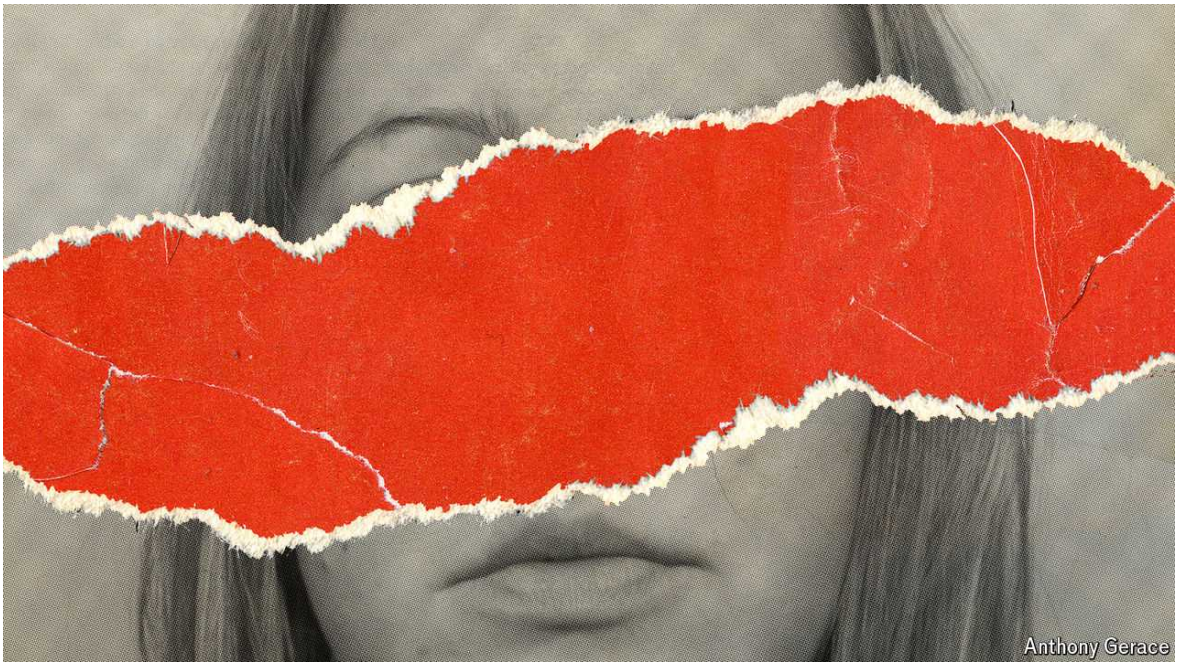
- It increasingly looks as if Lucy Letby’s conviction was unsafe
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Britain | Letby case

It increasingly looks as if Lucy Letby's conviction was unsafe

The case of a nurse jailed for killing babies exposes deep problems with British justice

February 10th 2025



IS LUCY LETBY guilty? The question has persisted since August 2023, when a jury found the nurse had murdered seven babies and tried to kill six others at the Countess of Chester hospital in north-west England. In the eyes of the state, for a long time any doubt over the conviction amounted to nothing more than a conspiracy theory. Ms Letby has had two appeals rejected; in July 2024, in a retrial preceded by nine months of reporting restrictions, a second jury found her guilty of another count of attempted murder. An ongoing public inquiry is predicated on her guilt. Its chair, Dame Kate Thirlwall, dismissed the speculation about the case as "noise".

Yet the doubts have grown. What started with a few sceptics became weightier with a *New Yorker* article and questioning by statisticians. Now eminent scientists and politicians are concerned, too. At a press conference in London on February 4th an international team of neonatal experts led by Shoo Lee, a retired Canadian neonatologist, concluded that all the deaths and injuries blamed on Ms Letby were in fact due to natural causes or medical errors. The findings have been sent to the Criminal Cases Review Commission (CCRC), an independent body with the power to refer cases back to the courts.

- The Lucy Letby case shows systemic failure and a national malaise

None of the experts goes so far as to claim that Ms Letby is innocent. The question is whether her conviction was based on unreliable evidence, and was thus, in legal terms, unsafe. If so, the former nurse could be the victim of one of the highest-profile miscarriages of justice in British history. Regardless of the outcome, the case raises troubling questions about the workings of the British state.

Part of the complexity lies in the fact that the case against Ms Letby was entirely circumstantial. There were no eyewitnesses, and there was no forensic evidence or any motive to speak of. There was, however, a sharp increase in the Countess of Chester's neonatal deaths. Over a period of 13 months in 2015 and 2016, 13 babies died, an unusually high number compared with the two or three deaths recorded in each of the previous years. Suspecting foul play, doctors accused Ms Letby, who was the nurse on shift during most of the incidents. Eventually the hospital trust reported the case to Cheshire Constabulary.

From the outset the police relied on flawed statistical analysis to build their case. They asked Jane Hutton, a medical statistician at the University of Warwick, to calculate the probability that one member of staff could so often happen to be on duty when the deaths or collapses occurred. Such an approach would be wrong, Professor Hutton told them: it risked equating a low probability of a series of events occurring with a high probability of guilt. Before looking for a suspect, they should first consider all possible explanations for the deaths and unexpected collapses, she suggested. The

police agreed to this analysis, but later dropped it as a line of inquiry on the advice of the Crown Prosecution Service (CPS).

The bulk of the case rested on medical evidence, interpreted for the jury by expert witnesses over ten months. Dewi Evans, a retired consultant paediatrician who had offered to help, was the prosecution's star witness. He spoke confidently about how the babies' sudden collapses and deaths had occurred: the only possible explanations, he argued, were that they had been variously injected with air, force-fed with milk, inflicted with trauma and poisoned with insulin.

Yet here too the evidence is not without controversy. During the first trial it emerged that a judge in another case had criticised Dr Evans's testimony as partial and "worthless". Dr Lee got involved after seeing that Dr Evans had misinterpreted a paper he had co-written in 1989 on air embolisms. The 14 experts from some of the world's best child-health institutes examined 17 cases involved in the trial. "We did not find any murders," said Dr Lee.

Instead they found explanations never heard by the jury. Many of the babies were premature and low-weight with chronic problems, making them more likely to die from natural causes. Most were cared for poorly. In one case the panel found that, rather than the air embolism Dr Evans had diagnosed, the baby had probably died of sepsis and pneumonia after her mother had not been given antibiotics soon enough. In another, the prosecution said Ms Letby had inflicted trauma to a baby's liver, but the panel concluded that a traumatic birth had caused the injuries.

Even the notion that two babies had been poisoned with insulin, a theory accepted on the stand by Ms Letby (while denying that it was she who did it), was contradicted. The panel said the theory had been premised on an incorrect interpretation of blood tests: the babies' insulin levels were within the normal range for preterm babies, the doctors said.

Beyond any individual errors, the neonatal unit at the Countess of Chester hospital also appears to have been fundamentally unsafe. Inadequate staffing, poor leadership and delays in seeking advice were picked up in a report in 2016 by the Royal College of Paediatrics and Child Health, a professional body—in keeping with shortcomings found in inquiries into

other maternity scandals in England. In a statement to the Thirlwall inquiry, one father recalled seeing a nurse Googling how to do a lung drain on his triplet.

Data from the Care Quality Commission, a regulator, suggests that the hospital failed to report two of the deaths attributed to Ms Letby. This included one baby who died of respiratory complications, exacerbated by a drug-resistant bacterium detected in her tracheal tube. At the trial an estate plumber described how there would sometimes be "sewage floods" in the unit. Poor plumbing, the panel noted, could be a factor in the bacterial infection. The hospital was slow to downgrade the unit after the spike in death rates, and had no robust procedures for investigating deaths. "If this was a hospital in Canada, it would be shut down," said Dr Lee.

None of this proves that Ms Letby is innocent. The prosecution relied on other circumstantial evidence: the confidential handover sheets Ms Letby hid under her bed as "trophies"; the handwritten notes ("I am evil, I did this"), though they may have been written as therapy. But in a case built on weak foundations, large cracks are appearing. "I think it's beyond reasonable doubt that this conviction is not safe," says Professor Hutton. "Not only that; in my opinion, it's beyond reasonable doubt that there should never have been a trial."

Back to court?

Whether the case collapses is another matter. Ms Letby's defence team failed to present any of the new evidence during the trial—and appeals require fresh evidence that could not have previously been considered. The only witnesses the defence called were Ms Letby herself and the plumber. "Our system in this country is very much one bite of the cherry," says Glyn Maddocks, a lawyer who has successfully appealed against miscarriages of justice. He points out that successful applications to the Criminal Cases Review Commission are incredibly rare.

Still it seems "quite likely" that the CCRC will refer the case back to the Court of Appeal, reckons Lord Ken Macdonald, a former head of the CPS. The review body is still reeling from the recent high-profile case of Andrew

Malkinson, who spent 17 years in prison after being wrongly convicted of rape. It will not want another. Yet any decision will take time, not least because the CCRC is badly underfunded. What the appeal court would do in the event of a referral is also hard to predict.

Whatever happens, the case has not only revealed horrors in the way hospitals care for babies. It has exposed deep flaws in the criminal-justice system, and risks further undermining faith in the law. "Surely it is telling us as a nation that we need to reflect on whether our processes are working as we would want them to," says Professor Neena Modi, a neonatologist, who was also on the expert panel. Doing so will bring new heartache to the victims' families. But the safety of future victims depends on it. ■

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Britain | Criminal incompetence

Britain’s review body for criminal convictions is struggling

The Criminal Cases Review Commission needs more money and a wider remit

February 13th 2025



On February 3rd the Criminal Cases Review Commission received an application from Lucy Letby’s lawyers claiming the former nurse is not, in fact, a baby-killer. The CCRC must now determine whether to refer her case to the Court of Appeal. It probably will. But she would be one of the very few. Of the 1,442 applications reviewed last year, 98% were denied referral.

The CCRC was established in 1997 to restore confidence in the judicial system. Wrongful convictions had racked up. The Guildford Four, Birmingham Six and Maguire Seven were found to be innocent of murder after many years in prison. As an independent body, the CCRC would “challenge and think

differently". It is mandated to ask if there is a "real possibility" that the Court of Appeal would overturn the conviction in light of fresh evidence or trial errors. If evidence has been presented at court—however poorly—it cannot be presented again.

Andrew Malkinson spent 17 years in prison for rape he did not commit. Twice the CCRC denied him referral, although forensics had been misinterpreted. Only when new DNA evidence emerged did the CCRC refer the case. His conviction was overturned.

Last year the CCRC's chair resigned after a review of its handling of Mr Malkinson's case argued it was "too cautious". Now the CCRC is rudderless while handling more applications than ever, on a squeezed budget. ■

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Britain | Carrot and stick

Parliament is advertising for a new Black Rod

The post offers carrot, as well as stick

February 13th 2025



The job advertisement is at once both clear and coy. It states that the successful candidate will demonstrate “strong interpersonal and influencing skills”, a “calm manner” and “excellent communication skills”. What it does not add is that, once a year, those “excellent communication skills” and “calm manner” will be put to use by hitting a big door in Parliament three times with a big stick while the king sits nearby, waiting, on a big gold throne.

The role of Lady or Gentleman Usher of the Black Rod is becoming vacant. It is an appealing post that, the advert explains, offers carrot as well as stick. The successful candidate will benefit from a salary of £87,000-114,000 a year ($108,000-142,000) and from “generous civil service pension

schemes". There are other perks: Black Rod also gets a corner office ("Black Rod's box"); good job security (the role began in 1350 and seems unlikely to stop soon) and an almost unparalleled ability to wear tights and ruffles in public.

On the downside, they will have a slightly odd job title. Though Britain offers odder. The Royal Household, similarly, if rather more flashily, has a "Gold Stick", a "Silver Stick" and a "Silver Stick-in-Waiting" (they are deputy to the Gold Sticks). Meanwhile the nearby College of Arms employs a "Portcullis Pursuivant" and a "Rouge Dragon Pursuivant".

With the typical opacity of the English establishment, few of these titles are very explanatory: Portcullis Pursuivant spends little time with portcullises; the Rouge Dragon spends little time with dragons. By comparison, the title of Black Rod is practically pellucid: Black Rod has a black rod. Naturally, it is called a "staff".

Most imagine that the role of Black Rod largely involves walking round in tights. But there is rather "more to it than that", says an insider. Black Rod doesn't merely attend the state opening: she helps organise it, and other ceremonial events. There are other duties: Black Rod is also an usher of the Noble Order of the Garter, the Serjeant-at-Arms in the House of Lords and Secretary to the Lord Great Chamberlain. A series of titles which feel less like a job advert than a paragraph in a Tolkien novel.

The role, which is initially offered for three years, might sound silly but it has been held by some serious people. The current Black Rod, Sarah Clarke, ran Wimbledon before she ran the Lords. All the Rods before her had been men, many of them military men. This helped them perform some of Black Rod's many roles (such as seeing to the security of the Lords) but not others ("hairy legs", says the insider darkly, can play havoc with too-thin tights).

The role may be traditional but, as the advert is keen to explain, the hiring process will not be. The House of Lords, like the House of Commons, is "committed to becoming an even more welcoming, inclusive and diverse organisation". Both houses are keen to welcome all types of people. Unless, of course, you're the king or Black Rod. In which case, the Commons will shut the door in your face. ■

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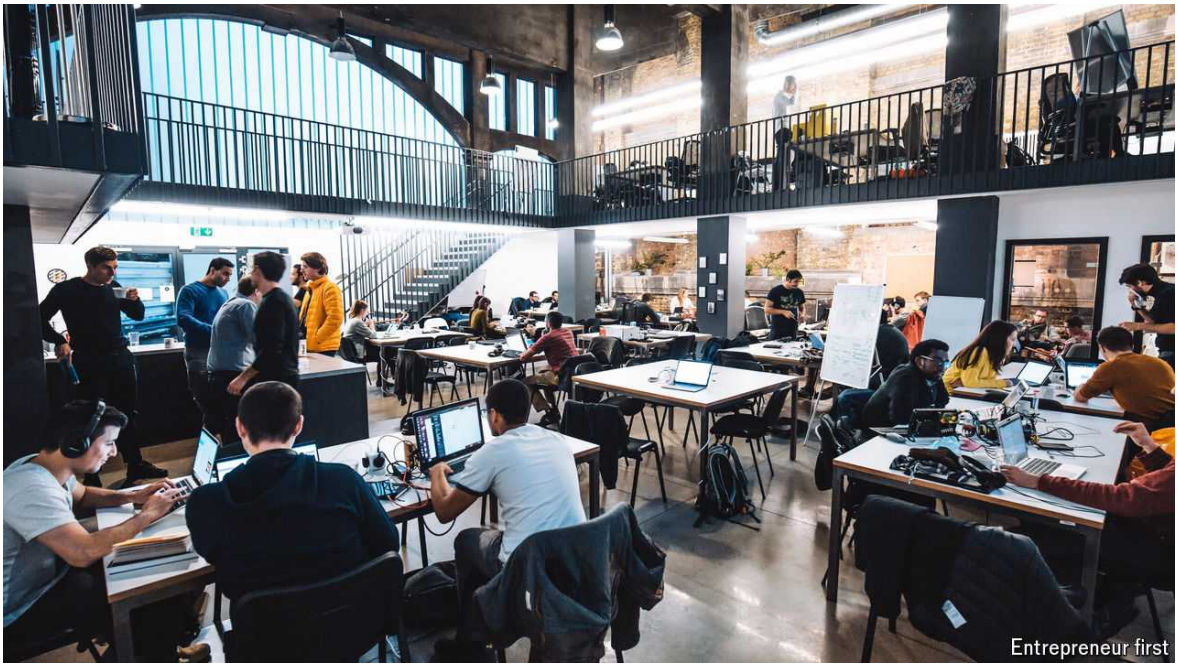
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Britain | Founders and flyers

A British incubator of businesses often bound for the Bay Area

Entrepreneur First has taken an American tilt

February 13th 2025



LAST MONTH Jemima Bunbury and Daan Ferdinandusse incorporated Sartor Technologies, their fashion-tech startup, in America and started decamping from London to San Francisco to seek a seed round of funding—barely three months after they met. They got together at Entrepreneur First (EF), an incubator for startups that was founded in London in 2011 by Alice Bentinck and Matt Clifford, two alumni of McKinsey, a consultancy.

EF curates cohorts of wannabe founders, throwing 40 of them into a room; they must couple up within weeks or face ejection. Ms Bunbury and Mr Ferdinandusse are a classic EF pairing of a sector expert and a tech type. She

is a 26-year-old Brit who has worked in venture capital and fashion; he is a 27-year-old machine-learning engineer from Amsterdam.

As Britain's Labour chancellor, Rachel Reeves, seeks a boost to growth from entrepreneurship, EF is worth watching. EF has launched more than 800 startups with a combined paper value of $11bn. Its programme, run from offices in Bangalore, Paris and San Francisco as well as London, forces founders to demonstrate traction quickly and stress-tests their businesses for venture-capital investment. EF's staff look for founders who can work productively while hunting for problems with a big potential market. Like reality-TV producers, they step in to tweak the rules or break up couples if things are not working out too well.

After eight weeks EF backs successful teams with a $125,000 investment in exchange for an 8% stake. The process can be stressful (your correspondent, who went through the programme in 2017, can attest to that), but having a peer group in the same situation helps, says Mr Ferdinandusse. Mr Clifford, who was EF's first CEO, has recently taken on additional responsibilities with the British government, chairing the Advanced Research and Invention Agency, a government-backed R&D-funding agency established last year, and advising the prime minister on artificial intelligence. Ms Bentinck stepped into the CEO role at the end of 2023, with Mr Clifford moving to become chairman.

EF's portfolio includes Cleo (a fintech firm), Permutive (an adtech platform) and Aztec Protocol (a blockchain-privacy company). It employs 110 people. Ms Bentinck says she is proud of the "enormous" returns EF has generated for its investors and its longevity in a market where many accelerators survive only a couple of years. EF now attracts thousands of applicants for each cohort. Part of its challenge is diverting the ambitious away from steady six-figure salaries in finance or consulting. "We've made founding not just viable but an aspirational pathway and career for a bunch of people who didn't even realise that was possible," says Ms Bentinck.

Yet early-stage investing is hard, with any returns coming only years down the line. To date, EF-backed firms have racked up a modest $800m in exits. And none of its portfolio companies has the name recognition of Airbnb,

DoorDash or Stripe, which emerged from Y Combinator, a San Francisco-based accelerator.

To grab some of that Silicon Valley sparkle, Ms Bentinck has pushed EF towards America since becoming CEO. Most founders now move to San Francisco for the programme's final stint, hoping to catch the eye of the world's biggest venture capitalists. Ms Bentinck herself was seconded there last year for the launch of EF's hub. Seven of the 11 firms in EF's latest cohort were incorporated in America.

California dreamin'

Although Britain dominates Europe in venture-capital funding, the capital available is still an order of magnitude larger in America. And California's appeal is as much cultural as financial, according to Ms Bentinck. "The Bay Area still has an enormous draw for the most talented technologists," she says. "They want to be based in the birthplace of modern computing and they want to be surrounded by people who validate their life choices."

Succumbing to California's gravitational pull might not impress Ms Reeves. The same week the chancellor said she wanted Britain to be "the best place in the world to be an entrepreneur", Sartor's CEO was boarding a plane to Silicon Valley. Is EF's tilt to America a worry for Britain?

Not if it makes it easier for British startups to raise funds and keep going. However, it becomes a problem if over time it pulls their operations and focus to America. Reid Hoffman, a co-founder of LinkedIn, who sits on EF's board, says that the accelerator has a duty to give participants every advantage. "If building a bridge between the UK and the Bay Area can help scale that business, then that is what EF is going to do."

Mr Hoffman and the EF team hope that some of their portfolio companies will come back to Britain after picking up valuable experience in Silicon Valley. Asked if Sartor is likely to remain in America, Ms Bunbury sounds more pragmatic than patriotic: "It will depend on what's best for the business," she says. ■

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Britain | Romance in Britain

Valentine’s Day may need to adjust to the times

Changing dating habits mean fewer couples and more throuples

February 13th 2025



IT IS SUPPOSED to be the most romantic day of the year. On Valentine’s Day you typically take your partner by the hand through a crowded restaurant, then do your best to maintain loving eye contact across a table while ignoring the other couple sitting uncomfortably close to you. You try to enjoy an overpriced meal on Cupid’s busiest night.

Love it or hate it, Valentine’s Day has become deeply entrenched as a celebration for couples in Britain and beyond. Last year, according to a survey by YouGov, a pollster, nearly half of adults in Britain marked the day in some way. Yet the ways they do so are changing.

Some traditions, it is true, remain firmly in place. Sections of stores become a sea of pink. Giving a card to a loved one is still common (43% of Britons who celebrate Valentine's Day did so last year, according to YouGov), as are gifts of chocolates (25%) and flowers (20%). But perhaps surprisingly, given the reputation of a romantic meal as a core part of the ritual, last year only 6% of Britons went out for a Valentine's dinner with their partner or date. Instead, many more opted for a quiet night in with a home-cooked meal or a takeaway.

That points to social changes that are bound to affect a day dedicated to romance. In 2023 almost 40% of the adult population in England and Wales were reported to be single, up from 30% in 2001. Of course, that need not stop people from celebrating on February 14th: some women may chose to indulge in "Galentine's Day", a term coined some years ago to describe a version of the occasion focused on enjoying it with friends rather than lovers.

For others, the challenge is not the lack of a partner but rather the number of them. Alternative forms of romantic connections are becoming increasingly popular, including polyamorous ones in which individuals have more than one partner at any given time. Another YouGov poll, in 2023, found that up to 13% of adults in Britain had considered, or participated in, this type of relationship. A different YouGov survey conducted in 2015 found that 2% of British adults had been in such consensual open relationships.

The user base of Feeld, an online app for "alternative dating", has been growing in leaps and bounds in recent years. The platform caters to "open-minded individuals" seeking multiple partners, without stigma. As more young adults appear to be using their 20s and 30s to focus on themselves, their careers and their identities, the expectation of exclusivity and commitment in relationships may be less important than it used to be.

It is not clear how durable these trends will prove. But the dating game is becoming more fluid in Britain. If restaurants want to keep up their Valentine's Day trade, they may want to start offering more tables for three. ■

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Britain | Urban demography

London is ageing twice as quickly as the rest of England

Partly because it's a nice place to be old

February 13th 2025



Some londoners dream of retiring to cottages by the sea. But Nick Sanderson, the chief executive of Audley Group, believes that desires are shifting. His company has built flats for retirees in Clapham, in south London, and will soon start building 150 more in Brent Cross, in the north-west of the city. It hopes to create a retirement village in Canada Water, in the east London docklands. "Why would you choose to go and live out in the middle of nowhere?" he asks.



The Economist

London's population is certainly altering. Between 2011 and 2023 the median age of its inhabitants rose by two years, from just under 34 to just under 36. Although the city is younger than England and Wales as a whole, it is ageing more than twice as quickly. Compared with cities like Exeter, Manchester and Nottingham, which have universities and relatively cheap homes, it seems decidedly creaky (see chart).

A report published last month by the Resolution Foundation, a think-tank, suggests that three changes are responsible for this trend. London has fewer babies than it used to. Young adults make up a smaller share of its population than in the past. And the ranks of the middle-aged and old are swelling.

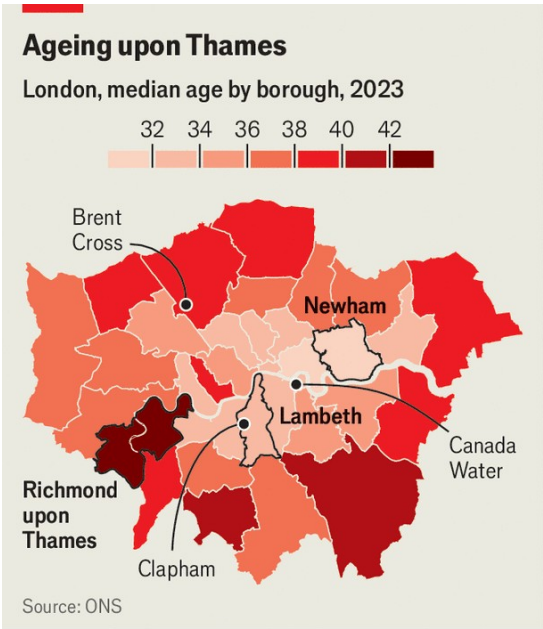
London experienced a remarkable baby boom in the first decade of this century. Since then it has suffered a crash. Between 2010 and 2023 the capital's fertility rate, which is expressed as the number of births per woman, fell from 2.0 to 1.4—a slightly faster decline than in England and Wales as a whole. The fertility rate in inner London is 1.2, close to the national levels in Italy and Japan, two rich countries that are well known for their rapidly ageing populations. Around the capital, primary schools are closing.

The shortage of young adults might not be quite as acute as official statistics suggest. Recent population estimates are influenced by the last census, which was conducted in the covid-ravaged month of March 2021. Around that time, some young people abandoned their cramped city-centre flats for suburbia. Now that covid is a mere nuisance, and more employers are insisting that people work in the office, a portion may have crept back into the city, unnoticed by statisticians.

But perhaps not a large portion. The pandemic, and the rise in home-working that it triggered, wiped out some of the retail and hospitality jobs that used to draw young people to London. An index of transactions at Pret, a sandwich chain, shows that sales in shops serving London's city workers were just 63% of pre-pandemic levels last October.

Maybe it's because I'm a pensioner

Immigrants, who are often young, seem to be shunning the capital for cheaper places outside the city limits, such as Thurrock to the east and Watford to the north. Between 2011 and 2021 the proportion of foreign-born people in Newham, an ethnically diverse borough of inner London, was flat. In Lambeth, another inner London borough, the share fell. When Britain left the EU in 2020 it created an immigration system that favours health and care workers. Health and care jobs can be found all over the country, not just in London.



The Economist

The baby bust might end; young adults could return to the city. By contrast, the rise of middle-aged and old people appears to be inexorable. The Greater London Authority (GLA), which oversees the capital, estimates that the number of people aged 50 or over rose by more than 400,000 between 2014 and 2024, accounting for more than four-fifths of overall population growth in the city. The GLA expects similar growth over the next decade. Parts of suburban London, such as Richmond upon Thames, in the west, are greying at high speed.

"The culture has changed," argues Patrick Devlin, an architect who designs retirement homes, among other buildings. The desire to move to a seaside bungalow is giving way to the desire to live near friends and cultural amenities. London is exceptionally well supplied with the latter, and with superb public transport, which can be ridden gratis by Londoners from the age of 60 (elsewhere people must wait until 66). Despite the paranoid rants of some American populists, the city has grown safe. Cumbria and Hampshire have higher rates of violent crime.

"It's a more pleasant city to live in—if you have the money," says Richard Brown, a London-watcher. Middle-aged and old Londoners often do have the money, or at least the wealth, because they bought their homes when

prices were more reasonable than they are today. Others settle as close to the city as they can, and commute when they must.

In the long run, the fact that London is such a hard place for children and young adults should be concerning, because it suggests that the city could gradually become less exciting and dynamic. For now, however, there is a concert at the Royal Festival Hall, and a bus is pulling up. Where's that free pass? ■

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Britain | Bagehot

Is Sir Keir Starmer a chump?

Those in government seem to think so

February 12th 2025



Sir Keir Starmer KC is among the most successful British politicians of the past half-century. In just four years, Sir Keir took the Labour Party from its worst defeat since 1935 to a 411-seat landslide result that puts him above Clement Attlee and just below Sir Tony Blair in the pantheon of Labour prime ministers. This came after a garlanded career as a human-rights barrister, in which a man from a modest background rose to the top of a profession that is both snobbish and competitive. Now, aged 62, Sir Keir stands atop a political system that gives near-untrammelled executive power to someone with a colossal majority in Parliament. And yet a simple question is asked in Westminster: is the prime minister a chump?

Those around the prime minister think so. “Get In”, a new account of Sir Keir’s rise by Patrick Maguire and Gabriel Pogrund, offers a glossary of their thoughts in a book that is as excruciating as it is insightful. “It’s impossible to work out whether Keir realises he is a pawn in a chess game,” says one anonymous adviser. “Or does he like being a pawn in a chess game, provided it makes him powerful?” Another chosen metaphor is the Docklands Light Railway, a driverless train line in south-east London: “Keir’s not driving the train. He thinks he’s driving the train, but we’ve sat him at the front of the DLR.”

At times, the leader of a G7 country is seen as nothing more than a useful idiot by those closest to him. Instead, Morgan McSweeney, the prime minister’s chief of staff, serves as both head and heart for Sir Keir. The prime minister, runs the logic, is simply not a politician. Or as Mr McSweeney puts it: “Keir acts like an HR manager, not a leader.” Even those who praise the prime minister end up burying him. Peter Hyman, a former Blairite adviser, said: “Unlike other leaders I’ve seen, he’s very experiential.” Sir Keir learns by doing, like a toddler squishing playdough through his hands.

In this telling, when Sir Keir is master of his own destiny it invariably leads to some concrete-footed error. He is, after all, a human-rights lawyer who accidentally endorsed war crimes on a radio show when discussing how Israel could respond to the attacks by Hamas in October 2023. This was duly turned into viral videos that crushed the party’s support among Muslims, formerly a solid base that shows little sign of returning to the party.

A low opinion of the man in 10 Downing Street is not limited to underlings. Cabinet colleagues regard Sir Keir with a mix of curiosity and contempt. The cabinet is full of political animals, who do not see Sir Keir as one of their own. Sir Keir professes to dislike Westminster politics and the Labour Party’s internal shenanigans; others live for it. None of those at the top of government—whether Rachel Reeves, the chancellor, Wes Streeting, the health secretary, or Pat McFadden, who runs the Cabinet Office—initially thought Sir Keir was right for the job. Sir Keir’s rise is best explained by luck and circumstance. Rank jealousy is always an underrated factor in politics. How are *you* living *my* dream?

Many in the cabinet behave as if the prime minister is simply not there. Britain has come to expect imperial prime ministers, who dominate departments. Under Sir Keir, Downing Street has overseen decolonisation. Power resides once again with cabinet ministers, who are going feral. Departments veer in different ideological directions. Sometimes this is harmless. When it comes to health, the solution is more choice for patients and less cosseting of producers; in education the recipe is the opposite, with teachers coddled and choice a dirty word. Sometimes, however, this incoherence matters. An all-out push for development by the Treasury pulls against the headlong rush towards net zero. It is a tension that will snap soon enough.

If Sir Keir is a pawn, then he may be sacrificed. At the moment, this would be a bad move for those who profess to control him. For now, Labour members—a soft-hearted bunch, according to the hard-hearted men around the prime minister—choose the next leader and therefore prime minister. What if they pick the wrong person? Switching Labour's rules to ensure only MPs pick the leader when in power would solve that. It could be sold as a "Liz Truss lock" (Ms Truss was foisted on Conservative MPs by the party's strange members). Allowing this change would be the equivalent of Sir Keir painting a target on his chest and marching across a shooting range. It would, in short, be the actions of a chump.

Vote chump!

By demeaning the man they serve, Sir Keir's advisers and colleagues damn themselves. Those who insist they are actually running the show have staged a farce. Labour squandered its first months in power with rows between self-regarding advisers and a symphony of "I thought you had the plan"-type excuses. This time last year Labour was polling above 40 points. Now it is on a little more than half that. Advisers rarely last when well-known outside Westminster. "Loudly call your boss a chump" is, funnily enough, not a quote from Machiavelli's "The Prince".

Westminster is a world in which individual genius or idiocy is always seen as the reason for something going well or badly. Yet the historic political success of Sir Keir crashes against the plodding reality of the man. A deeply

flawed prime minister can still succeed. For all his failings, Sir Keir still polls above all of his alternatives. Kemi Badenoch, the leader of the opposition, is held in contempt by her own Conservative Party, which in turn has yet to grapple with its own unpopularity. Nigel Farage brings Reform a high floor and a low ceiling. Sometimes things are beyond the control of individual politicians and advisers. Sir Keir is proof that context matters far more than the content. Even a chump can make it to the top. ■

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International

- China’s stunning new campaign to turn the world against Taiwan

International | Semantic strikes

China’s stunning new campaign to turn the world against Taiwan

Seventy countries have recently backed “all Chinese efforts” to take the island

February 9th 2025



FOR THOSE anxious about Chinese aggression towards the self-ruled island of Taiwan, there was a welcome signal at the end of Donald Trump’s third week back in the White House. After talks with Ishiba Shigeru, the Japanese prime minister, on February 7th, the two leaders said America and Japan “opposed any attempts to unilaterally change the status quo by force or coercion” in relation to Taiwan, which China claims as its own.

This steely new language was a victory in America’s long quest to get its allies to show more solidarity with Taiwan. Yet in the battle for global backing over the island’s fate, China is rapidly gaining ground. By *The*

Economist's count, 70 countries have now officially endorsed both China's sovereignty over Taiwan and, just as crucially, that China is entitled to pursue "all" efforts to achieve unification, without specifying that those efforts should be peaceful. Moreover, the vast majority of those countries have adopted that new wording in the past 18 months, after a Chinese diplomatic offensive across the global south.



Our findings are consistent with those in a recent study by the Lowy Institute, an Australian think-tank. It found that by the end of last year 119 countries—62% of the UN's member-states—had endorsed China's preferred wording for accepting its claim to sovereignty over Taiwan. Of them, 89 also backed China's unification efforts, with many supporting "all" such measures. (The Lowy Institute study did not quantify the latter group or specify when they adopted this expansive language.)

China's latest diplomatic push appears to be designed to secure global support for its broadening campaign of coercion against Taiwan. That campaign includes the threat of imposing a quarantine or inspection regime on Taiwan (huge Chinese military drills in October practised a blockade). A full-scale invasion does not appear imminent, but American officials say that China's leader, Xi Jinping, has ordered his generals to have the capability to invade Taiwan by 2027.

China wants protection from the sanctions that Western officials have discussed imposing in the event of a Taiwan crisis. By ensuring much of the world recognises the legitimacy of its actions, it makes it unlikely that sanctions or even censure could be imposed via the UN. It also means that global compliance with Western-led sanctions might be even lower than has been the case after Russia's attack on Ukraine.

"It is plausible to conclude that nearly half of UN member-states have, intentionally or not, formally endorsed a PRC (People's Republic of China) takeover of the island," noted Benjamin Herscovitch, a former Australian defence official, in the Lowy Institute study. How these countries would actually respond is unclear, he adds, but China would probably "portray these countries as having given the green light for its use of force".

The 70 countries adopting the most pro-China language span Asia, Europe, Africa, Oceania and Latin America; 97%, including South Africa, Egypt and Pakistan, are in the global south. In many of these countries, China has secured access to critical natural resources and financed ports and other transport projects through its Belt and Road infrastructure scheme.

Among the most recent examples is Sri Lanka, where Chinese companies have invested in two strategically important ports. When its president, Anura Kumara Dissanayake, visited China in January a joint statement said, for the first time, that Sri Lanka "firmly supports all efforts by the Chinese government to achieve national reunification". That replaced a more vague phrase in a joint statement in 2024, which backed China's efforts to "safeguard its sovereignty and territorial integrity". Similar new wording appeared in a joint statement with Nepal in December.

One of China's biggest coups came in September, when 53 African governments signed a statement in Beijing. They agreed that Taiwan was Chinese territory and said that Africa "firmly supports all" China's unification efforts. At the previous such summit, in 2021, they did not explicitly mention Taiwan but backed "resolving territorial and maritime disputes peacefully".

Even Malaysia, which has its own territorial dispute with China and typically avoids taking sides on Taiwan, has leaned towards the Chinese

position. In a joint statement in June 2024 Malaysia used new language recognising Taiwan as Chinese territory "in order for China to achieve national reunification". It stopped short of endorsing "all" unification measures, but dropped an earlier call for "peaceful" efforts to that end.

The shift suggests that China's influence in the global south continues to grow even as its overseas lending has declined and many developing countries have had problems servicing Chinese loans. America and its allies, meanwhile, have failed to incentivise poor countries to resist Chinese pressure over Taiwan, partly because of a reluctance (until Mr Trump came back) to link aid to foreign-policy goals.

Because there are so many developing countries, they could play a decisive role in judging the legitimacy of any Chinese act of aggression against Taiwan—and of any American-led attempt to intervene. China would rally support for its actions at the UN, while America and its allies would urge members to join them in condemning China and imposing sanctions. And the West, it seems, would face a far tougher battle than it did in March 2022, when 141 of 193 UN members backed a resolution in the General Assembly demanding Russia's withdrawal from Ukraine.

China's diplomatic offensive appears to be linked to the war in Ukraine, says Ja Ian Chong of the National University of Singapore. "Looking at the diplomatic isolation Russia faced, they'd prefer to avoid that," and to ensure that China-friendly countries continue to supply oil and other resources (or allow trans-shipment through their ports) in a conflict over Taiwan, he says. Besides, he adds, China "likes to appear legitimate".

Dr Chong did a study of national positions on Taiwan in February 2023. That did not include countries that supported all China's unification efforts, because there were so few then. But it found that 51 accepted China's preferred formula for defining its sovereignty claim over Taiwan. China appears to have won over at least 68 more countries since then, judging by the figures from the Lowy Institute study and one published on January 17th by the International Institute for Strategic Studies (IISS), a London-based think-tank.

Among those adopting firmer language is Russia, which has become increasingly reliant on Chinese imports to offset Western sanctions since its invasion of Ukraine. Still, even though others with close ties to China, such as North Korea and Serbia, have endorsed "all" China's unification efforts, Russia has held back, endorsing only "initiatives" to that end.

China has won other linguistic concessions, too. Some countries have adopted its preferred wording on Tibet, referring to it only as Xizang, the anglicised version of its Mandarin name, which Chinese officials have been trying to promote.

China exaggerates the level of international support for its position on Taiwan, claiming there is a "universal" consensus in its favour. And some foreign officials may be unaware of the new wording's nuances, cautions Meia Nouwens of the IISS. She links China's efforts to its armed forces' recent focus on what they call the "three warfares"—psychological, public opinion and legal—in preparing for a Taiwan conflict.

China may also fear that its sovereignty claim is increasingly being challenged by the West. Japan is among several American allies that have recently made firmer and more frequent statements criticising Chinese military pressure on Taiwan and backing "meaningful" participation in the UN for the island, which is not a member. Bonnie Glaser of the German Marshall Fund, a think-tank, notes that much of Europe has recently woken up to the potential economic cost of Taiwan conflict. "There have been conversations in many capitals about how countries can contribute to strengthening deterrence" and impose costs on China in a war, she says.

Words as weapons

A more recent concern for China is that Mr Trump could coerce some countries to change their positions on Taiwan. Panama, for example, switched diplomatic recognition from Taiwan to China in 2017 and signed up to Mr Xi's Belt and Road infrastructure scheme the same year. But on February 6th, under pressure from Mr Trump, Panama withdrew from Belt and Road. It is also conducting an audit of a China-linked company that controls ports adjacent to the Panama Canal.

Of course, America could simply bypass the UN if China attacked or blockaded Taiwan. American forces could unilaterally block shipping to and from China. But America will also need access to bases, ports and other facilities in the global south, especially the Indo-Pacific. And if a large majority of countries view its response as illegitimate, even some of its allies might waver. It has been hard enough for the West to sustain international solidarity with Ukraine, whose sovereignty was not in dispute before Russia invaded. The battle for global support on Taiwan will be even harder-fought. And China is already on the advance. ■

***Editor's note (February 2nd 2025)**: This piece has been changed to clarify that 119 countries have endorsed China's preferred wording for accepting its claim to sovereignty over Taiwan.*

This article was downloaded by zlibrary from https://www.economist.com/international/2025/02/09/chinas-stunning-new-campaign-to-turn-the-world-against-taiwan

Business

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Business | High-speed chase

Chinese cars are taking over the global south

Petrol engines, not batteries, are powering their growth

February 13th 2025



"Styling, build quality and polish" were "frankly lacklustre". The review in *Car and Driver*, a respected motoring publication, of a vehicle made by BYD on display at the Detroit Motor Show in 2009 was hardly encouraging for a car that its Chinese manufacturer hoped to start exporting to America in a few years.

Since then the global automotive industry has been overhauled. China has taken a decisive lead as the world's biggest manufacturer of cars. Despite its unpromising start, BYD has surpassed Tesla as the world's largest maker of fully electric vehicles (EVs) by volume (and is far ahead when plug-in hybrids are included). The company has assisted in wresting China's car market from once-dominant foreign competitors. At the same time, it and other

Chinese firms such as Chery, Geely and SAIC have turned their country into the world's top exporter of vehicles, speeding ahead of Germany and Japan.

China's carmakers now aspire to overthrow Volkswagen and Toyota at the pinnacle of the global car industry, says Pedro Pacheco of Gartner, a consultancy. Further expanding exports is central to that. The number of cars shipped abroad from China reached 4.7m last year, triple the amount three years earlier, according to Citigroup (around a third of these came from multinational brands with factories in the country). The surge is set to continue—in 2030 the bank reckons sales abroad will hit 7.3m.

That has led to much consternation among incumbent carmakers, with particular attention paid to the growing number of Chinese EVs on European roads. Yet the bulk of China's car exports—nearly three-quarters last year—are powered by internal-combustion engines (ICEs). And most are aimed neither at western Europe nor America, but at the rest of the world.

Car-carrying vessels are departing China's ports in ever greater numbers in part because the domestic market, where 23m passenger vehicles were sold last year, is neither as fast-growing nor as profitable as in the past. Chinese consumers once opted mostly for foreign brands, but these days domestic carmakers account for around three-fifths of sales in the country. As Harald Hendrikse of Citigroup notes, at home "the Chinese have won".

Victory has come at a price, however. Creating a homegrown EV industry using subsidies and other government inducements has resulted in severe overcapacity. Chinese factories could perhaps turn out nearly 45m cars a year, equivalent to around half of all global sales, yet they operate at only 60% of that capacity, according to Bernstein, a broker. Oversupply has led to a vicious price war. Seeking an alternative outlet, Chinese carmakers have turned abroad. BYD, Geely and Great Wall have said that margins are five to ten percentage points higher on sales overseas.

As the incentive to export strengthens, however, the opportunities to do so are diminishing. Last year the EU imposed tariffs on Chinese-made EVs to combat what it regards as unfair subsidies. Chinese brands' share of EV sales in Europe grew from around 4% in 2021 to 10% in 2024, but may now climb to only 11% by 2030, according to Schmidt Automotive Research, a

consultancy. If that door is slightly ajar, others are firmly shut. Tariffs of 100% imposed during Joe Biden's presidency in effect bar Chinese EVs from America (a further levy of 10% on Chinese goods recently imposed by Donald Trump will not have much additional impact). Fierce loyalty to domestic brands in Japan and South Korea and rocky diplomatic relations with India have kept Chinese carmakers at bay in those countries.

Switching lanes

Undeterred, these firms have shifted their focus to countries in South-East Asia, the Middle East, Latin America and even Africa. Although each is relatively small, taken together they account for 20m sales or more. Most are fast-growing, unlike rich countries or China, and do not have a big domestic industry that would lobby for protection. Emissions and other regulations are also not as strict, notes Felipe Munoz of JATO, another consultancy.

Opportunism has played a role in this. A shortage of chips during the pandemic prompted Western carmakers to concentrate on their priciest and most profitable vehicles in their biggest markets, rather than cheaper models better suited to developing countries. That left a gap for China to fill. Western sanctions helped, too. The biggest importer of Chinese cars is Russia. When Western carmakers pulled out after its invasion of Ukraine, the share of Chinese brands surged, from 9% in 2021 to 61% in 2023, according to Rhodium Group, one more consultancy. Sales of ICE vehicles made up most of these. Russia, which has a car industry of its own, is not thrilled. In 2024 it introduced a hefty "recycling fee" on imported cars, in essence a tariff, to stall China's advance.

Chinese carmakers are powering ahead elsewhere. They now have 8% of the market in the Middle East and Africa, 6% in South America and 4% in South-East Asia, according to Bernstein, up from almost nothing a few years ago. The take-up rate of EVs in these countries is lower than in rich ones, and most of the cars Chinese firms sell are ICE models. But, having established themselves, their long-term aim is to electrify these markets, which legacy carmakers still regard as their ICE fiefs.



The Economist

Already EVs are picking up speed in some unlikely places. In Latin America they now make up 6% of total sales, having doubled in 2024, according to BloombergNEF, a research firm. In Brazil, the world's sixth-largest car market, it is nearly 7%, with nine out of ten EVs coming from Chinese brands. In Mexico EVs have hit 8% and in Thailand some 15% (by comparison, in America the share is 8%). The surge is set to continue. Overall, EVs will account for more than three-quarters of Chinese car exports in 2030, up from about a quarter in 2023, according to Citi.

Chinese carmakers will not only ship from home. They want to establish footholds by building factories abroad, to sidestep tariffs, avoid shipping costs and keep close to customers. BYD is in the vanguard. It is making vehicles in Thailand and Uzbekistan, with plants in Brazil, Hungary, Indonesia, Turkey and perhaps Mexico to follow. Others including Chery, Changan, Great Wall and SAIC all have overseas factories in operation or under construction. Chinese firms are expected to manufacture 2.5m cars abroad by 2030, according to Citi, about half in Europe and the rest in the developing world.

Some planned overseas factories may not materialise. There are suggestions that China's government will force firms to slow foreign investment to keep facilities at home busy, as well as to protect Chinese technology from prying

eyes. Even so, Rhodium calculates that if China's carmakers get to 80% of their planned production in South America by 2027 they could win up to 15% of the market with locally made vehicles alone.

China's carmakers are transforming into global enterprises by stealing business from incumbents in places they had taken for granted. That means a growing headache for Japanese and South Korean firms in Asia and the Middle East, as well as Western carmakers such as VW, General Motors and Stellantis (whose largest shareholder, Exor, is a part-owner of *The Economist*'s parent company) in South America. If Chinese competition abroad causes legacy firms to concentrate on protected markets like America and Europe, competitive pressure will increase there, too.

Building brands, signing on dealers and setting up service networks in smaller markets, even if it starts with ICE cars, will embed Chinese firms in these places. Elsewhere, it will be hard to distract car buyers from the allure of Chinese vehicles indefinitely. *AutoExpress*, a British motoring magazine, praises the BYD Seal, an electric saloon launched in Europe in 2024, for its "handsome, aerodynamic body and big power", calling it a "very serious car". How times have changed. ■

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Business | Crisis in Standort Deutschland

German business is being suffocated by high costs and red tape

Many bosses doubt that the upcoming election will change that

February 9th 2025



Editor's note (February 10th): This article has been updated with comments from Germany's interim finance minister.

On a drive around the vast production site of SKW Stickstoffwerke Piesteritz, Germany's largest producer of ammonia, near Wittenberg, a spokesman for the firm points to a giant yellow valve. "Normally around 2% of Germany's industrial consumption of natural gas comes out of this thing," he says. Last month, however, SKW shut one of the two ammonia plants at the site and slashed its production of fertiliser.

"The *Gasumlage* is killing us," says Petr Cingr, the Czech chief executive of SKW, referring to the German government's gas levy. (The 110-year-old firm is owned by Agrofert, a Czech conglomerate.) The charge, introduced in 2022 to recoup the cost to the government of filling the country's strategic reserve after Russia's invasion of Ukraine, was increased at the start of this year by 20%, to €2.99 ($3.10) per megawatt hour. Mr Cingr says his firm is paying ten times more for natural gas than Russian makers of fertiliser, with which it still competes, and seven times more than American rivals—and gas makes up 90% of the production cost. Its price, along with Germany's high labour costs and the CO_2 certificates SKW must purchase to offset its emissions, mean the company can no longer break even.

Mr Cingr has specific demands of the government that will take over after Germany's parliamentary elections on February 23rd: abolish the gas levy and press the European Union to reform the system of CO_2 certificates. On January 28th the bloc announced a gradual increase in tariffs on fertilisers from Russia and Belarus over the next three years, from 6.5% to about 100%. That is "too little, too late", says Mr Cingr. If politicians fail to do more, he argues, Europe's production of fertiliser will collapse, leaving it dependent on imports.

SKW is but one example of the crisis gripping German business. At the annual press conference of the Federation of German Industries (BDI) late last month, Peter Leibinger, its new leader, said that the mood in business circles is "as bad as I have ever seen it". Many bosses doubt that their biggest handicaps —red tape, high taxes and costly social-security contributions—will improve much with the election, after which Friedrich Merz of the opposition Christian Democratic Union (CDU) party is expected to become

chancellor. Bosses are confident that whatever coalition emerges will be friendlier towards them than the one forged by Olaf Scholz, Germany's current chancellor. But few believe that reforms will be fast or deep enough.

Germany's manufacturing base is shuddering. Industrial output has fallen by about a tenth over the past two years. Giants such as Volkswagen, the world's biggest carmaker by revenue, are scaling back production in the country. Matthias Lapp, chief executive of Lapp, a family-owned maker of cables based near Stuttgart, describes Germany as "our problem child". On February 3rd his company reported sales of €1.8bn for its most recent financial year, down by 5.3% from the year before. Sales in Germany fell by 15%; in Asia, America and the Middle East, by contrast, business is humming.

In a recent interview with the *Augsburger Allgemeine*, a daily newspaper, Nikolas Stihl, head of the supervisory board of Stihl, a chainsaw-maker, gave the next government an ultimatum. If it creates a more business-friendly environment in the next five years, the company will build a planned new production site in Ludwigsburg. If not, it will move the investment to Switzerland, where it is already making saws, trimmers and blowers.

Toralf Haag, boss of Aurubis, a maker of copper based in Hamburg, thinks this will be "a make-or-break year for German industry". Bertram Kawlath, boss of Schubert & Salzer, a maker of valves, and head of the VDMA, Germany's association of machinery-makers, agrees that Germany has reached a pivotal moment, though he is less pessimistic than other bosses. "Our mid-size companies will not close down, but they will not invest in Germany if the country doesn't become more business-friendly," he says. The VDMA has 3,600 members, most of which are family firms like his. Mr Kawlath's biggest gripe is red tape, in particular a law that requires firms with more than 1,000 employees in Germany to monitor whether their suppliers around the world meet human-rights and environmental standards.

Mr Merz is aware of the concerns of German bosses. He says that the country is "suffocating with red tape", and has promised to lower the headline corporate-tax rate from 30% to 25%. If the CDU wins the election, the party wants to reduce electricity taxes and grid fees by at least five cents per

kilowatt hour, cut bureaucracy, ease rules on working hours, allow employed pensioners to earn an additional €2,000 a month tax-free and relax building restrictions, among other things.

Most bosses applaud those commitments, even if some grumble about the absence of a proposal to reform Germany's burdensome public-pension system. They worry, though, that the CDU will be unable to keep its promises, given that the country is heading for a coalition government.

Jörg Kukies, Germany's interim finance minister, is familiar with the challenges presented by such coalitions. He offers the example of efforts to digitise notaries' services. Talk to any startup and they will complain about spending hours sitting in a notary's office as every line of a contract is read aloud, says Mr Kukies. But notaries tend to vote for the Free Democrats (FDP), which were part of Mr Scholz's coalition. That made the FDP, normally zealous opponents of red tape, less enthusiastic about reform.

If he prevails on February 23rd Mr Merz will have a hard job ahead. He has business leaders on his side, but so did Mr Scholz when he took over. The former head of the BDI, Siegfried Russwurm, has talked of "lost years" under Mr Scholz. Germany cannot afford more of them. ■

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Business | Back to petroleum

BP is underperforming and under pressure

Yet another strategic U-turn is on the cards

February 11th 2025



Ever since John Browne vowed to turn BP green some 25 years ago, the British oil giant has experienced a series of embarrassing mishaps. That includes major safety lapses, such as a massive oil spill in the Gulf of Mexico, and the departure of several bosses. Yet its biggest blunder has been the bungled attempts to profitably decarbonise its business, which were made all the worse by its premature promise to go "beyond petroleum".

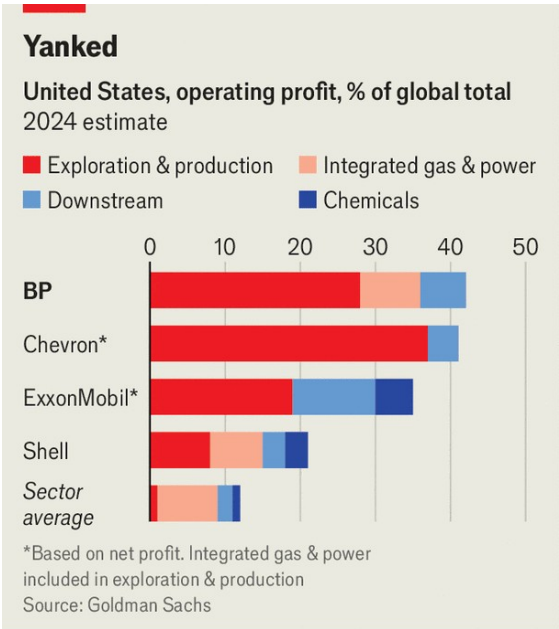
The most recent illustration of BP's woes came in its quarterly earnings report on February 11th. The firm revealed that fourth-quarter profits dropped by 61% compared with the previous year. Annual profits fell from $13.8bn in 2023 to $8.9bn in 2024 in part because of lower oil prices and shrinking margins at its refining business. BP's investments in low-carbon ventures

added to the financial strain. The dismal results coincided with reports that Elliott Investment Management, an aggressive activist hedge fund, has taken a substantial stake in the oil giant.

Neither party has commented on the matter, but the rumours were sufficient to lift BP's share price, suggesting that shareholders are deeply frustrated with its management. Even after the gain, however, the company's market value, of $90bn, is lower than that of Shell, its European rival.

Murray Auchincloss, BP's boss, has felt the pressure. He has said that he will unveil a strategy to "fundamentally reset" the company at an investor event on February 26th. What might such a makeover entail? BP's renewables ventures seem to be squarely in the crosshairs. Elliott's past interventions at American energy firms suggest that it will push for financial returns rather than carbon concerns. Irene Himona of Bernstein, a broker, argues that "BP's undervaluation needs a 'Shell-like' strategic shift." Wael Sawan, Shell's boss, has already cut investment in underperforming green areas, like hydrogen, and boosted spending on oil and gas.

Profitable hydrocarbon assets may be sold, too. Michele Della Vigna of Goldman Sachs, a bank, thinks that the "convenience and mobility" division, which includes lubricants and retail sites at petrol stations, is worth an eye-catching $48bn. The funds raised could be spent on lucrative upstream prospects, such as BP's fast-growing shale assets in America, or on share buybacks, which tend to please investors.



The Economist

A bolder idea still is that BP lists in New York instead of London. The financial case is compelling. BP and Shell trade at roughly eight to nine times earnings compared with 14 times for ExxonMobil and Chevron, two American oil giants. European majors face valuation penalties for underperforming renewables investments. They also miss out on flows from passive funds which track big indexes such as the S&P 500.

Even though it would be politically challenging, in some ways relocation could suit BP. Analysis by Mr Della Vigna reveals that BP is even more Yankee than Exxon. It derives roughly half its profits from the United States (see chart). And the country is also home to many of BP's most promising assets—from those in the Permian basin to the Gulf of Mexico. The firm that started life as the Anglo-Persian Oil Company could end up looking like an American-Permian petroleum firm instead. ■

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Business | Spoiler alert

Elon Musk's $97bn offer is a headache for Sam Altman's OpenAI

Tesla's boss is willing to use whatever means he can to hobble his opponent

February 11th 2025



For most startups, a buyout offer nearing $100bn is something to be celebrated. But OpenAI is not like other startups—and Elon Musk is not like other acquirers.

On February 11th a consortium led by Mr Musk, the world's richest man, made an unsolicited $97bn bid for the assets of the non-profit entity that controls OpenAI, the leading developer of artificial-intelligence (AI) models. Mr Musk, who helped found the firm, is in an escalating feud with Sam Altman, OpenAI's boss, over its transition to a more orthodox, for-profit corporate structure, which Mr Musk claims would be a betrayal of the

company's original, safety-first mission. In reality, Mr Musk is bent on hobbling the biggest competitor to xAI, a rival company he launched in 2023 —and seems willing to use whatever means he can to do so.

Mr Musk's offer is best understood as a spoiler. OpenAI is raising ever larger sums of money to fund the vast amount of computing power it needs to make advanced AI. To do that, it has promised outside investors, of which Microsoft, a tech giant, is the biggest, that they will get equity stakes in a for-profit company, rather than the murky ownership fudge that currently exists. Negotiations are under way to determine what share of that new firm the non-profit receives in return for ceding control over the current arrangement.

OpenAI swiftly rejected the outside bid. On X, Mr Musk's social network, Mr Altman posted a facetious counter-offer: $9.7bn to "buy Twitter", as the site was once called. "OpenAI is not for sale," insists Chris Lehane, the firm's spokesman. That apparently reflects the position of the non-profit's board. Jill Horwitz, professor of law at the University of California, Los Angeles, says the board's fiduciary duty is to act in line with OpenAI's legal purpose, which is to build superhuman intelligence that is "safe and benefits all of humanity". That may give it more wriggle room to reject the offer.

Mr Musk's target audience, though, may not be the board. More probably he is seeking to ratchet up pressure on the attorneys-general of California and Delaware, where OpenAI is based and registered. His lawyers have urged them to scrutinise the change in OpenAI's ownership structure to ensure the charity surrenders control at fair-market value, and threatens a bidding war if they do not. Insiders at OpenAI think it absurd that the officials in the two Democrat-governed states will bow to the will of Mr Musk, a prominent ally of President Donald Trump. But as Ms Horwitz puts it, they have "clear law to apply".

It is therefore possible that, even if Mr Musk's chances of gaining control of OpenAI are slim, his bid will complicate its future. It will be more difficult to justify valuing the non-profit's assets at less than $97bn if there is a concrete offer for that sum. But such a figure will mean that a smaller share of the equity in the new for-profit company will be left for outside investors. OpenAI is said to be in the process of raising some $40bn from investors

including SoftBank, a Japanese tech conglomerate. Mr Musk may be hoping to derail those efforts.

The bid follows acrimony over Mr Altman's announcement, together with Mr Trump, of the "Stargate Project" on January 21st, a fund of $100bn backed by OpenAI and SoftBank, among others, and intended to invest in data centres in America. Mr Musk, who was reportedly kept in the dark, was quick to argue that the backers did not have the money (something they have denied).

"I think he's just trying to slow us down," Mr Altman said on February 11th. "I feel for the guy. I don't think he's a happy person." In fact, Mr Musk is never happier than when he is in the thick of a fight. ■

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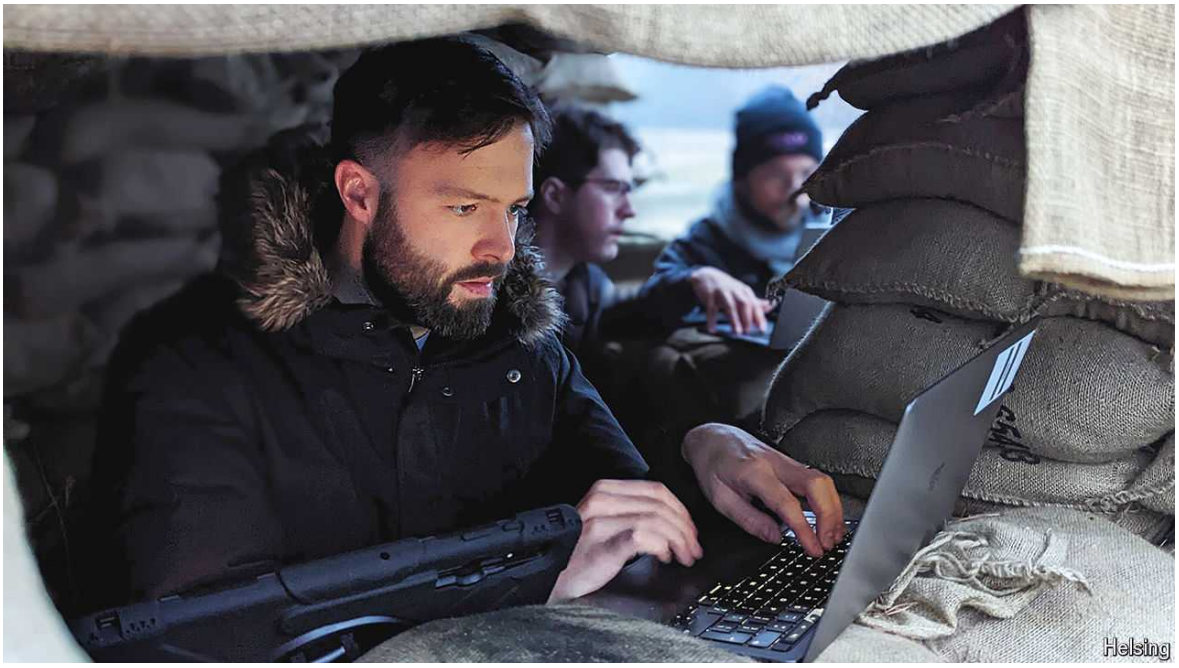
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Business | Rearmament revolution

Could a German startup disrupt Europe's arms industry?

Meet Helsing, Europe's defence-tech unicorn

February 13th 2025



In the 1980s Robert Solow, an economist, remarked that you could see the computer age everywhere except the productivity statistics. Today it could be said that the revolution in military affairs, playing out in the skies, trenches and seas of Ukraine, is visible everywhere except the European defence industry. America boasts three defence-tech "unicorns", private firms with a valuation of more than $1bn, if you count SpaceX, Elon Musk's rocket-and-satellite company. In Europe there is one: Germany's Helsing.

Gundbert Scherf founded Helsing with Torsten Reil and Niklas Köhler in 2021. Back then Europe had "pushed the snooze button" on military preparedness, says Mr Scherf, who is the firm's co-CEO. Russia's invasion of

Ukraine the following year jolted the continent awake. Last summer Helsing raised €450m ($468m) at a valuation of $5.4bn, making it one of Europe's most valuable startups.

Mr Scherf, a soft-spoken former management consultant, strikes a contrast with America's defence-tech titans. Alex Karp of Palantir, the world's most valuable defence firm, is a wiry-haired tech evangelist who assails college students over anti-Israel protests. Palmer Luckey of Anduril, another American defence-tech darling, wears Hawaiian shirts and flip-flops and sells 1990s Gameboy emulators as a side project.

Yet Mr Scherf's firm is no less disruptive than its American cousins. It began life as a software company, putting its code into others' weapons, and continues to spends huge sums on AI talent and computing power. On February 10th it announced a partnership with Mistral, Europe's leading maker of AI models.

Recently Helsing has become more involved in building hardware. Its HF-1 strike drones for Ukraine are built in that country by various local manufacturers. Late last year it began making more advanced HX-2 drones at a factory of its own in southern Germany, giving it greater control over supply chains and production.

The war in Ukraine, where the dizzying pace of adaptation on both sides means that weapons can become obsolete in weeks, requires the arms-maker to be nimble. The traditional model of building weapons and sending them to clients is insufficient. Instead, firms are being forced to offer something closer to arms-as-a-service, with engineers visiting the front lines and tweaking code and hardware based on feedback from soldiers.

Helsing has found its niche in the market. Long-range drones or missiles—the distinction is increasingly blurry—which require rocket or jet engines demand serious manufacturing and aeronautical engineering experience that, in Europe at least, remains with the big legacy defence firms. Meanwhile, Ukrainian firms are churning out ultra-low-cost strike and surveillance drones, with simple electronics and ranges in the low tens of kilometres. Helsing is betting instead on weapons with greater autonomy that can strike farther. Its AI-guided HX-2 drone has a 100km range and is expected to cost

around $30,000 a unit. That is not going to replace a $1m, 300km-range Storm Shadow cruise missile. But it offers 20 times the range of a Javelin anti-tank missile at a sixth of the price.

That epitomises Mr Scherf's vision of "precise mass": intelligent systems that are still cheap enough to produce in big numbers. Helsing believes, for example, that naval drones could persistently monitor the chokepoints between Greenland, Iceland and Britain for one-twentieth of the cost of today's crewed frigates.

Helsing is not the only company working on such things. Anduril has many similar projects, experience of its own in Ukraine—and deeper pockets. Helsing's appeal is that it is a European company in the right place at the right time.

European leaders are alarmed by Donald Trump's threats to allies, including his effort to coerce Denmark to sell Greenland, and the risk that he could walk away from Ukraine and even NATO. Some want to buy more American weapons to placate the president. But many would like to see Europe become less dependent on its increasingly unreliable ally. That could be a big opportunity for European upstarts.

There are two challenges, though. One is inertia in how European defence budgets are allocated. Events like the Munich Security Conference, which was due to begin on February 14th, after we published this, are rammed with sessions on military innovation. But only a tiny fraction of funding flows to defence-tech firms. "Right now, if you look at budget lines, it's still 99% traditional weapon systems from past procurement efforts that are being pulled through," laments Mr Scherf.

The other challenge is fragmentation. Whereas America's defence industry is dominated by too few firms, Europe has the opposite problem, argues Mr Scherf. European states operate 15 different models of tank, for instance. The result is a constellation of sub-scale manufacturers.

Mr Scherf believes that mass-produced, AI-enabled weapons could offer a fresh start; systems like the HX-2 could become "a standard platform across European nations". Helsing is already pan-European. Although its

headquarters are in Berlin, its largest office is in London, where AI talent is more plentiful, and it also has a presence in Paris. It hopes to spread its factories across the continent, making production more resilient to Russian attacks while appealing to Europe's growing appetite for self-reliance. "One thing we've learned from Ukraine", says Mr Scherf, "is that, when push comes to shove, you don't want to depend on anyone for weapons." ■

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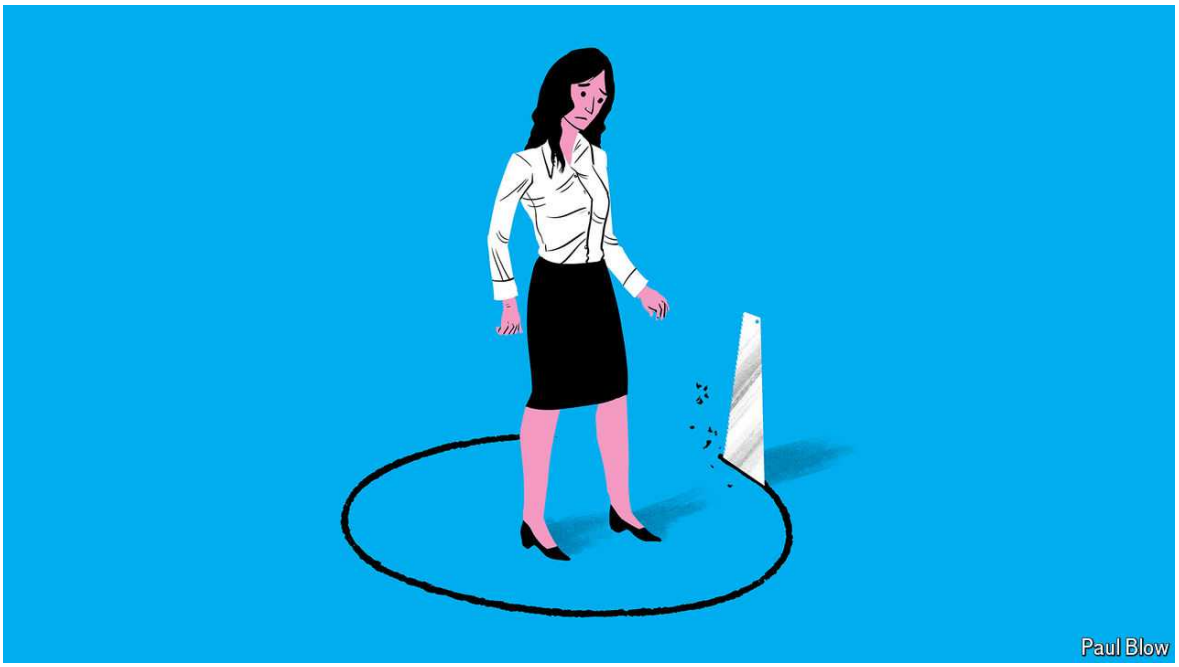
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Business | Bartleby

How to get people to resign

Without torching the organisation or losing your best employees

February 13th 2025



The gut reaction that a manager has when an employee announces their resignation is telling. Sometimes it is genuine dismay: the person leaving is a star. Sometimes disappointment is mixed with irritation at having to recruit and train a replacement. And sometimes it is relief: the HR equivalent of a pebble being removed from your shoe.

For Elon Musk and his acolytes at the Department of Government Efficiency (DOGE), employees of the federal government in America are pebbles all the way down. On January 28th the Office of Personnel Management (OPM) sent an email to roughly 2m workers offering them "deferred resignation", the chance to resign and get paid until the end of September. The legality of this offer is uncertain (on February 12th a judge allowed it to proceed). So is the

end-goal: bosses often use voluntary redundancy as a consensual way to cut headcount but the assumption is usually that they want the organisation itself to survive. Still, the episode raises an interesting question: is there a good way to get workers to resign?

The openness of the OPM's deferred-resignation offer is in its favour. Bosses have long adopted underhand tactics to encourage individuals to quit rather than have to sack them. Some types of "quiet firing" reduce stimulation and status: managers give their targets menial work to do or stick them in smaller and smaller offices until they end up feeling like a corporate version of Alice. Other approaches set people up for failure: deadlines that cannot be met, weekly meetings at 3am to suit one colleague in Australia. Nudging people to resign by making life intolerable will not win you a manager-of-the-year award. Nor is it an efficient way to thin the ranks.

Giving employees an explicit incentive to leave their jobs can be an effective way to separate the committed from the time-servers. Zappos and Amazon, two online retailers, have experimented with pay-to-quit programmes designed to winkle out new hires who are not motivated to stay. When Mr Musk took over Twitter in 2022, he sent an email with the same subject-line as the OPM's missive, asking people to click on a link if they were ready to embrace his "hardcore" culture. Those that did not click were offered severance pay, though lawsuits continue from those who say they did not receive the money.

A pay-to-quit scheme makes it more costly for workers to feign enthusiasm for a job. But, as a paper by Robert Dur and Heiner Schmittdiel of Erasmus University Rotterdam points out, it can have unintended consequences if it is a standing offer: people may end up joining a firm in order to resign and get an exit bonus.

There may be a subtler and cheaper way to prompt resignations among people who are not a good fit. In a recent study by Nava Ashraf and Oriana Bandiera of the London School of Economics and Virginia Minni and Luigi Zingales of the University of Chicago, some employees of a consumer-goods firm were asked to reflect on what mattered to them and whether their jobs fulfilled their individual sense of purpose. In the months following these workshops exits from the company increased substantially among

participants, compared with employees who did not take part, and did so particularly among lower performers. Productivity rose.

The success of a resignation offer depends partly on what kind of future awaits people who stay. The OPM email warns government employees that there is more downsizing and restructuring to come. The people most likely to take the money in these circumstances are often strong performers, who have the best chance of landing a new job.

There is some indirect evidence for this effect in a recent paper by Yuye Ding of the University of Pittsburgh and her co-authors, which looks at the effect of return-to-office (RTO) mandates on employee churn. Plenty of people suspect that bosses require people to come back into the office partly in order to prompt resignations, and the evidence from the LinkedIn profiles of workers at financial and technology firms in the S&P 500 is that RTO mandates do cause turnover to spike. The authors also find that churn is greatest among women and among more experienced and skilled workers, and that firms subsequently have more trouble filling vacancies.

Such considerations may not matter much to the DOGE folk, whose primary aim seems to be evisceration. But if you want to encourage resignations and end up with more wheat than chaff, it helps to have a compelling vision of the future. ■

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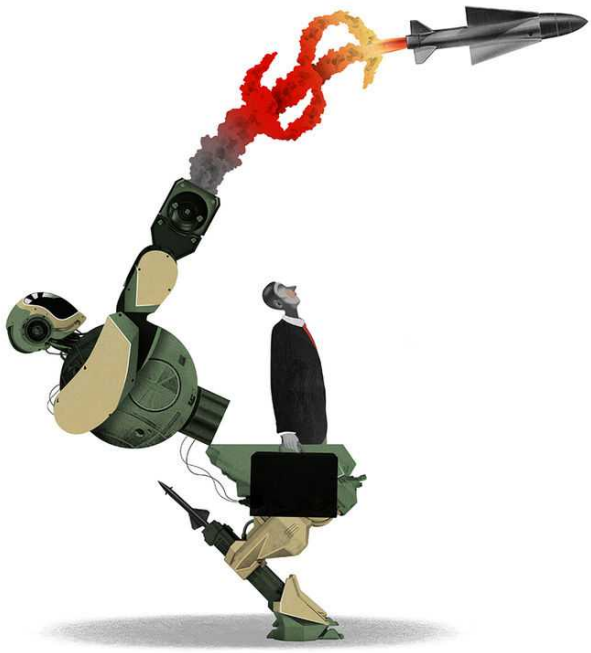
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Business | Schumpeter

Defence tech is blowing up Silicon Valley's beliefs

Hardware is all the rage. So is patriotism

February 13th 2025



IN THE BACK of an unmarked office building close to LAX, the main airport of Los Angeles, stands a rack of unarmed hypersonic missiles the size of small drainpipes. On February 6th a camouflaged truck ferried one away to New Mexico for a test launch with the US Air Force. Such activity used to be common in El Segundo, the LA neighbourhood that was once a hub of military spaceflight. Then the cold war ended and with it much of the west-coast weapons business. Now it's coming back. Castelion, which makes the projectiles, was founded in 2022 by three alumni of SpaceX, Elon Musk's rocket-and-satellite company, which was also created in El Segundo.

Los Angeles is not alone in reviving the warrior spirit buried deep in its past. Silicon Valley is doing so, too. In its early days in the mid-20th century it

created reconnaissance equipment for spy planes and semiconductors for missiles. But then the peaceniks took over and for decades defence became a dirty word. As recently as two years ago, Castelion couldn't open a bank account in Silicon Valley owing to the stigma attached to making weapons.

Several developments have since stiffened the sinews. One is the war in Ukraine. Another is America's deepening rivalry with China. Most alluring, perhaps, is the sweet smell of financial success. SpaceX has become the most valuable private firm in America, worth $350bn. Palantir, a supplier of software to Western armies and spooks, has a market value of more than $250bn, more than Lockheed Martin, Northrop Grumman and General Dynamics, a trio of traditional defence contractors, combined. Anduril, a younger firm that makes autonomous weapons, is currently raising $2.5bn at a valuation of $28bn. Cue a cascade of investment into smaller startups making military kit for land, sea, air and space. PitchBook, a data gatherer, says the value of such deals in America rose by more than a third over the past two years, to almost $40bn. Venture funding as a whole fell over that period.

Less remarked upon is how the defence-tech boom challenges core tenets of the venture industry. Historically, venture investors shied away from supporting hardware industries, especially those like defence that can gobble up lots of capital. That is changing. So, too, is the worldview of many in Silicon Valley, who have turned their backs on the libertarian ethos that prevailed in recent decades in favour of a chest-thumping patriotism that celebrates American military might.

Silicon Valley's renewed interest in military hardware reflects the shifting dynamics of combat on display in Ukraine: smaller weapons, notably drones, have supplemented and sometimes supplanted heavy armaments. That has left an opening for upstarts that can make cleverer or cheaper versions. Drones powered by whizzy artificial-intelligence systems are in vogue. So, too, is thriftiness. Take Castelion as an example. For its missile systems, it uses several automotive-grade chips, costing a few hundred dollars, rather than expensive space-grade ones. It manufactures rocket motors itself to keep costs down. SpaceX's ability to shuttle satellites cheaply into low-Earth orbit, where they can scrutinise the planet, has made space an increasingly affordable part of battlefield technologies. Like many

of the defence technologies supported by Silicon Valley, these also serve civilian uses, boosting their revenue potential.

A revival of the warrior spirit is transforming Silicon Valley's relationship with America's government, too. "The Technological Republic", a forthcoming book co-authored by Alex Karp, Palantir's chief executive, calls on Silicon Valley to work with Uncle Sam on military programmes. Rather than supporting environmental and social causes, those like Mr Karp champion patriotism as the new corporate purpose, an idea that will appeal to many in Donald Trump's administration.

Meanwhile, the long-established revolving door between the Pentagon and the defence industry is being extended to venture capitalists and tech firms. That could help speed up the disruption to America's military-industrial complex which many in defence tech hope for. "If the government doesn't figure out how to make the venture model work, this will not be sustainable," says Shyam Sankar of Palantir. One issue is the meagre share of spending that is available to startups. Another is the broad-brush approach the Pentagon takes towards them. Mr Sankar argues that the government needs to come to terms with Silicon Valley's "power law", in which a few big winners generate fortunes, compensating for the many others that fall by the wayside. The Pentagon also needs to transition away from "cost-plus" contracts, which are designed to enable big weapons programmes and guarantee incumbent contractors decades of revenue, in favour of "fixed-price" ones that outsiders can bid on.

Out of the trenches

In Silicon Valley the overriding question remains not victory or defeat, but exit: how can venture capitalists emerge from their investments with hypersonic returns? When it comes to defence tech, the usual route of an initial public offering does not look promising. Palantir is a rarity in the industry for braving the public markets. Though its stock has ballooned, it gets little love from Wall Street analysts, who say it is overvalued. The alternative is to sell to corporate buyers. Yet those with the deepest pockets are the traditional defence contractors. Some startups loathe the thought of suffocating in such a quasi-state-owned culture.

There is a glimmer of hope, though. As well as seeding the entrepreneurs building the new ventures, Anduril, Palantir and SpaceX are now rich enough to make acquisitions. Part of the $2.5bn Anduril is raising is likely to be spent on buying new firms. Market forces are still the most reliable weapons of war. ■

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Finance & economics

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Finance & economics | Ascension, for some

How AI will divide the best from the rest

Optimists hope the technology will be a great equaliser. Instead, it looks likely to widen social divides

February 13th 2025



At a SUMMIT in Paris on February 10th and 11th, tech bosses vied to issue the most grandiose claim about artificial intelligence. "AI will be the most profound shift of our lifetimes," is how Sundar Pichai, Alphabet's boss, put it. Dario Amodei, chief executive of Anthropic, said that it would lead to the "largest change to the global labour market in human history". In a blog post, Sam Altman of OpenAI wrote that "In a decade perhaps everyone on earth will be capable of accomplishing more than the most impactful person can today."

Mr Altman's prediction taps into an established school of thought. As large language models first gained popularity in the early 2020s, economists and

bosses were hopeful that they, and other AI tools, would level the playing field, with lower-skilled workers benefiting most. Software capable of handling tasks such as protein-folding and poetry-writing would surely democratise opportunity. Jensen Huang, chief executive of Nvidia, a chip designer, envisioned a future in which workers "are all going to be CEOs of AI agents".



Pulling up the ladder

Impact of generative AI on the gap between high- and low-performing workers

Study	Topic	Inequality
Peng et al. (2023)	Coding efficiency	↓
Brynjolfsson, Li and Raymond (2023)	Customer chat	↓
Noy and Zhang (2023)	Writing quality	↓
Dell'Acqua et al. (2023)	Product design	↓
Chen and Chan (2023)	Ad effectiveness	↓
Choi, Monahan and Schwarcz (2023)	Legal analysis	↓
Otis et al. (2023)	Profits and revenue	↑
Roldan-Mones (2024)	Debating points	↑
Toner-Rodgers (2024)	Material discovery	↑
Kim et al. (2024)	Investment decisions	↑

Source: *The Economist*

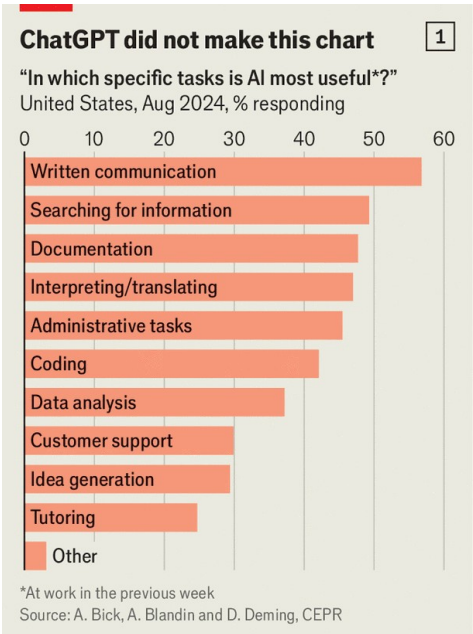
The Economist

More recent findings have cast doubt on this vision, however. They instead suggest a future in which high-flyers fly still higher—and the rest are left behind. In complex tasks such as research and management, new evidence indicates that high performers are best positioned to work with AI (see table). Evaluating the output of models requires expertise and good judgment. Rather than narrowing disparities, AI is likely to widen workforce divides, much like past technological revolutions.

The case for AI as an equaliser was supported by research showing that the tech enhances output most for less experienced workers. A study in 2023 by Erik Brynjolfsson of Stanford University and Danielle Li and Lindsey Raymond of the Massachusetts Institute of Technology (MIT) found that generative-AI tools boosted productivity by 34% for novice customer-support workers, helping them resolve queries faster and more effectively. Experienced workers, by contrast, saw little benefit, as the AI reinforced

approaches they were already using. This suggested the tech could narrow gaps by transferring best practices from talented to less talented employees.

A similar trend was observed in other knowledge-intensive tasks. Research by Shakked Noy and Whitney Zhang, both of MIT, found that weaker writers experienced the greatest improvements in the quality of their work when using OpenAI's ChatGPT to draft materials such as press releases and reports. Many saw better quality simply by using the AI's unedited output, underscoring its ability to elevate baseline performance. Similarly, Jonathan Choi of the University of Southern California and co-authors found a general-purpose AI tool improved the quality of legal work, such as drafting contracts, most notably for the least talented law students.



The Economist

The problem is that this is swamped by another effect. A job can be considered as a bundle of tasks, which tech may either commoditise or assist with. For air-traffic controllers, tech is an augmentation: it processes flight data while leaving decisions to humans, keeping wages high. By contrast, self-check-out systems simplify cashiers' roles, automating tasks such as calculating change. This lowers the skill requirement, causing wages to stagnate.

Thus despite the early optimism, customer-service agents and other low-skilled workers may face a future akin to cashiers. Their repetitive tasks are susceptible to automation. Amit Zavery of ServiceNow, a business-software company, estimates that more than 85% of customer-service cases for some clients no longer require human involvement. As AI advances, this figure will probably rise, leaving fewer agents to handle only the most complex cases. Although AI may at first boost productivity, its long-term impact will be to commoditise skills and automate tasks.

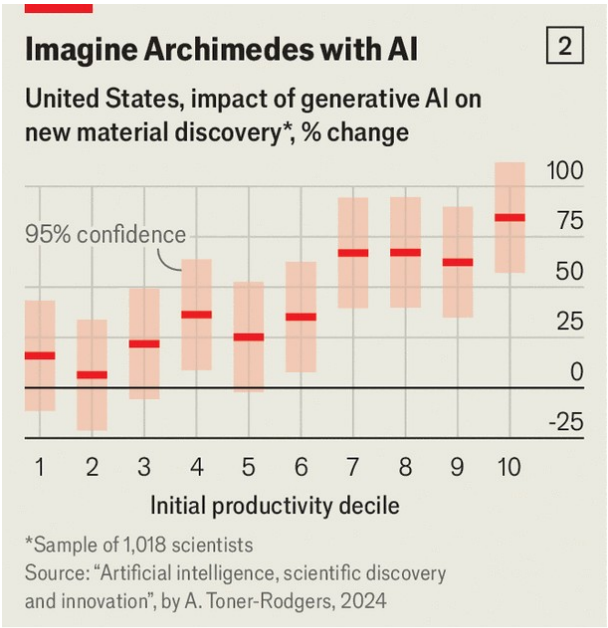
Unlike earlier automation, which replaced routine jobs such as assembly-line work and book-keeping, AI may extend its reach to non-routine and creative work. It can learn tacitly, recognise patterns and make predictions without explicit instruction; perhaps, in time, it will be able to write entertaining scripts and design useful products. For the moment it seems as though, in high-wage industries, it is junior staff who are the most vulnerable to automation. At A&O Shearman, a law firm, AI tools now handle much of the routine work once done by associates or paralegals. The company's software can analyse contracts, compare them with past deals and suggest revisions in under 30 seconds. Top performers have been best at using the tech to make strategic decisions, says David Wakeling, the firm's head of AI.

The shift in recent economic research supports his observation. Although early studies suggested that lower performers could benefit simply by copying AI outputs, newer studies look at more complex tasks, such as scientific research, running a business and investing money. In these contexts, high performers benefit far more than their lower-performing peers. In some cases, less productive workers see no improvement, or even lose ground.

Intelligent design

Aidan Toner-Rodgers of MIT, for instance, found that using an AI tool to assist with materials discovery nearly doubled the productivity of top researchers, while having no measurable impact on the bottom third. The software allowed researchers to specify desired features, then generate candidate materials predicted to possess these properties. Elite scientists, armed with plenty of subject expertise, could identify promising suggestions and discard

poor ones. Less effective researchers, by contrast, struggled to filter useful outputs from irrelevant ones (see chart 2).



The Economist

Similar results have emerged in other areas. Nicholas Otis of the University of California, Berkeley, and co-authors found that stronger Kenyan entrepreneurs raised their profits by over 15% with an AI assistant, and strugglers saw profits fall. The difference lay in how they applied AI recommendations. Low achievers followed generic advice such as doing more advertising; high achievers used AI to find tailored solutions, such as securing new power sources during blackouts (see chart 3).

In financial decision-making, Alex Kim of the University of Chicago and co-authors conducted an experiment where participants used AI to analyse earnings-call transcripts before allocating $1,000 in a simulated portfolio. Sophisticated investors achieved nearly 10% higher returns with AI; less sophisticated investors saw gains of 2%. Seasoned investors made better use of insights from earnings calls such as those concerning R&D spending, share repurchases and operating profit before depreciation and amortisation.

As AI reshapes work, new tasks are emerging. Rajeev Rajan of Atlassian, an office-software firm, says that AI tools free up a couple of hours a week for engineers, allowing them to focus on creative work. Junior lawyers spend

less time on chores and more with clients. “Really smart people who may be bored with analysing routine earnings releases will benefit the most,” says a boss at a large investment firm. “The skill that is going to be rewarded most in the short run is imagination in finding creative ways to use AI.” The grunt work of these industries is being automated, allowing junior employees to take on advanced tasks earlier in their careers.



The Economist

Labour markets have always been defined by the destruction of old roles and the creation of new ones. David Autor of MIT has estimated that 60% or so of work in America in 2018 did not exist in 1940. The job of “airplane designer” was added to the census in the 1950s; “conference planner” arrived in the 1990s. But who will take AI’s new jobs when they emerge? History suggests that technological upheavals favour the skilled. In the Industrial Revolution, engineers who mastered new machinery saw their wages soar as routine labourers lost out. The computer age rewarded software engineers and rendered typists obsolete. AI appears poised to follow a similar path, benefiting those with the judgment, agility and expertise to navigate complex, information-rich environments.

Moreover, today’s AI tools are just the beginning. As the technology grows more sophisticated, semi-autonomous agents capable of acting independently—of the sort envisioned by Mr Huang—may transform

workplaces. That might make every worker a CEO of sorts, just as the Nvidia chief executive has predicted. But there will be no levelling-out: the most talented will still make the best CEOs. ■

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Finance & economics | Buttonwood

Why you should repay your mortgage early

For the first time in decades, the arithmetic suggests settling housing loans

February 13th 2025



The holiday from reality, for the happy few enjoying it, has been delightful. Three years ago it was still possible to fix a mortgage rate in Britain and much of the euro area at somewhere near 1%. American housing loans were dearer by just a percentage point or two. Even as interest rates have risen and borrowing costs for new mortgages have doubled or tripled, homeowners who locked in the enviable rates of the early 2020s have been living blissfully in the past. Moreover, the inflation that prompted rates to rise has bitten chunks out of the real value of their debt.

Alas, the holiday is now over for many. Although American fixed rates often last for decades, most in Britain and swathes of continental Europe expire

after five years or less. It was in early 2022 that the last of the dirt-cheap loans disappeared, after which borrowing costs began climbing fast. A large number of mortgage-holders, in other words, have either seen their interest bills rocket recently or will do soon. For those with spare cash to hand, a question that seemed remote a few years ago is suddenly a great deal more pressing. Should they repay the debt early?

To many who owed money during the 1980s, when interest rates soared into the double digits, the answer is an obvious "yes". At the time, borrowing costs became so elevated that merely meeting them, let alone repaying any capital in addition, was a constant struggle. The risk of that being repeated is simply not worth taking. Better, then, to pay all debt off at the earliest opportunity, while doing so is still possible. Even if rates stay where they are at present, that will save money on future interest bills.

Those whose experience was shaped by more recent decades might feel rather differently. Interest rates have spent most of that time on a downward trend, culminating in the ultra-loose monetary policy seen during the covid-19 pandemic. Next to that, it is the hikes of the past few years that look like an aberration.

More important, the opportunity cost of repaying a mortgage has outweighed the potential savings for years. This is especially obvious to those who fixed near 1% before 2022, then watched as the rates on simple bank accounts rose to several multiples of that. Under such circumstances, overpaying a mortgage, rather than depositing the cash and pocketing much more interest than repaying would have saved, would have been nonsensical.

The opportunity cost over the longer term, and considering the alternative of investing in shares, has been greater still. Twenty years ago mortgage rates in Britain were not much higher than they are now, at around 5%. Even with a once-in-a-century financial crisis looming, buying stocks rather than making early mortgage repayments would have paid off handsomely. Since the start of 2005, measured in pounds sterling, the MSCI World share index has generated annualised nominal returns of above 10%. Had your mortgage rate stayed the same for the next two decades (though in reality it would have fallen), paying off £1,000 ($1,250) in 2005 would have saved a respectable

£1,800 in interest. Investing it in a global share-tracker fund would have made a profit of £6,500, however.

Today's mortgage-holders must ask whether such stellar stockmarket returns are still on offer. Those enjoyed by Britons have been flattered by a steep fall in the value of the pound, which has boosted the gains from foreign shares as measured in local currency. For investors around the world, a hefty proportion of recent decades' high returns has come from ballooning stock valuations. Twenty years ago, for example, the price of the MSCI World index was 22 times as high as its companies' long-run average earnings. Now that multiple has risen to 30. Put another way, a big share of the gains came from sentiment rather than earnings. Unless investors continue to assign more and more value to each dollar of corporate profit, such a multiple limits the scope for future outsize returns.

As a consequence, repaying your mortgage early looks more attractive now than it has in a very long time, even including those periods when interest rates were at today's levels or higher. That is an odd thought for central bankers, so long after they started tightening monetary policy to quell inflation, and with many of them having spent recent months loosening it instead. Borrowers who were sufficiently shrewd, or lucky, to secure ultra-low rates for decades rather than years will be enjoying their holiday for some time to come. For plenty of others, reality beckons. ■

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Finance & economics | Bluster-busting

Elon Musk is failing to cut American spending

DOGE has so far disrupted everything in government bar the deficit

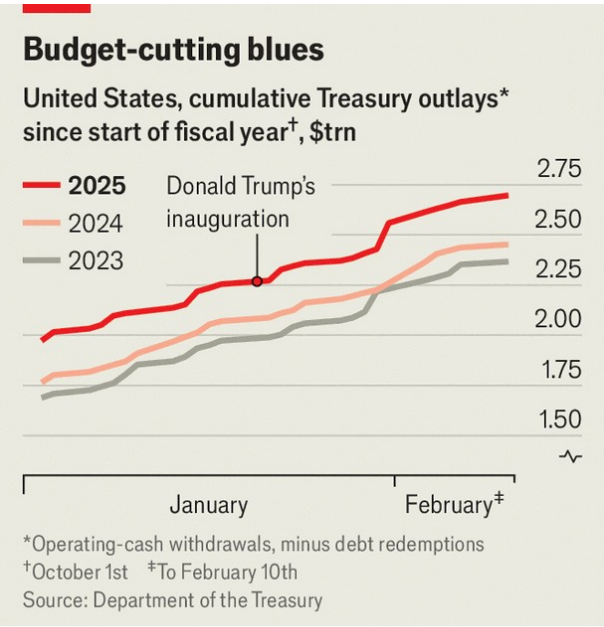
February 12th 2025



It all seems to add up to something big. On a daily, sometimes hourly, basis, Elon Musk claims that his team of fiscal commandos has found yet more government fraud, terminated another wasteful contract or even scrapped an entire agency. Mr Musk's supporters believe that, through tech wizardry and sheer willpower, he is slashing the federal deficit in a way that has eluded politicians for years. But this narrative has a glaring flaw: our review of official data shows that Mr Musk's efforts have scarcely made a dent in spending.

Every working day the Treasury publishes a statement detailing withdrawals of cash from its primary deposit account, providing the best high-frequency indicator of government spending. Since Donald Trump took office a little

more than three weeks ago, outlays have averaged $30bn a day. Compare that with the same period last year under Joe Biden: federal spending back then came to about $26bn a day. Outflows from the Treasury have actually risen since January 28th, when Mr Musk first claimed his "Department of Government Efficiency", or DOGE, was saving the federal government $1bn a day. Looking at the bigger picture, the government's spending trajectory in the current fiscal year, which began in October, basically resembles that of the past two years (see chart).



The Economist

Such comparisons are far from perfect. Flows in and out of government coffers are volatile. In nominal terms spending naturally rises over time, pushed up by inflation. Perhaps outflows would have been even larger in the absence of DOGE. And the agency is still in its infancy. Nevertheless, the gap between Mr Musk's declarations and his apparent failure to cut spending shows the difficulties facing his project. Mr Musk has promised over $2trn in annual savings for the federal government. He will struggle to get close to that.

In large part this is because of the way America's budget is structured. The government is on track to spend $7trn this year. Nearly two-thirds of this consists of mandatory expenditures on Social Security and health insurance. Interest payments account for over 10%. That leaves a quarter of the budget

for discretionary spending, a category which in theory is somewhat easier to trim—except that half of it goes on defence and Republicans would like to increase such spending. In other words, no matter how aggressive DOGE is, its actions are focused on barely more than a tenth of the overall federal budget.

Mr Musk says he will produce vast savings by rooting out fraud and waste. Undoubtedly an organisation as large as the American government has fat on its bones, and would benefit from an exercise regime. But it is more accurate to view it as flabby rather than morbidly obese. The government accountability office, a watchdog, estimates that losses from fraud have in recent years run between $233bn and $521bn a year. Were it possible to identify and zap all of that fraud in real time—an extremely tall order—it would still not get Mr Musk close to his ultra-abstemious targets.

In any case, DOGE's efforts appear to be pretty scattershot. Many of its spending reductions have targeted specific things that Mr Trump deems wasteful such as "diversity, equity, inclusion and accessibility" programmes. Yet these amount to a tiny sliver of the federal budget. The full value of the savings announced by DOGE (on its account on X, Mr Musk's social network) adds up to about $7bn so far. Moreover, some of the reductions came from scrapping multi-year contracts, meaning that the annual savings amount to less than the headline figure. If the controversial closing down of USAID, America's main international-development agency, counts as a cost-cutting success for DOGE, its total savings would reach about $45bn per year, or just 0.6% of federal spending.

None of this is to minimise DOGE's impact. It has already put thousands of government employees on leave. Armed with a new executive order from Mr Trump, it is now preparing to make mass lay-offs, though it may lack the legal authority to do so. Civil servants are disoriented and anxious about their future—an outcome that will surely please Mr Musk, who relishes his role in the war on bureaucracy.

But the core mission of DOGE is to save money. "It's not optional to reduce federal expenses. It's essential," Mr Musk said on February 11th. And on that count, he looks likely to come up woefully short. ■

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Finance & economics | In rust we trust

Donald Trump's Super Bowl tariffs are an act of self-harm

Duties on aluminium and steel will throttle American industry and fragment global markets

February 10th 2025



Last year dozens of countries proposed or introduced new tariffs on steel imports. Most aimed the measures at China, which they accused of flooding international markets with cheap metal. On February 9th Donald Trump took a different approach: he picked up a scattergun instead of a sniper's rifle. As the president flew to the Super Bowl, he told reporters that he would announce new tariffs of 25% on aluminium and steel imports. On February 10th the levies duly arrived.

Mr Trump sees tariffs as a way to incentivise foreign investment in America and boost domestic production. "It's going to mean a lot of businesses are

going to be opening in the United States," Mr Trump said as he signed the order, which invokes domestic security as justification. The new tariffs are due to come into effect on March 12th. They threaten to punish America's allies more than its enemies—and will harm America's own economy.

America imports 25% of the steel it consumes, four-fifths of which is currently free of tariffs under agreements with Canada, Brazil, Mexico and the EU, its biggest suppliers, as well as other countries. America also imports 70% of its aluminium, some 60% of which comes tariff-free from Canada. Doug Ford, premier of Ontario, a Canadian province, accused Mr Trump of "shifting goalposts". Emmanuel Macron, France's president, has said he should stop bashing Europe and focus on China.

Mr Trump's first term offers a guide to what might happen next. In 2018 the president set a tariff of 25% on steel and another of 10% on aluminium. Within months he had reached deals with most of America's biggest suppliers and granted exemptions; the Biden administration later agreed to replace some tariffs with quotas. Even blunted, the measures encouraged investment in domestic steelmaking, where capacity has risen by 6% since 2018. Yet this did not lead to a big boost in production, which remains below levels in 2019, as does the number of people employed by steel mills. Last year output of fresh aluminium fell to its lowest this century. Even with tariffs, domestic demand simply has not been strong enough to produce a boom.

In principle, there is now room for metal output to grow. America's raw-steel mills are used to 60% or so of capacity (80% is seen as optimum). In reality, America will still lack the expertise to produce lots of refined products at home, says Matthew Watkins of CRU, a consultancy. Even after Mr Trump's first tariffs, America continued to import just as many high-value-added products—including packaging steel and seamless tubes, which contain and transport liquids—from Europe as it did before. America has few aluminium smelters; building new ones can take years. In the interim it will continue to rely on imports.

Domestic producers, which now face less competition, are giddy. The share prices of Century Aluminum and Nucor, the country's largest aluminium- and steelmakers respectively, rose by 10% and 6% the day after Mr Trump's

announcement. The tariffs could also provide a fillip to US Steel, an ailing giant whose acquisition by Nippon Steel, a Japanese firm, was blocked by Joe Biden. But this will be more than balanced by higher prices for consumers and the fact that industrial buyers of aluminium and steel will face higher costs. Ehsan Khoman and Soojin Kim of MUFG, a bank, estimate that a 25% tariff will push up the cost of a tonne of steel imported into America from $755 to over $900, negating a cost advantage that America currently enjoys over Europe. Sheltered from competition, domestic producers will face less pressure to keep down prices.

Mr Trump's tariffs could have even more profound implications for global metal markets. Shares in steel firms outside America have fallen since Mr Trump's 30,000-feet message. Many will no doubt try to redirect wares, pushing down prices elsewhere. Other countries may erect trade barriers to protect their own industries. The resulting glut in aggregate capacity could, in turn, ensure that international prices remain depressed even as protected metals firms grow rustier and greedier. In America and elsewhere, Mr Trump's metals wars will corrode the economy. ■

***Editor's note (February 11th 2025)**: This article was updated to note that the duties go into effect on March 12th.*

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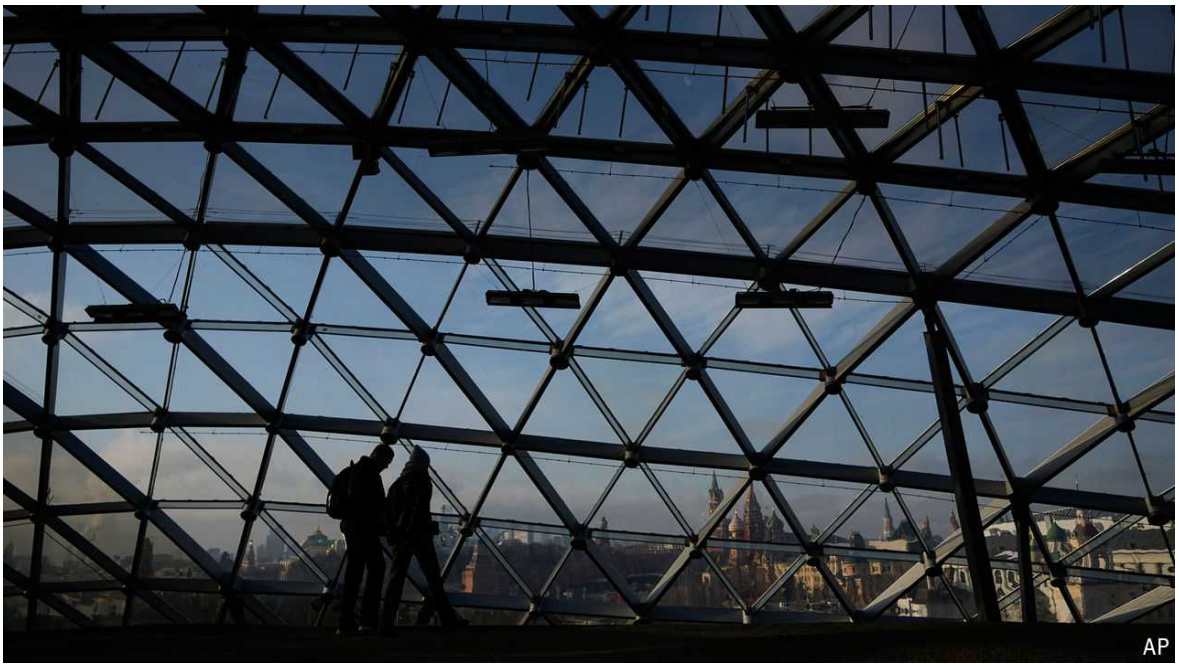
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Finance & economics | War economics

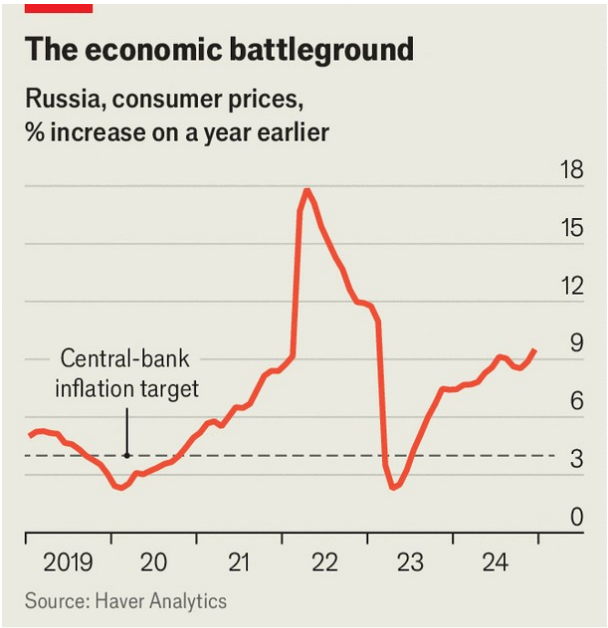
Russian inflation is too high. Does that matter?

In a strong economy, price pressure can endure for a long time

February 13th 2025



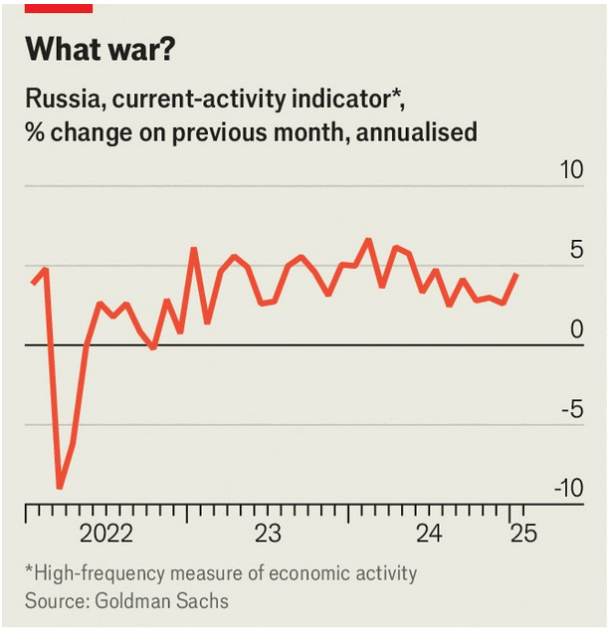
While inflation has cooled almost everywhere, in Russia it is hotting up. Consumer prices rose by 9.5% year on year in December, up from 8.9% the previous month and uncomfortably above the central bank's target of 4% (see chart). The prices of fruit and vegetables have risen by more than 20% on average in the past year. In a normal country, this sort of high inflation would be unsustainable. But Russia is not a normal country.



The Economist

The latest bout of inflation is the product of both external and internal factors. In recent months, as the West has tightened sanctions, the rouble has depreciated, raising the cost of imports. Russian importers hoping to supply customers with American phones or Italian handbags have to be increasingly creative, which adds to their costs. There is circumstantial evidence that French vintners are skirting sanctions by selling to unscrupulous middlemen in Austria and Greece, among other places. Even so, the price of a bottle of the 2006 Clos de Tart, a blowout Burgundy at White Rabbit, Moscow's finest restaurant, has risen by close to 30% since Vladimir Putin invaded Ukraine.

Conscription, meanwhile, has created a labour shortage, exacerbated by the fact that many Russians have fled the country. Unemployment, at around 2% of the workforce, is the lowest on record. This, in turn, has forced employers to compete hard for workers. In 2024 nominal pay rose by an astonishing 18%, putting further upward pressure on prices. The government has also implemented enormous fiscal stimulus, lifting spending on defence, welfare and infrastructure. Strong demand, says the central bank, "still exceeds companies' capacities to expand supply".



The Economist

A tussle is now under way in Russia's policymaking establishment. The central bank—stuffed with orthodox economists—is desperate to cool prices. On February 14th, following a monetary-policy meeting, it is expected to keep interest rates at 21%, their highest since the early 2000s. It has also tightened credit rules. But those close to Mr Putin have other ideas. The vast military budget keeps coming in much higher than planned, and now equals around 7% of GDP. The government is doling out huge sums, including as signing-on bonuses to soldiers and compensation to families when their relatives are killed in action. It is also pressganging the private sector into funding the armed forces, which amounts to a form of stimulus.

Is Russia's high inflation sustainable? In a typical emerging market, one of three problems arises. Sometimes high inflation can make it difficult for a country to service its foreign debts, as the currency depreciates. Yet Russia runs a large current-account surplus and has a healthy stock of net foreign assets, making such a scenario unlikely. Alternatively, spiralling inflation can push up interest rates, which raises the cost to the government of servicing its debt. Although Russian rates have indeed risen, the government's debt is low, making debt-service costs manageable.



The Economist

A third potential problem is politics. People, fed up with inflation's impact on their quality of life, demand change. It is an open question whether Russia's authoritarian rulers would switch course in the face of such grumbles. Regardless, people seem reasonably content with the economy, at least for the time being. In the past year household incomes have risen by 10%, after adjusting for inflation, with government payments and wages easily outpacing rising living costs. According to the Levada Centre, an independent pollster, consumer confidence is near an all-time high (see chart), while complaints about inflation are no higher than the long-run average. This is translating into how people spend their money. Real household consumption is at least 6% higher than it was a year ago, according to our analysis of official data.

Whether this confidence can last is another question altogether. Russians may eventually reach their limit, and start to complain about rising prices. Meanwhile, the prospect of peace talks, as suggested by Donald Trump on February 12th, raises a fresh economic challenge. Russia is producing a lot of goods and services, not least weapons, that a peacetime economy does not need. Adjusting to the end of war may therefore be a surprisingly difficult process. Unless the West lifts sanctions, Russia's long-term outlook is bleak —whatever happens with inflation. ■

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Finance & economics | Sunburst

Cheap solar power is sending electrical grids into a death spiral

Pakistan and South Africa provide a warning for other countries

February 13th 2025



In 1812 Frederick Winsor, a madcap entrepreneur, invented the public utility. The idea behind his Gas Light and Coke company, which would supply residents of London, was that instead of each household buying its own energy—bags of coal, bits of firewood—the stuff would be piped directly to them from a central location. More customers, with differing patterns of demand, would allow power plants to be used more efficiently. It was a natural monopoly: scale would spread the cost of the gasworks, the pipes and so on across large numbers of customers, each spending less than they would individually to consume just as much. The idea of "energy as a service" spread across the world.

But cheap solar power is now breaking the model. Last year Pakistan became the world's third-biggest importer of Chinese solar panels. Many were destined for the roofs of commercial and industrial outfits or farms, to replace diesel generators. Pakistan has sky-high energy prices, a legacy of expensive contracts to pay for capacity from often Chinese-built coal plants. The adoption of cheaper, cleaner solar power is a welcome development. At the same time, however, it leads to a vicious cycle. The costs of running the grid and paying for coal power fall on fewer people, who then have more reason to opt out, undermining the economics of the whole enterprise.

South Africa has seen a similar development. "Load shedding" by Eskom, a state-owned energy firm, cuts off users when there is insufficient electricity to meet demand. This has led to a solar boom, causing financial problems for municipal governments, which have to buy increasingly expensive power from Eskom to sell on to consumers. By November they had unpaid bills of 95bn rand ($5bn, or 1.2% of GDP) with the firm. In Lebanon, where the state energy company limited electricity generation to a couple of hours a day in 2019, the amount of installed solar power rose from 100 to 1,300 megawatts from 2020 to 2023. Rooftops in Beirut's richer neighbourhoods are covered by dark panels.

Even in America, high energy prices and blackouts after natural disasters have persuaded people to go off-grid. Seyyed Ali Sadat and Joshua Pearce, both of Western University, have found that in parts of five states a mixture of solar panels, batteries and diesel generators is a cost-effective alternative to relying on the grid. And prices of such systems are falling by around 9% a year, they estimate, owing to cheaper batteries and solar panels.

For optimists these trends present a vision straight from the green movement of the 1970s. Back then, Amory Lovins, an energy analyst, coined the term "soft energy path" to describe a future in which power would be renewable, decentralised and small-scale. "An affluent industrial economy could advantageously operate with no central power stations at all," he wrote. Libertarians cheer the shift, too. Technological change is making electricity markets more "contestable", says Lynne Kiesling of the American Enterprise Institute, a think-tank. The possibility of disconnecting, even if unused, means that natural monopolies face the threat of defection.

Daylight robbery

Yet there are drawbacks to the change. One concerns efficiency. Over its lifetime, a solar farm's per unit cost of energy comes to around a quarter of that from rooftop solar, estimates Lazard, a bank. There are economies of scale in installation and maintenance. On top of this, lots of self-generated power will ultimately be wasted.

Moreover, the upfront cost of quitting the grid typically makes it a viable option only for the rich. Since wealthier Pakistanis can pay for their own solar systems, poorer ones are forced to bear more of the costs of the grid or do without electricity altogether. In Lebanon the lack of regulation has made the country "a dumpster of low-quality solar systems and batteries", says Jessica Obeid of the Middle East Institute, a think-tank. The small firms that crop up to install them go bankrupt and cannot provide maintenance.

Policymakers are now attempting to come up with solutions. "You can make solar play nice with the grids," says Jenny Chase of BloombergNEF, a research firm. Pakistan's problems emerge from its legacy of high-cost coal power and the way in which customers are charged: fixed costs arising from transmission and distribution are paid back through hourly prices, which do not flex much according to demand. For the moment, few people have energy-storage systems, which means that they use the grid as backup rather than disconnecting altogether. As a consequence, those who are able to afford a solar system can free ride, enjoying their own electricity when the sun shines and making use of the grid for artificially cheap power when it sets. Residential consumers also enjoy "net metering", gaining credit for supplying electricity during daytime when it is less valuable. Eliminating such incentives would help spread the cost of maintaining the grid in a fairer manner.

Yet the best solution would be for energy firms to respond to the competition and sort themselves out. In Pakistan they often fail to make consumers pay their bills. In South Africa, as Eskom has at last managed to curtail blackouts, the solar boom has slowed down. Although decentralised energy production may be destabilising, it does mean that providers have an

incentive to improve. Rooftop solar offers an alternative to a monopoly that can no longer be considered natural. ■

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Finance & economics | Free exchange

The danger of relying on OpenAI's Deep Research

Economists are in raptures, but they should be careful

February 13th 2025



In early February OpenAI, the world's most famous artificial-intelligence firm, released Deep Research, which is "designed to perform in-depth, multi-step research". With a few strokes of a keyboard, the tool can produce a paper on any topic in minutes. Many academics love it. "Asking OpenAI's Deep Research about topics I am writing papers on has been incredibly fruitful," said Ethan Mollick of the University of Pennsylvania. Some economists go further. "I am *sure* for B-level journals, you can publish papers you 'wrote' in a day", said Kevin Bryan of the University of Toronto. "I think of the quality as comparable to having a good PhD-level research assistant, and sending that person away with a task for a week or two," said Tyler Cowen of George Mason University, an economist with cult-like status in Silicon Valley.

Should you shell out $200 a month for Deep Research? Mr Cowen has hyped fads in the past, as he did with Web3 and Clubhouse, a once-popular social-media network. On the other hand, if Deep Research approximates a form of artificial superintelligence, as many believe, then $2,400 a year is the greatest bargain in the history of the world. To help you decide, your columnist has kicked the tyres of the new model. How good a research assistant is Deep Research, for economists and others?

The obvious conclusions first. Deep Research is unable to conduct primary research, from organising polls in Peru to getting a feel for the body language of a chief executive whose company you might short. Nor can it brew a coffee, making it a poor substitute for a human assistant. Another complaint is that Deep Research's output is almost always leaden prose, even if you ask it to be more lively. Then again, most people were never good writers anyway, so will hardly care if their AI assistant is a bit dull.

Use Deep Research as an assistant for a while, though, and three more important issues emerge: "data creativity", the "tyranny of the majority" and "intellectual shortcuts". Begin with data creativity. OpenAI's model can handle straightforward questions—"what was France's unemployment rate in 2023?"—without breaking step. It can handle marginally more complex questions—"tell me the average unemployment rate in 2023 for France, Germany and Italy, weighted by population"—with ease.

When it comes to data questions requiring more creativity, however, the model struggles. It wrongly estimates the average amount of money that an American household headed by a 25- to 34-year-old spent on whisky in 2021, even though anyone familiar with the Bureau of Labour Statistics data can find the exact answer ($20) in a few seconds. It cannot accurately tell you what share of British businesses currently use AI, even though the statistics office produces a regular estimate. The model has even greater difficulty with more complex questions, including those involving the analysis of source data produced by statistical agencies. For such questions, human assistants retain an edge.

The second issue is the tyranny of the majority. Deep Research is trained on an enormous range of public data. For many tasks, this is a plus. It is astonishingly good at producing detailed, sourced summaries. Mr Cowen

asked it to produce a ten-page paper explaining David Ricardo's theory of rent. The output would be a respectable addition to any textbook.

Yet the sheer volume of content used to train the model creates an intellectual problem. Deep Research tends to draw on ideas that are frequently discussed or published, rather than the best stuff. Information volume tyrannises information quality. It happens with statistics: Deep Research is prone to consulting sources that are easily available (such as newspapers), rather than better data that may be behind a paywall or are harder to find.

Something similar happens with ideas. Consider the question—much discussed by economists—of whether American income inequality is rising. Unless prompted to do otherwise, the model blandly assumes that inequality has soared since the 1960s (as is the conventional wisdom) rather than remained flat or increased only a bit (the view of many experts). Or consider the true meaning of Adam Smith's "invisible hand", the foundational idea in economics. In a paper published in 1994, Emma Rothschild of Harvard University demolished the notion that Smith used the term to refer to the benefits of free markets. Deep Research is aware of Ms Rothschild's research but nonetheless repeats the popular misconception. In other words, those using Deep Research as an assistant risk learning about the consensus view, not that of the cognoscenti. That is a huge risk for anyone who makes their income through individual creativity and thought, from public intellectuals to investors.

The idiot trap

A third problem with employing Deep Research as an assistant is the most serious. It is not an issue with the model itself, but how it is used. Ineluctably, you find yourself taking intellectual shortcuts. Paul Graham, a Silicon Valley investor, has noted that AI models, by offering to do people's writing for them, risk making them stupid. "Writing is thinking," he has said. "In fact there's a kind of thinking that can only be done by writing." The same is true for research. For many jobs, researching is thinking: noticing contradictions and gaps in the conventional wisdom. The risk of

outsourcing all your research to a supergenius assistant is that you reduce the number of opportunities to have your best ideas.

With time, OpenAI may iron out its technical issues. At some point, Deep Research may also be able to come up with amazing ideas, turning it from an assistant to the lead researcher. Until then, use Deep Research, even at $200 a month. Just don't expect it to replace research assistants any time soon. And make sure it doesn't turn you stupid. ■

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Science & technology

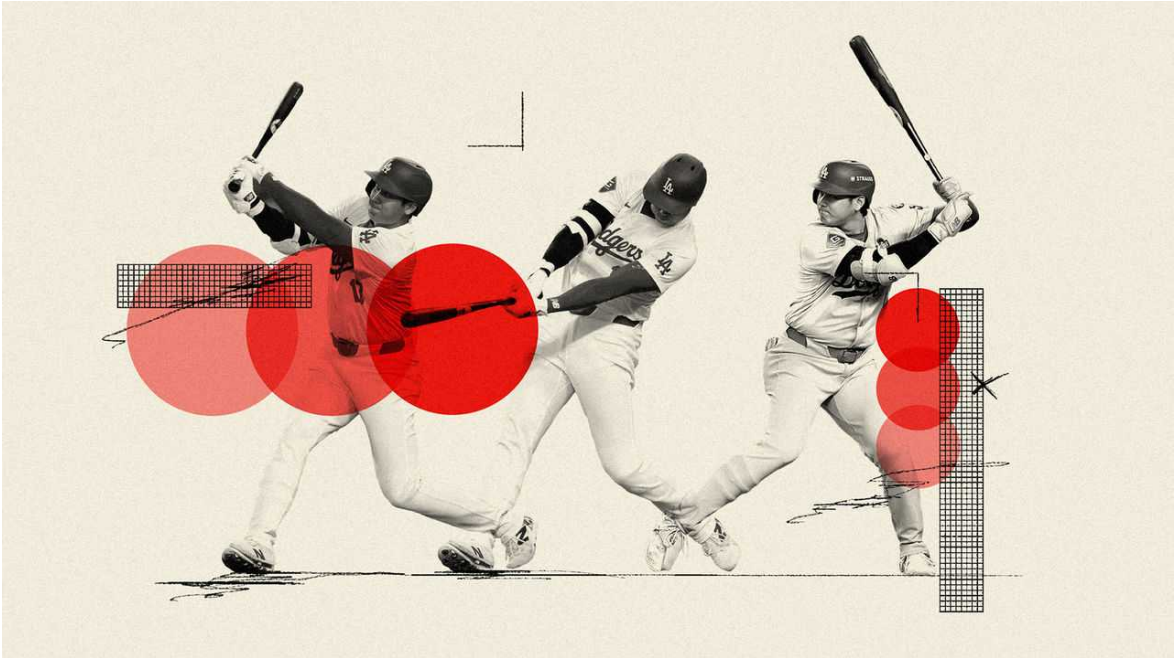
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Science & technology | AI up to bat

How artificial intelligence is changing baseball

Moneyball enters its AI era

February 12th 2025



Imagine if a baseball club had an oracle that could say with certainty how many hits a batter would compile, or how many runs a pitcher would allow, in the coming year, three years or decade. The best-performing teams would then be those with the best oracles. Such oracles don't exist, of course. But artificial-intelligence (AI) models do. And they don't need a crystal ball: they can predict the future simply by looking for mathematical patterns in reams of historical data.

Such analysis is nothing new. In the 1970s the baseball analyst Bill James pioneered an empirical approach to the sport, developing a panoply of novel ways to quantify performance. Such "sabermetrics" (named for the Society for American Baseball Research, of which James was a member) entered the

mainstream in the “Moneyball” era of the early 2000s. As documented in a book and, later, a film of that name, the Oakland Athletics began applying sabermetric principles to identify (and then sign) players whose statistical profiles suggested they might be more valuable than competing clubs realised. This paid off; the Athletics made the playoffs four years in a row despite having one of the lowest payrolls in North America’s Major League Baseball (MLB).

Moneyball has now entered its AI era. All teams in MLB have at least one analyst, with some employing dozens. The consistent and clever use of AI-powered analytics is letting teams with small budgets compete and those with large budgets dominate. More investment and innovation looks inevitable.

There are good reasons why baseball is such an ideal testing ground for AI-driven analysis. First, as in most sports, there are clear rules, uncontested winners, and few lives at stake if things go wrong. Baseball also has certain unique advantages. As Nicholas Kapur at Teamworks, a sports analytics company, puts it, “Baseball is a series of individual matchups that masquerades as a team sport.” Studying a series of discrete contests between batters and pitchers is much simpler than the many-body problem of a rugby scrum or a fast break in basketball.

Baseball is also overflowing with data. On top of a century and a half of recorded hits and runs, all pitched baseballs in MLB were simultaneously filmed by three cameras starting in 2006. This provided data about the ball’s origin point, how fast it went, and how much it curved or sank as well as precisely where it ended up. Now, its newer, radar-based replacement, TrackMan, is even more reliable. What’s more, all league games are recorded by several cameras in each stadium. This footage is then processed by algorithms to track every pitch and swing, along with the joint and body movements of each player.

Innovations in AI models offer tantalising possibilities for how this data could be put to use. Just as a large language model (LLM) analyses the structure of millions of existing sentences to suggest new ones, a baseball equivalent could predict the future performance of a player or team as well as suggest game strategies.

Curve balls

Statistical analysis has led to such changes before. Over the past two decades number-crunching has led to the increasing use of defensive shifts —where fielders are repositioned based on the likely outcome of a batter's swing—becoming more common. (The most extreme infield defensive shifts were banned in 2023 in an effort to make games more exciting.) Machine-learning models employed by some teams help coaches make more fine-grained analyses based on ball data and player tendencies, allowing them to place fielders in positions where the statistics suggest the opposing batter is most likely to hit the ball. Other teams, meanwhile, use AI to recommend pitches that will be most effective against specific batters.

There are a number of ways AI models can do this. One sort plots pitches on a graph with its own distinctive axes, where pitches that are similar to each other wind up close together. For instance, two fastballs to the upper right of the strike zone will be close together in this "pitching space", whereas a curveball to the same location will end up somewhere else. This sort of data-crunching lets a batter-v-pitcher model make predictions even for matchups it has never seen before, by, for example, looking at how a batter has fared against similar pitchers.

A future goal is to develop an AI model of any given pitcher. Batters could then use this to study a pitcher's wind-up and pitching motion, and predict the location and type of the subsequent pitch. Training such a virtual pitcher would require hours of high-speed video as well as data about the subsequent pitches. The model would then be repeatedly asked to predict correlations between wind-up and pitch, hunting for distinctive tells that batters could use when faced with the real thing.

Such a tool would be in high demand: at present, a number of pitchers consistently outperform AI-model predictions. This may be because current models, which mainly use pitch trajectories, lack an understanding of how batters use physical cues to read the pitcher, and how pitchers use their body to bamboozle batters. Incorporating pitching motions into these models might fix that.

A related model could also be used to analyse the biomechanics of the throwing motion to determine the likelihood of injury within the next few months, and over the course of a career. If an AI model identifies a risky movement, this can be corrected to either keep the pitcher healthy or stop the team from wasting money on someone prone to injury.

As bat-tracking data become more widely available, equivalent AI batters may come soon to offer insights into how batters perform the superhuman feat of hitting a ball travelling at over 150kph from barely 20 metres away, potentially allowing this skill to be more efficiently taught.

Key to acting on such suggestions, though, is explainability: can the model's reasoning be trusted—or even followed? Teams are experimenting with explainability techniques that allow for such interrogation. One approach uses LLMs as an interface to the projection model, so that a coach can ask questions directly, without having to learn to code. Some teams even employ internal "sales reps" that act as intermediaries between the analytics team and the one on-field. Their job is to work out how to interpret and contextualise the insights in a way that would be most useful to players and coaches.

The way that models are used should always allow for nuance or questioning, says Dr Kapur, because they "can miss things and assumptions can be wrong". Thousands of unpredictable details can escape an AI model's predictions—everything from a coach's mood to a last-minute change of strategy. Even if such minutiae could one day be modelled, there is little chance of AI taking the fun out of baseball. "We know computers are better than humans at playing chess," says Patrick Lucey at Stats Perform, a sports analytics company, "but we still love playing chess." ■

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Science & technology | A game of two graphs

AI is being used to model football matches

The mathematics of network analysis helps them follow the action

February 12th 2025



To a human observer of football (the soccer sort), the on-pitch patterns—offence stretching and squeezing defence, counterattacks coalescing out of thin air—are as mesmerising as they are easy to follow. For an artificial-intelligence (AI) model, however, understanding what is going on is far from trivial. Raw video is stuffed with information, most of it irrelevant. The first thing an AI engineer, therefore, has to do is teach the model what matters and what doesn't. For football tactics, player and ball positions are a good place to start. But a team isn't just a collection of isolated players; it is a network of relationships.

Such networks, known to mathematicians as graphs, are made up of nodes connected by edges. On a football pitch, each player is a distinctive node,

with edges capturing interactions such as passes and tackles. A match can, thus, be represented as an evolving sequence of graphs, no two alike between kickoff and the final whistle.

AI models capable of parsing such information, known as graph neural networks (GNNs), can be used to identify which sorts of patterns spell danger for a team, and, consequently, what to avoid. Many scientific fields find them useful. At an upcoming conference hosted by the Massachusetts Institute of Technology, Joris Bekkers and Amod Sahasrabudhe, two sports analysts, will present a model they devised while at the United States Soccer Federation. This predicts counterattacks using a method originally devised to predict how atoms come together to form crystals.

All models are simplifications, and graph-based ones are no exception. For one thing, they are best at representing interactions between pairs of nodes. To capture a four-person defensive formation, other, yet more complex, structures may have to be called off the bench. ■

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Science & technology | Whizz-bang

A neutrino telescope spots the signs of something cataclysmic

What could have generated the most energetic neutrino ever detected?

February 12th 2025



ON FEBRUARY 13TH 2023 an object with extraterrestrial origins went screaming through the Mediterranean Sea off the Sicilian coast. A single, super-energetic subatomic particle left a sparkling trail of light in the depths. And it did so right in the middle of an odd sort of telescope that was partway through construction. In a paper published in *Nature* this week, the scientists in charge of KM3NET discuss how they detected the signature of the most powerful neutrino that science has ever seen.

KM3NET is not a conventional telescope. It does not rely on visible light, as astronomers long have, nor on other bits of the electromagnetic spectrum, such as radio waves or gamma rays, that were added to their arsenal in the

20th century. Instead it examines the universe with neutrinos, ghostly but omnipresent subatomic particles that are produced in nuclear reactions. Scientists had theorised that very-high-energy neutrinos ought to exist, produced by violent astronomical processes such as gamma-ray bursts or matter falling into giant black holes. Now they have evidence that they were right.

Detecting neutrinos is difficult. They are aloof particles that rarely deign to interact with the rest of the universe. They feel only two of the four fundamental forces: the weak nuclear force, which works over very small distances, and gravity; they are immune to electromagnetism and the strong nuclear force. Trillions of neutrinos, mostly produced by the Sun, rain down on each square metre of Earth's surface every second. The vast majority sail right through the planet.

Occasionally, though, one will slam straight into another subatomic particle inside an atom. That will produce a shower of secondary particles that are much easier to spot. A neutrino telescope, therefore, is a giant exercise in statistics. Observe lots of atoms for a long time and sooner or later you will see a collision. Detectors like Super Kamiokande, in Japan, or IceCube, in Antarctica, use huge quantities of ultra-pure water and ice respectively. The secondary particles produced by neutrino collisions produce characteristic flashes of light as they pass through the detector. KM3NET uses the Mediterranean Sea instead. Two groups of detectors sit several kilometres deep in the waters off Sicily and Toulon in France. (A third is planned near Pylos, in Greece.)

The neutrino from 2023 came in from the west, travelling almost horizontally. It passed through more than 100km of rock before colliding with something and generating a very energetic muon—a heavier cousin to the electrons that surround atomic nuclei. It was that muon, rather than the neutrino itself, that flashed through the detector. But by working backwards, the researchers were able to tentatively conclude that the neutrino that generated it was packing something like 220 petaelectron-volts of energy—in layman's terms, about as much as a ping-pong ball dropped from a height of a metre.

The big question is what could have produced it. Fortunately, the neutrinos' reluctance to interact with anything means they chart straight paths through space, unaffected by magnetic fields or clouds of gas. When KM3NET's researchers went looking through archived observations of the patch of space from which the neutrino had come, they spotted a dozen "blazars", jets of energy produced by matter falling into black holes, pointing straight at Earth. Any of those could have been the source.

But they are not sure: the detection was made while KM3NET was about only 10% complete, and there are other, less exciting, possible explanations. In future, scientists will be better prepared. An automated system, designed to alert other telescopes to noteworthy neutrino detections, was not working in 2023. Had it been, scientists could have quickly trained all manner of other instruments on the relevant patch of the sky, hoping to spot extra clues. That system should be up and running soon. All that can be done now is wait and hope that something similar happens again. ■

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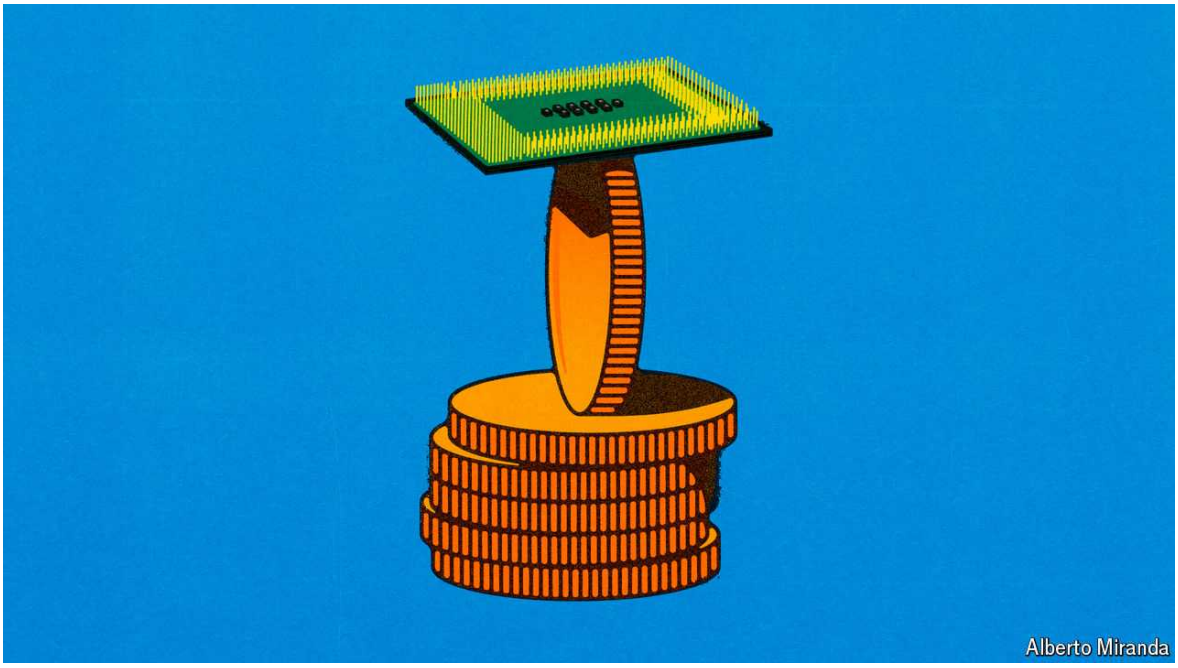
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Science & technology | For a fistful of dollars

Forget DeepSeek. Large language models are getting cheaper still

A $6m LLM isn't cool. A $6 one is

February 12th 2025



As recently as 2022, just building a large language model (LLM) was a feat at the cutting edge of artificial-intelligence (AI) engineering. Three years on, experts are harder to impress. To really stand out in the crowded marketplace, an AI lab needs not just to build a high-quality model, but to build it cheaply.

In December a Chinese firm, DeepSeek, earned itself headlines for cutting the dollar cost of training a frontier model down from $61.6m (the cost of Llama 3.1, an LLM produced by Meta, a technology company) to just $6m. In a preprint posted online in February, researchers at Stanford University and the University of Washington claim to have gone several orders of

magnitude better, training their s1 LLM for just $6. Phrased another way, DeepSeek took 2.7m hours of computer time to train; s1 took just under seven hours.

The figures are eye-popping, but the comparison is not exactly like-for-like. Where DeepSeek's v3 chatbot was trained from scratch—accusations of data theft from OpenAI, an American competitor, and peers notwithstanding—s1 is instead "fine-tuned" on the pre-existing Qwen2.5 LLM, produced by Alibaba, China's other top-tier AI lab. Before s1's training began, in other words, the model could already write, ask questions, and produce code.

Piggybacking of this kind can lead to savings, but can't cut costs down to single digits on its own. To do that, the American team had to break free of the dominant paradigm in AI research, wherein the amount of data and computing power available to train a language model is thought to improve its performance. They instead hypothesised that a smaller amount of data, of high enough quality, could do the job just as well. To test that proposition, they gathered a selection of 59,000 questions covering everything from standardised English tests to graduate-level problems in probability, with the intention of narrowing them down to the most effective training set possible.

To work out how to do that, the questions on their own aren't enough. Answers are needed, too. So the team asked another AI model, Google's Gemini, to tackle the questions using what is known as a reasoning approach, in which the model's "thought process" is shared alongside the answer. That gave them three datasets to use to train s1: 59,000 questions; the accompanying answers; and the "chains of thought" used to connect the two.

They then threw almost all of it away. As s1 was based on Alibaba's Qwen AI, anything that model could already solve was unnecessary. Anything poorly formatted was also tossed, as was anything that Google's model had solved without needing to think too hard. If a given problem didn't add to the overall diversity of the training set, it was out too. The end result was a streamlined 1,000 questions that the researchers proved could train a model just as high-performing as one trained on all 59,000—and for a fraction of the cost.

Such tricks abound. Like all reasoning models, s1 "thinks" before answering, working through the problem before announcing it has finished and presenting a final answer. But lots of reasoning models give better answers if they're allowed to think for longer, an approach called "test-time compute". And so the researchers hit upon the simplest possible approach to get the model to carry on reasoning: when it announces that it has finished thinking, just delete that message and add in the word "Wait" instead.

The tricks also work. Thinking four times as long allows the model to score over 20 percentage points higher on maths tests as well as scientific ones. Being forced to think for 16 times as long takes the model from being unable to earn a single mark on a hard maths exam to getting a score of 60%. Thinking harder is more expensive, of course, and the inference costs increase with each extra "wait". But with training available so cheaply, the added expense may be worth it.

The researchers say their new model already beats OpenAI's first effort in the space, September's o1-preview, on measures of maths ability. The efficiency drive is the new frontier. ■

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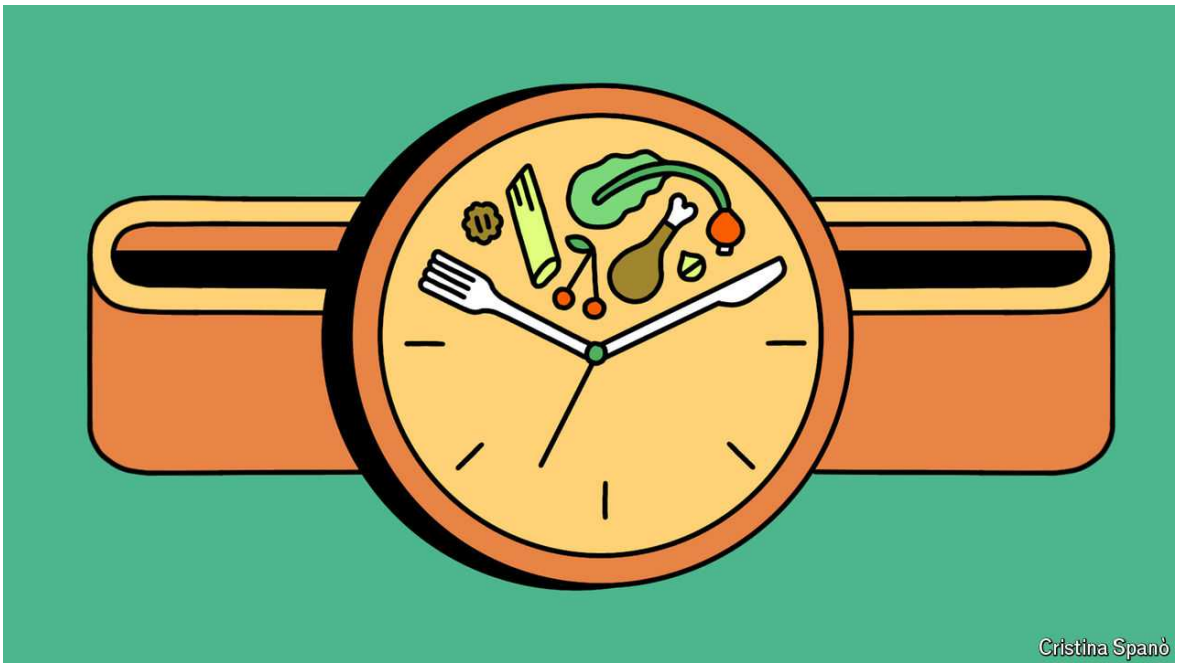
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Science & technology | Well informed

Does intermittent fasting work?

It does for weight loss. Its other supposed benefits are debatable

February 7th 2025



Diets come and diets go. One of the most popular today is “intermittent fasting” in which, as the name suggests, the idea is to limit one’s food intake to certain time windows. One popular variant, the “5-2 diet”, requires people to eat either very small amounts, or nothing at all, on two days a week, but imposes no restrictions on the other five.

Intermittent fasting is popular. And as a weight-loss strategy, it has several things going for it. One is that it is uncomplicated. There is no need to weigh the ingredients of every meal, as some diets demand, nor to change what you eat drastically. Limiting the restrictions to a couple of days a week, or several hours a day (most of which are spent asleep) also requires less willpower, which might make it easier to stick with.

Working out whether that actually translates into greater weight loss than other diets is difficult. Most studies find limited data and mixed results. The general consensus, says Nichola Ludlam-Raine, a dietitian and spokeswoman for the British Dietetic Association, is that intermittent fasting seems to work roughly as well for weight loss as traditional calorie-counting does.

Other health benefits might also beckon. Forcing lab animals to fast (albeit not intermittently) can increase their lifespans by up to 40%. It also appears to mitigate the physical decline that comes with old age, boost various markers of metabolic health and even reduce susceptibility to cancer.

Exactly how it does all that is not entirely clear. One important factor seems to be autophagy, the process by which cells break down and recycle parts of themselves. Cells become much keener on autophagy when nutrients are scarce. At the same time, autophagy seems to have a preference for attacking damaged and degraded parts of cells—and the accumulation of such cellular detritus is one of several mechanisms thought to underlie the decrepitude that comes with ageing.

The hope is that intermittent fasting might provoke a similar response in humans. There are theoretical reasons to think it might: the cellular mechanisms triggered by food shortages seem to have been conserved by evolution in all sorts of different animals. But running definitive human trials of the sort done on lab animals is impossible. “When we say ‘calorie restriction’ we mean nearly starving [the animals],” says Adam Collins, a nutrition researcher at the University of Surrey.

That leaves scientists reliant, for now, on smallish, short-lived studies that use less drastic diets and which rely on proxy measures of health such as insulin response or cholesterol levels. Their results are mixed. Dr Collins’s team, for instance, has published a randomised-control trial (the most rigorous sort) suggesting that intermittent fasting improves the metabolism of fats more than ordinary dieting does. A review paper published in April 2024 looked at 23 other studies and concluded that intermittent fasting was slightly better than ordinary dieting for overweight people when it came to improving levels of cholesterol and insulin. A similar article, published in

January, found no meaningful difference for either weight loss or cardiovascular health.

There are also risks. A study in mice published in *Nature* in October 2024 found that severe fasting (where calories were cut by 40%) had downsides, including muscle mass loss and, possibly, weakened immune systems. Moderation, too, should be taken in moderation. ■

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Culture

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Culture | Infinite jest

The secret to the success of “Saturday Night Live”

The 50-year-old TV show has constantly changed, but always remained the same

February 13th 2025



IN 1975 A 30-year-old Canadian named Lorne Michaels persuaded the least popular of America’s three broadcast television networks, NBC, to let him develop a live 90-minute sketch-comedy show. It would air at 11:30pm on Saturdays. Mr Michaels compared the time slot to “a vacant lot on the edge of town”, fringe enough to offer him the freedom to experiment. His cast was described as the “not ready for prime-time players”. Though the first episode included several actors who would become stars, including Chevy Chase and John Belushi, most people who tuned in would not have bet on longevity.



But on February 16th “Saturday Night Live” (SNL) will celebrate its 50th birthday on air, 979 episodes after its launch. A slew of tributes is also filling the airwaves. A new film, “Saturday Night”, dramatises the off-camera struggles of that first show; NBC has released a four-part behind-the-scenes series, as well as a terrific documentary about its musical guests.

No other television show has been nominated for, or won, more Emmys: 331 and 90, respectively. (“Game of Thrones”, in second place, claims 59 wins.) “SNL” has also minted some of the world’s most famous comedians, who have gone on to write, direct and star in popular television series and films. Millions of people still watch the show when it airs, and even more catch it online. More than 540m netizens have liked its videos on TikTok. Its longevity testifies to how skilfully it has balanced conservatism and innovation.

Start with conservatism. Anyone who watched “SNL” in its first season but not again until its 50th would find its structure and routines familiar. Each 90-minute episode features around ten sketches, two music performances and one “Weekend Update”, a parody of a news programme. Episodes take shape over six intense days in a collegial but competitive winnowing process. All sketches are run past a network censor, who excises obscene

content as writers complain about oversensitivity. The show still uses handwritten cue cards instead of a teleprompter.



Hosts change weekly. Most often they are actors or comedians, though politicians, athletes and musicians have also featured. But the man at the top, Mr Michaels, is still there, 50 years later. In the history of American entertainment, only Alfred Hitchcock rivals him in longevity, John Mulaney, a comedian, has observed. "Lorne", a new biography by Susan Morrison, an editor at the *New Yorker*, argues that Mr Michaels has a gift for choosing and shaping comedic talent that has changed the course of TV and popular humour. Phrases including "It's always something" and "Well, isn't that special" have entered the lexicon thanks to "SNL" skits.

Brought up in a middle-class Jewish home in Toronto, Mr Michaels tried performing himself but found it was not for him. He loved comedy and the counterculture of the 1960s but was always the straight man ("He was almost wearing an invisible necktie," is how someone remembers him at that time). His personality served him well in the competitive snake pit that "SNL" often is: he could wrangle and cajole talent without worrying about his own act.

He has kept the humour of "SNL" clever but accessible, trying for jokes that can resonate across America, rather than just on the coasts. Mr Michaels still reminds writers, "You've got an audience in all 50 states." Aiming at the broad centre gives the show licence to tackle sensitive subjects, including race, as when newscasters, two black and two white, compete to see which race produced more crime stories. Fans also enjoy it when two "Weekend Update" hosts, Colin Jost (white) and Michael Che (black), write offensive jokes for each other that they read aloud on air.

Funny face

Despite its consistency, "SNL" has changed in ways that explain its endurance. It has taken to making shorter videos that can live online, so viewers can watch highlights and not the whole show. (These began in 2005, when "SNL" hired Andy Samberg, who made cheap "digital shorts" with friends. "Lazy Sunday", a rap about cupcakes and Narnia, became one of YouTube's first viral hits.) These digital clips have expanded the show's audience: this season some 8.4m viewers have watched the show on TV and NBC's Peacock app; meanwhile, online clips are averaging around 216m per episode on social platforms, such as TikTok, X and YouTube.

Its cast has also grown more diverse. Though the original cohort of actors featured outsize personalities at war with each other (Mr Chase had a reputation for inspiring hatred), "SNL" has come to prize low-key versatility. Young comics usually arrive with a background in stand-up or improv. Many writers also perform, and vice versa. Harper Steele, a former head writer, has said that one reason alumni have such varied careers as actors, directors, producers and writers is that on the show, everyone ends up doing a bit of everything. Tina Fey, for instance, was initially hired as a writer, but ended up performing and anchoring "Weekend Update"; after leaving "SNL" she wrote "Mean Girls", a film, and created well-loved TV series including "30 Rock".

Politics has been a mainstay of the show, which usually sees a ratings bump in election years. "SNL" has largely avoided the trap of "The Daily Show", which attracts sententious applause by appealing to liberal sentiments. Instead, the show is an equal-opportunity mocker: James Austin Johnson's

Donald Trump is boorish and loopy, and Maya Rudolph played Kamala Harris as a pandering striver.



Critics have repeatedly (and inaccurately) pronounced "SNL" dead. From the outside, what the show does looks replicable. But other sketch-comedy shows, including Fox's "Mad TV", have lacked similar staying power. The same is true of the roughly dozen versions of "SNL" that appeared briefly in other countries, including Canada, Finland, Italy and Japan. No other show has managed to combine the famous and the funny so consistently.

Larry David, who wrote briefly for "SNL" before creating "Seinfeld" and "Curb Your Enthusiasm", has predicted that "SNL" "can go on for another 200 years". But its fate is tied to that of its network, NBC, and traditional TV, which is beset by streaming and cord-cutting.

And there is the question of the show's next act. Mr Michaels has said he has "no immediate plan" to retire, but he is 80 years old. The possible successors most often rumoured to take over are Ms Fey and Seth Meyers, who hosts a different late-night talk show on NBC. Whoever is selected will need to work out how to keep the show vital while resisting the temptation to tinker too much with a successful formula. But for now, it's party time. ■

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Culture | By the book

Do societies need more, or less, discretion in enforcing rules?

A philosopher takes a surprising stance

February 13th 2025



Fewer Rules, Better People. By Barry Lam. *W.W. Norton; 176 pages; $24 and £17.99*

THIEVES SHOULD be punished—but always and maximally? In Victor Hugo's "Les Misérables", Inspector Javert relentlessly pursues Jean Valjean, imprisoned for stealing bread to feed his starving family. Valjean, a lawbreaker, is the novel's hero, and Javert, who pitilessly enforces the law, its antagonist.

In a slim, thoughtful book, Barry Lam, a philosophy professor at the University of California, Riverside, warns that liberalism's tendency towards legalism—coming up with impartial rules to govern all conceivable

outcomes—is creating a society of Javerts. He has a point: well-intentioned rule-making can inadvertently strangle productivity and occlude moral judgment.

As a general principle, people should prefer enforcers as attuned to the law's spirit as its letter. He approvingly tells the story of a police officer who persuaded a shopkeeper not to press charges against a young man caught stealing food for his starving brother. But some of the same readers who would support this display of compassion no doubt cheered a measure passed in San Francisco last year to curtail police discretion by barring them from stopping drivers with a missing number plate or broken tail-light. The measure's proponents say it will reduce racial bias (police stop black and Latino drivers, they argue, more often than white ones). However, many police stop cars because they suspect the drivers of more serious crimes; now their hands are tied.

Discretion is as neutral a value as obedience: people like it when they like the outcome. Mr Lam often ignores that distinction, along with the motivation for rule-making. He complains that getting a second shot for his daughter's vaccine was difficult because no record existed of the first. But a health system that enforces no rules (such as requiring records) would soon find itself sued.

His opposition to legalism, too, runs to extremes. A bureaucrat at a round-table event where Mr Lam was speaking refused to approve a coffee purchase at 9.30am, when it was due to begin, because the preferred vendor started work 30 minutes later. The "by-the-book bureaucrat", Mr Lam thunders, is "no less to be feared" than the tyrant. In fact, Josef Stalin is far more fearsome than the functionary who requires a short wait for coffee.

It is never quite clear which way the book's title, "Fewer Rules, Better People", runs. Will less reliance on rules create better people (unlikely), or should societies have fewer rules enforced by better people (great, though fantastical)? Either way, this book is as enjoyable and irritating as a university philosophy seminar. ■

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Culture | Haplessly ever after

What explains the enduring appeal of Bridget Jones?

From spawning "chick lit" to becoming a Gen Z icon

February 13th 2025



THERE ARE only a few fictional characters who have earned more than three outings on the big screen in the titular role. Mostly they are superheroes (Spider-Man, Superman) or ruthlessly talented spies (James Bond, Jason Bourne). What they are not, on the whole, is clumsy, heavy-drinking, unlucky-in-love women with a chronic case of "verbal diarrhoea". That is what makes Bridget Jones so unusual. On February 13th she returns to cinemas and streaming services in "Bridget Jones: Mad About the Boy", the fourth film in her franchise.

She may never be on time or look quite as she would like to, but Bridget is a reliable box-office draw—even a quarter of a century after her first

appearance. “Bridget Jones’s Diary” (2001) grossed almost $600m in today’s money; the film franchise, including sequels released in 2004 and 2016, has brought in $1.3bn. In 2020 British women named Bridget the most inspirational movie heroine—ahead of Erin Brockovich (a paralegal who, in real life, brought a corporate goliath to heel for contaminating groundwater) and Hermione Granger (Harry Potter’s brainy friend).



Bridget’s influence on the page is just as significant. Helen Fielding’s novel of 1996 has sold more than 15m copies in 40 languages, making it more popular than Joseph Heller’s “Catch-22” and almost as widely read as Jane Austen’s “Pride and Prejudice” (which inspired Ms Fielding’s story). “Bridget Jones’s Diary” still sells thousands of copies every year and is credited with launching an entire subgenre of romance literature dubbed “chick lit”: light-hearted stories about the quotidian lives of women, in particular their erotic endeavours and professional goofs.

So what is it about Bridget? Her appeal lies in her familiar haplessness. She strives for perfection, but invariably falls short. She wants to be impressive at work, but is prone to blunders. Her attempts to cook result in congealed monstrosities and burnt spaghetti. (Many of the culinary and professional misadventures are drawn directly from Ms Fielding’s own life.) Bridget

“fails”, said Renée Zellweger, who plays her, “at pretending to be what she’s not”.

Her *joie de vivre* was not only refreshing in the late 1990s—when, as Ms Fielding has observed, single women in their 30s were still likened to Miss Havisham, the lonely, bitter spinster in “Great Expectations”—but remains so today. Bridget revealed a demand for flawed female characters: without her, there would surely be no Hannah Horvath in “Girls” or Phoebe Waller-Bridge’s “Fleabag”.

Today Bridget has won Gen Z fans because she offers a joyous contrast with “Instagram culture”, Hugh Grant, one of the franchise’s stars, has argued. Forty percent of Gen Z girls say they feel pressure to be perfect, as they are bombarded with idealised images on social media. Bridget shows that gaffes are an amusing, everyday part of life. On TikTok, a scene in which Bridget accidentally dyes a soup blue has scores of comments, such as: “Me when I cook anything at all.”

Another reason for Bridget’s longevity is Ms Fielding’s comic talents. (She has co-written each of the four films.) She has a talent for shrewd observations and delightfully crude jokes. For a film that is largely about bereavement—Mark Darcy (Colin Firth), Bridget’s husband, was killed on a humanitarian mission—“Mad About the Boy” is also uproariously funny. A scene in which Bridget bumps into her son’s teacher at the pharmacy as she bulk-buys condoms is exquisitely cringeworthy.

Ultimately the Bridget Jones franchise delights because it is a winning combination of reality and fantasy. Bridget faces romantic disappointments, which send her reaching for ice cream or a bottle of Chardonnay, but she also achieves true happiness. Across the four films, five attractive men—one of them some 20 years her junior—profess their adoration of her. Whenever Bridget falls over (which she does, a lot), she finds a way to pick herself up, dust herself off, have a laugh and seek her happy ending. ■

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Culture | Face-off

Faceless influencers are becoming famous online

They are everywhere on social media. Just don't ask what they look like

February 13th 2025



The most successful influencers put their lives in the limelight—and their faces all over your social-media feed. They are relentless at self-promotion. But a new kind of creator is upending the internet's traditional model of success. Meet faceless influencers, who are attracting millions of followers and are quietly conquering social media, turning their anonymity into commercial gains.

Their aesthetic is usually soothing, minimalist and domestic. Hands with glistening, manicured nails clasp iced coffees; nondescript figures lounge in cosy bedrooms. Some accounts may show fleeting glimpses of an influencer's profile. But all hide their identities as much as possible.

On TikTok some 200,000 posts are tagged #Faceless; they have a combined 1.1bn views. Facebook groups such as “Girls Gone Faceless” boast over 100,000 members. Camera-shy hopefuls can even take courses on becoming anonymous Instagrammers. “Faceless creators have the same dedicated followings as traditional influencers,” says Julia Markowitz of Emerald Woods Management, an influencer agency. “The only difference is that their followers are fascinated with their lifestyle, not their specific life.”

The internet has a history of anonymity, says Brooke Erin Duffy, an academic at Cornell University. In the early days this meant unnamed bloggers and pseudonymous instant-messaging handles and meme accounts. However, social media and influencer culture have always emphasised personal identity.

But viewers are now seeking out these invisible influencers. Removing identity markers has made faceless influencing a more inclusive space, because the content is neutral. This often means it is easier to relate to, because audiences can imagine themselves there.

Two things changed to give rise to the new faceless trend. One was the success of Asia’s unnamed “silent vloggers”, whose cinematic videos of daily life while stuck at home during the pandemic went viral. The second was the desire of people to make money as influencers without devoting their whole lives to it. Faceless influencers emerged when “The Gen Z corporate girl wanted to make money on the side of her nine-to-five without the effort of getting camera-ready,” says Fallon Lowery, a talent manager for influencers.



Faceless influencers were also drawn to the incognito existence to avoid some of the harassment and hateful comments with which recognisable influencers are barraged. “The biggest advantage has been the freedom it provides,” says Victoria Ortega, who goes by Elysian Living and has around 6m followers across Instagram, TikTok and YouTube. (She posts about oven deep cleans and even her skincare routine, but without ever showing her whole face.)

Brands, including Adobe and Amazon, have taken note of the appeal. “We have seen a huge uptick in brand collaborations with faceless creators,” says Karim Nasri of Digital Streamers, an influencer marketing agency. Such deals are most common with consumer-product lines, including technology and home organisation, because they let the items—instead of the people showing them—take centre stage.

Faceless influencers may be thriving today, but they are not immune to pressures. Some wonder whether they are more likely to be displaced by accounts that use artificial intelligence to create content cheaply. Technology is now good enough for virtual influencers to be believable, cutting out the need for real people. Influencers without famous personas and unique real-life backdrops can be easily generated by AI.

There is also the risk of imitation by other influencers. “It can be challenging to differentiate myself since there’s no physical identity attached, so it’s important for me to always add a personal touch,” such as a playful tone in her captions, says Ms Ortega. But there is no guarantee of success. After all, faceless influencers’ biggest competition is not other creators but the recommendation algorithm—the most important invisible influencer of them all. ■

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Culture | Chapter and (re)verse

How did the Catholic church go so wrong?

A little-remembered gathering might have changed everything, a new book argues

February 13th 2025



Jesus Wept. By Philip Shenon. *Knopf; 608 pages; $35 and £30*

THE MOMENT when Pope Pius XII's nose fell off was awkward, both because the pope's body had been put on public display and because the embalmer was none other than Pius's own doctor. Many had been suspicious of Pius's choice of medic: he was, they felt, a quack. Pius ignored them. A pope, after all, is infallible.

Pius might have been. His doctor clearly was not. Quickly Pius's skin turned blue-green. Then it ruptured. Then his nose fell off. The smell became so

bad the body had to be covered in cellophane. A Swiss Guard watching over the corpse collapsed.

Pius was buried in 1958. But the suspicion that something was rotten in the Vatican remained. It still does, argues a new book by Philip Shenon, formerly a reporter for the *New York Times*. To critics the Catholic church, which claims over 1.3bn followers, is irony incarnate. It was founded by a man who advocated poverty; yet its last pope, Benedict, wore filigree gold crosses and tailor-made shirts at several hundred dollars a pop. The Catholic church long declared homosexuality a "depravity", yet a study published in 1990 estimated that perhaps a fifth of American priests were gay. It is run by celibate men, yet its priests find time to rule, in Latin, on everything from whether one should use condoms (*non*) to whether masturbation is a sin (*ita vero*).

What it did not find time to do was to stop the abuse of children by Catholic priests. A church founded by a man who instructed his followers to "suffer little children" is therefore now better known for making children suffer: in France alone an estimated 200,000 children were abused by priests between 1950 and 2020.

This much is familiar. But Mr Shenon chronicles these failures through the history of the last seven popes, which is unusual. Medieval histories make much of popes, with good reason: bad popes are good copy. The classmates of Joseph Ratzinger (later Pope Benedict XVI), who died in 2022, used to play a parlour game: who was the worst pope? Was it Sergius III, who assassinated his predecessors, or Alexander VI, who held orgies at which prepubescent boys jumped out of cakes?

Modern histories pay less attention, for many reasons. Partly it is because popes matter less. Partly it is practicality: many Catholic documents are locked away not merely in Vatican archives but also in Latin (yet another barrier). The exception was statements on the cold war, which were drafted in French because Latin lacked a term for "nuclear war". It has since been coined: *bellum nucleare*.

It is also a matter of taste: secular, modern histories tend to focus on secular, modern powers and on rulers whose reach is geographical rather than

spiritual. Popes may also be ignored because they sometimes seem so silly. They wear dresses and funny hats. They travel in a popemobile. Until relatively recently the pope's minions included two men whose job it was to follow him and fan him with ostrich feathers.

Besides, the Vatican is tiny. It has a population of just 600-odd citizens. It does not have an army (and certainly no *arma nuclearia*); instead it is guarded by Swiss Guards, with their toy-soldier pikes and plumed helmets. The entire place is a mere 108.7 acres. Many Legolands are larger.

But this toy-town is no game. Though its bureaucracy might not be as riveting as misbehaving medieval popes, it matters. At the heart of the book is an ecumenical council, which convened in the 1960s, at the behest of a liberal and reformist pope, John XXIII, to consider "updating" the church. It was known as Vatican II. To non-Catholics, that title sounds slightly comic: a film sequel, not serious theology. But it was deeply serious. Had it succeeded it would have revolutionised the church's attitudes to everything from birth control to divorce, homosexuality and heresy.

It did not. John died. The reforms that followed were footling, not revolutionary. Latin mass was ditched. New musical choices were allowed. As Tom Lehrer, a satirist, observed, Catholics could now "Do whatever steps you want if/ You have cleared them with the pontiff". Though, as Mr Lehrer said, if the church "really wants to sell the product", its reforms should have gone further. This gripping and damning book shows how, over the course of the next five popes, they did not. It is a long history, well summed up by the shortest verse in the King James Bible that forms this book's title: "Jesus wept". ■

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Culture | The old college try

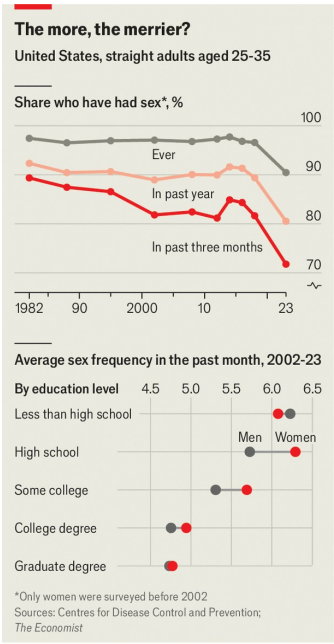
Does more education lead to less sex?

Trying to make sense of the sexual "degree divide" in America

February 11th 2025



UNIVERSITY LIFE in America is often portrayed as an alcohol-fuelled, sexual free-for-all. In "The Sex Lives of College Girls", a TV show created by Mindy Kaling, a comedian, which just concluded its third season, sexual escapades are as common as beer kegs. In reality, however, the sex lives of American university students are surprisingly tame. In 2024 one in five seniors at Harvard revealed to the *Crimson*, a student newspaper, that they had never had sex.



The Economist

This is not unusual. Sexual activity among college-age Americans has dropped by nearly half in the past 20 years, part of a broader decline in sexual activity that some journalists have dubbed a "sex recession" (see chart).

An analysis by *The Economist* suggests that a sexual slowdown is affecting not just university students but graduates, too. This is creating a "degree divide" in the bedroom. Between 2002 and 2023, 25- to 35-year-olds with a bachelor's degree had sex 11% less often than the average adult; those with a graduate degree had sex 13% less frequently (see chart). A regression analysis of data from the National Survey of Family Growth, a survey of nearly 10,000 Americans conducted by the Centres for Disease Control and Prevention, suggests that, even after controlling for age, drinking habits, employment, health and marriage status, a university degree is associated with 7-8% less frequent sex, on average.

This effect is greatest among married couples. But even among single people, degree-holders are six percentage points less likely to say they had sex in the past year. This trend also holds true in Britain but not in Ireland, a country with more robust hanky-panky among the educated.

Little research has been done to answer conclusively why educated Americans would be having less frequent fun in the bedroom. The most popular theories for why people are having less sex in general, from technological distractions to young adults delaying moving out of their parents' house, fail to explain the inactivity among university graduates specifically. Young people are marrying later and less often, and there is no doubt that this is leading to less lovemaking (married couples do it around twice as often as single people). But those with degrees marry at higher rates than those without; their marriages last longer, too.

Screen time is associated with lower sex rates. But graduates do not stream or play video games more often than the rest of the population; in fact, they do so less often. Americans may be reporting higher rates of depression and anxiety than in previous decades—which can lead to lower libido—but higher education is associated with better mental health, not worse.

So what could be going on? Perhaps the most obvious theory is that well-educated people work more, on average, and therefore have less free time. "Certainly a percentage of people with college degrees just seem busier with professional pursuits than sex," says Nicholas Wolfinger, a sociologist at the University of Utah. This degree-donning group also spends more time taking care of children, on average. Add in streaming platforms—"more Netflix, less chill", as Lyman Stone, a senior fellow at the Institute for Family Studies puts it—and educated professionals have very little time left for romance.

Another theory holds that better-educated women face a smaller pool of eligible suitors, which may make it harder for them to find a mate (and mate regularly). "We have this situation where women perform better in education, and in some settings, they have better jobs, more money, which leads to a scarcity of suitable men, making it harder for people to match," says Peter Ueda of the Karolinska Institute, a medical university in Sweden. Magdalene Taylor, a sex and culture writer, argues that college graduates, who marry later, may also be better at delaying gratification, which could influence their sexual behaviour.

Meanwhile, other experts posit that some traits that contribute to excellent academic performance in the classroom may lead to worse performance in

the bedroom (sorry, bookworms). “There’s certainly no question young adults who are more focused on education, career and their long term success are more risk-averse, more careful, and that seems to be expressed as having less sex,” says Brad Wilcox, a sociologist at the University of Virginia. Those skilled at spreadsheets may still have a lot to learn in the bed sheets. ■

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Culture | The Economist watches

Six of the best films about love

Tales of romance won—and lost—to stream this Valentine's Day

February 12th 2025



LITTLE IS KNOWN about Saint Valentine. He may have been a Roman priest or the bishop of Terni. He may have performed secret weddings and a miracle on a blind girl before he was martyred. What is certain, however, is that Valentine lends his name to one of the most divisive events in the calendar. Valentine's Day, a celebration of love, often gives rise to feelings of animosity. Every year netizens criticise it as a festival of overwrought sentimentality and needless consumption. But if you are the sort of person who secretly enjoys seeing men and women on the street clutching bouquets for their beloveds, then here are six films that will woo you.

"Bridget Jones's Diary" (2001)
Helen Fielding says she "nicked" the plot of "Pride and Prejudice" for her

own tale—she figured that Jane Austen's novel had been "very well market-researched for a number of centuries"—but retold it in an enjoyably modern way. The heroine's misadventures are frequently cringeworthy but usually hilarious; Bridget has become a patron saint of sorts to women who are ungainly, undomestic and liable to make poor choices. Hugh Grant is memorable as the rakish Daniel Cleaver, but it is Mark Darcy (Colin Firth) who eventually earns Bridget's love.

"Brokeback Mountain" (2005)
Ang Lee won the Academy Award for Best Director for this love story (pictured), which is at once grand and intimate. Jack (Jake Gyllenhaal) and Ennis (Heath Ledger) meet on a job herding sheep in Wyoming in the summer of 1963. Homophobia makes it impossible for them to be together openly, so for the next 20 years they sporadically steal away from their wives and children for precious weekends in the wilds. As Jack laments: "There ain't never enough time."

"Casablanca" (1942)
During the second world war Rick Blaine (Humphrey Bogart) is going about his business as the avowedly neutral owner of a nightclub in Casablanca. One night a patron hands him two letters of transit—which would allow the holders to travel unimpeded through Nazi-occupied countries—and is promptly arrested and dies in custody. At the same time, Rick's former lover, Ilsa (Ingrid Bergman), and her husband, Laszlo (Paul Henreid), a resistance leader, arrive, hoping to flee to America. This is a stylish, suspenseful film that explores the conflict between self-interest and duty.



“Past Lives” (2023)
Na Young and Hae Sung, classmates at school in Seoul, lose contact when Na Young moves to Canada with her family and changes her name to Nora Moon. Years later they reconnect via social media and return to the easy intimacy of their youth. Hae Sung eventually goes to New York to visit Nora (who by then is married). Like “La La Land”, this is a film about what might have been, but it is more powerful for its ruminative restraint. (Pictured above.)

“A Star Is Born” (2018)
A chance visit to a bar one night brings Jack (Bradley Cooper), a country-music star, into the orbit of Ally (Lady Gaga), an aspiring singer-songwriter. Her success, and their love for each other, proceed in harmony for a time. But Jack starts to sink deeper into alcoholism, to the detriment of his career and hers. There have been four film versions of this story, but the acting and musical performances in this iteration are particularly good. It is a moving portrait of a relationship blighted by addiction and a reminder that love does not always conquer all.

“When Harry Met Sally…” (1989)
Nora Ephron, who died in 2012, excelled at writing about food, womanhood and love. This film combines all those elements. (Even if you have never

seen it, you will know the scene in Katz's Deli, or have had your own version of the debate about whether men and women can be friends.) The dynamic between the wry, sarcastic Harry (Billy Crystal) and the sincere, highly strung Sally (Meg Ryan) is delightful to watch, as their friendship slowly transmutes into something more.■

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Economic & financial indicators

- Economic data, commodities and markets

Economic data, commodities and markets

February 13th 2025

Economic data

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	Gross domestic product, % change on year ago: latest		quarter*	2024†	Consumer prices, % change on year ago: latest		2024†	Unemployment rate, %	
United States	2.5	Q4	2.2	2.7	3.0	Jan	2.8	4.0	Jan
China	5.4	Q4	6.6	5.0	0.5	Jan	0.2	5.1	Dec‖§
Japan	0.5	Q3	1.2	-0.2	3.7	Dec	2.7	2.4	Dec
Britain	0.9	Q3	0.1	0.9	2.5	Dec	3.2	4.4	Oct††
Canada	1.5	Q3	1.0	1.3	1.8	Dec	2.4	6.6	Jan
Euro area	0.9	Q4	0.1	0.8	2.5	Jan	2.4	6.3	Dec
Austria	-0.6	Q3	-0.5‡	-1.0	3.4	Jan	2.9	5.3	Dec
Belgium	1.1	Q4	0.8	1.0	4.4	Jan	4.3	5.8	Dec
France	0.7	Q4	-0.3	1.1	1.8	Jan	2.3	7.8	Dec
Germany	-0.2	Q4	-0.8	-0.2	2.8	Jan	2.5	3.4	Dec
Greece	2.5	Q3	1.1	2.2	2.9	Dec	3.0	9.4	Dec
Italy	0.5	Q4	-0.1	0.6	1.7	Jan	1.1	6.2	Dec
Netherlands	1.7	Q3	3.3	0.9	2.9	Jan	3.2	3.7	Dec
Spain	3.5	Q4	3.1	3.0	2.9	Jan	2.9	10.6	Dec
Czech Republic	2.1	Q3	2.1	1.0	2.8	Jan	2.4	2.7	Dec§
Denmark	2.9	Q3	3.6	1.8	1.5	Jan	1.3	2.9	Dec
Norway	-0.3	Q4	-2.5	1.7	2.3	Jan	2.2	4.0	Nov‡‡
Poland	2.7	Q3	-0.4	2.9	4.7	Dec	3.8	5.4	Jan§
Russia	3.1	Q3	2.7	3.7	9.5	Dec	8.4	2.3	Dec§
Sweden	1.0	Q4	0.8	0.6	0.8	Dec	1.9	8.0	Dec§
Switzerland	2.0	Q3	1.7	1.2	0.6	Dec	1.1	2.7	Jan
Turkey	2.1	Q3	-0.8	3.1	42.1	Jan	58.5	8.7	Dec§
Australia	0.8	Q3	1.3	1.0	2.4	Q4	3.2	4.0	Dec
Hong Kong	2.4	Q4	3.2	2.5	1.4	Dec	1.7	3.1	Dec‡‡
India	5.4	Q3	3.0	6.3	4.3	Jan	5.0	7.9	Jan
Indonesia	5.0	Q4	5.5	5.0	0.8	Jan	2.3	4.9	Aug§
Malaysia	4.8	Q4	-1.2	5.1	1.7	Dec	1.8	3.1	Dec§
Pakistan	3.2	2024**	na	3.2	2.4	Jan	12.6	6.3	2021
Philippines	5.2	Q4	7.4	5.6	2.9	Jan	3.2	3.9	Q4§
Singapore	4.3	Q4	0.4	4.0	1.6	Dec	2.4	1.9	Q4
South Korea	1.3	Q4	0.4	2.1	2.2	Jan	2.3	3.8	Dec§
Taiwan	1.8	Q4	2.1	5.0	2.7	Jan	2.2	3.4	Dec
Thailand	3.0	Q3	4.9	2.6	1.3	Jan	0.4	0.8	Dec§
Argentina	-2.1	Q3	16.4	-2.4	118	Dec	220	6.9	Q3§
Brazil	4.0	Q3	3.7	3.4	4.6	Jan	4.4	6.2	Dec§‡‡
Chile	2.3	Q3	2.7	2.3	4.9	Jan	3.9	8.1	Dec§‡‡
Colombia	2.0	Q3	0.8	1.6	5.2	Jan	6.6	9.1	Dec§
Mexico	0.6	Q4	-2.4	1.5	3.6	Jan	4.7	2.6	Dec
Peru	3.8	Q3	2.8	3.1	1.9	Jan	2.4	4.5	Dec§
Egypt	3.5	Q3	38.0	2.4	23.9	Jan	28.3	6.7	Q3§
Israel	-1.1	Q3	4.0	0.4	3.2	Dec	3.1	2.6	Dec
Saudi Arabia	1.3	2024	na	1.3	1.9	Dec	1.7	3.7	Q3
South Africa	0.3	Q3	-1.4	0.8	2.9	Dec	4.4	32.1	Q3§

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.

The Economist

Economic data

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	Current-account balance, % of GDP, 2024†	Budget balance, % of GDP, 2024†	Interest rates, 10-yr gov't bonds latest, %		change on year ago, bp	Currency units, per $ Feb 12th	% change on year ago
United States	-3.4	-6.5	4.6		45.0	-	
China	2.1	-5.0	1.4	§§	-91.0	7.31	-1.6
Japan	4.2	-4.7	1.3		59.0	154	-3.3
Britain	-2.9	-4.0	4.4		26.0	0.80	-1.2
Canada	-0.5	-2.3	3.1		-45.0	1.43	-5.6
Euro area	3.2	-3.2	2.5		12.0	0.96	-4.2
Austria	2.3	-3.7	2.9		-1.0	0.96	-4.2
Belgium	-0.3	-4.6	3.0		9.0	0.96	-4.2
France	-0.4	-6.1	3.2		33.0	0.96	-4.2
Germany	5.8	-1.8	2.5		12.0	0.96	-4.2
Greece	-6.4	-1.3	3.4		-8.0	0.96	-4.2
Italy	1.3	-4.2	3.6		-32.0	0.96	-4.2
Netherlands	9.5	-0.7	2.7		3.0	0.96	-4.2
Spain	3.1	-3.2	3.0		-27.0	0.96	-4.2
Czech Republic	1.6	-2.4	4.0		30.0	24.2	-3.4
Denmark	10.8	2.1	2.2		-26.0	7.19	-3.9
Norway	17.3	12.5	3.9		20.0	11.3	-6.3
Poland	0.6	-5.7	6.0		61.0	4.02	-0.2
Russia	2.5	-1.7	16.3		436	94.0	-3.0
Sweden	6.0	-0.9	2.2		-14.0	10.9	-4.0
Switzerland	7.0	-0.9	0.4		-55.0	0.91	-4.4
Turkey	-1.1	-4.8	26.8		293	36.1	-15.0
Australia	-2.1	-1.0	4.4		26.0	1.59	-3.8
Hong Kong	12.0	-3.2	3.8		6.0	7.79	0.4
India	-0.5	-4.8	6.7		-40.0	86.9	-4.4
Indonesia	-0.2	-2.4	6.8		19.0	16,365	-4.5
Malaysia	1.6	-4.4	3.8		2.0	4.47	6.5
Pakistan	0.2	-6.7	12.2	†††	279	279	0.3
Philippines	-2.4	-5.6	6.1		-20.0	58.2	-3.9
Singapore	19.7	0.2	2.9		-11.0	1.35	-0.7
South Korea	4.1	-1.8	2.9		-53.0	1,453	-8.6
Taiwan	13.5	0.5	1.6		37.0	32.9	-4.6
Thailand	2.4	-5.7	2.3		-28.0	34.1	5.4
Argentina	0.4	0.3	na		na	1,056	-21.3
Brazil	-2.4	-7.5	14.9		420	5.77	-13.9
Chile	-2.5	-2.5	6.0		55.0	955	2.0
Colombia	-2.8	-5.7	11.2		166	4,170	-6.0
Mexico	-1.1	-4.9	9.9		67.0	20.5	-16.7
Peru	1.8	-3.6	6.6		-33.0	3.71	4.0
Egypt	-5.2	-3.7	na		na	50.6	-39.0
Israel	4.1	-7.0	4.3		9.0	3.59	2.2
Saudi Arabia	-0.5	-2.5	na		na	3.75	nil
South Africa	-2.1	-5.3	10.6		51.0	18.5	2.8

Source: Haver Analytics. §§5-year yield. †††Dollar-denominated bonds.

The Economist

Markets

In local currency	Index Feb 12th	% change on: one week	Dec 29th 2023
United States S&P 500	6,052.0	-0.2	26.9
United States NAS Comp	19,650.0	-0.2	30.9
China Shanghai Comp	3,346.4	3.6	12.5
China Shenzhen Comp	2,034.0	6.0	10.7
Japan Nikkei 225	38,963.7	0.3	16.4
Japan Topix	2,733.3	-0.4	15.5
Britain FTSE 100	8,807.4	2.1	13.9
Canada S&P TSX	25,563.1	nil	22.0
Euro area EURO STOXX 50	5,405.7	2.6	19.6
France CAC 40	8,042.2	1.9	6.6
Germany DAX*	22,148.0	2.6	32.2
Italy FTSE/MIB	37,531.2	2.6	23.7
Netherlands AEX	942.6	2.5	19.8
Spain IBEX 35	12,911.5	3.0	27.8
Poland WIG	91,778.1	6.6	17.0
Russia RTS, $ terms	1,013.5	7.6	-6.5
Switzerland SMI	12,713.9	1.1	14.2
Turkey BIST	9,779.6	0.6	30.9
Australia All Ord.	8,799.6	1.3	12.4
Hong Kong Hang Seng	21,857.9	6.1	28.2
India BSE	76,171.1	-2.7	5.4
Indonesia IDX	6,645.8	-5.4	-8.6
Malaysia KLSE	1,603.1	1.8	10.2
Pakistan KSE	112,924.9	0.9	80.8
Singapore STI	3,874.6	1.6	19.6
South Korea KOSPI	2,548.4	1.6	-4.0
Taiwan TWI	23,289.8	0.6	29.9
Thailand SET	1,284.0	-0.2	-9.3
Argentina MERV	2,285,846.5	-7.7	145.9
Brazil BVSP*	124,380.2	-0.9	-7.3
Mexico IPC	54,089.8	4.9	-5.7
Egypt EGX 30	29,662.0	-0.2	19.2
Israel TA-125	2,530.3	-1.9	34.1
Saudi Arabia Tadawul	12,385.7	-0.2	3.5
South Africa JSE AS	87,942.2	1.5	14.4
World, dev'd MSCI	3,855.0	0.2	21.6
Emerging markets MSCI	1,104.6	0.8	7.9

US corporate bonds, spread over Treasuries

Basis points	latest	Dec 29th 2023
Investment grade	97	154
High-yield	317	502

Sources: LSEG Workspace; Moscow Exchange; Standard & Poor's Global Fixed Income Research. *Total return index.

The Economist

Commodities

***The Economist* commodity-price index**

2020=100	Feb 4th	Feb 11th*	% change on month	% change on year
Dollar Index				
All items	140.0	141.6	4.4	10.8
Food	160.4	161.4	5.0	20.9
Industrials				
All	123.2	125.2	3.9	1.8
Non-food agriculturals	131.7	134.0	0.3	1.4
Metals	121.0	122.9	4.9	1.9
Sterling Index				
All items	144.2	146.6	2.7	12.6
Euro Index				
All items	154.1	156.4	4.0	14.9
Gold				
$ per oz	2,837.6	2,905.5	8.7	45.7
Brent				
$ per barrel	76.2	77.5	-3.6	-6.6

Sources: Bloomberg; CME Group; FT; LSEG Workspace; NZ Wool Services; S&P Global Commodity Insights; Thompson Lloyd & Ewart; USDA; WSJ. *Provisional.

The Economist

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Obituary

- Donald Shoup knew how to get cities going

Obituary | Aparkalypse Now

Donald Shoup knew how to get cities going

The parking-and-traffic expert died on February 6th, aged 86

February 13th 2025



Of all the levels of the dismal science, his was the lowliest of all. At the very mention of the words “traffic” or “parking”, academics sniffed. What could be more trivial or uninteresting than jams on the freeway, or seas of near-identical cars in a Walmart lot? Merrily, Donald Shoup shook them off. It was true; he was a bottom-feeder, moving through the sludgy water everybody else ignored. But first, he had it all to himself, and second, there was really good food down there.

There was fame, too. Over the 41 years he spent as associate and then full professor of urban planning at the University of California, Los Angeles, his students and fans outside made quite a cult of him. They called him “Shoupdogg”, a rapper name he gladly grabbed for his website, and

themselves “Shoupistas”. He was “Yoda”, too, a guru who trained jedi for 800 years: by chance the very number of pages in his most famous book, “The High Cost of Free Parking” (2005). He lacked Yoda’s pointy ears, but made up for them with a full beard and the tweedy outfits in which he cycled to campus on an old-fashioned sit-up bike.

He was no pushover, however. The sparkly blue eyes soon got steely, because traffic policy was far from unimportant. How to cope with cars was the biggest issue cities faced, not only in America but worldwide. The most valuable asset cities had was land, and cars took up too much of it. They did not merely congest and pollute the inner streets; motor vehicles had made cities sprawl ever outwards, creating oceans of unproductive asphalt wherever people gathered to shop, learn, work or have fun.

In America in the mid-20th century most city councils, meaning well, had brought in parking minimums. The number was calculated, originally, from haphazard surveys by the Institute of Transportation Engineers, and later on even more randomly by cities just copying each other. For every 300 square feet (28 square metres) of retail or commercial space, there had to be one parking space. For a hospital, one space for every two beds. For a church, one for every five seats in a pew. For a bowling alley, seven per lane. (Car-sharing not even imagined!) Minimums were decreed for bingo parlours, slaughterhouses, junkyards and tennis courts until, in Los Angeles County for one, 14% of the land area was given over to parking. Such schemes, Professor Shoup thought, were clearly a product of the reptilian cortex, the most primitive part of the brain, and they well deserved one of the best of his large collection of puns: “Aparkalypse Now!”

The brains of motorists, though, frustrated him just as much. They now saw free parking as an entitlement, even a human right. But it was not a right, he reminded them, and it was not free, except for the person driving. In all other aspects of their lives, “free” parking imposed a cost—first on developers and businesses, then on everyone else. “Free parking” pushed up user fees, rents and prices in the places that offered it, including for the poor, who might well not have cars. It was hugely unfair. Besides, as a keen Georgist—a disciple of Henry George, who had advocated a land tax in the 19th century—Professor Shoup believed that land should be taxed to ensure it was put to its best use. What he himself wanted to see, instead of

unneeded lots, were more affordable houses for the poor and more public gardens. He was out to save the world, one space at a time.

So the first task was to banish parking minimums. His idea caught on: they vanished from 35 American cities, including Austin, Raleigh and Seattle. Mexico City abandoned them, too. His attention then turned to another realm of free parking, curb space. Other people's research had shown that in any line of slowly moving traffic, at least 8% of drivers (rising to 74% in some places) were simply circling, and polluting, in hopes of finding a spot. In his own 15-block neighbourhood of Westwood Village, next to UCLA, it usually took no more than three minutes to nab a free space; but if everyone in the village did this over a year it would add up to about 1m vehicle miles, or four trips to the moon.

His answer was parking meters: smart ones, varying their charges according to the peaks and valleys of the working day and week. They would charge the lowest price possible to achieve a vacancy rate on any street of 15% (or an occupancy rate of 85%) at all times: about two curb spaces per block. Drivers would then feel sure they could find a space, but they would have to pay more the closer they got to a popular destination. He called this the Goldilocks effect. Charges were not set too high, nor too low; there were neither too many spaces, nor too few. Just enough.

The realist in him knew this would be tricky to achieve. He admitted that outside factors might turn the regular peaks and troughs on his graph paper into something more like kittens fighting under a blanket. However, he persevered. The great virtue of parking meters was that they brought money into city coffers. He kept before him the shining model of Pasadena, once a dump of shuttered shops, now transformed by meters into a vibrant city again. If that money simply went into the general fund, people might not properly see the effect of it. So he proposed Parking Benefit Districts, in which money from local meters would go specifically to local public services: graffiti removal, plantings, street repairs. Meters would be loved then, and cities transformed.

His ideas, in summary, were to put cars in their place. And that place was not necessarily the garage, either. Many suburb-dwellers with garages used them for all manner of bulky and unsightly household stuff, from ladders to

paint to home-brewing kits, but not the car. That sat in the driveway, and Professor Shoup thought that was where it should belong. Garages could then become micro-apartments for people without cars, who would ride by e-scooter, bike or bus towards a new urban world. And he, smiling broadly, would lead the way. ■

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