# The Economist

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JUNE 7TH–13TH 2025


**The stunning decline of boy preference**

# Business

Photograph: Getty Images

Donald Trump doubled America's tariffs on imports of steel and aluminium, taking them to 50%. Speaking to steelworkers in Pennsylvania, America's president said the levies meant "Nobody's going to be able to steal your industry." The earlier levy of 25% will remain in place for steel imports from Britain, which signed a trade agreement with America last month.

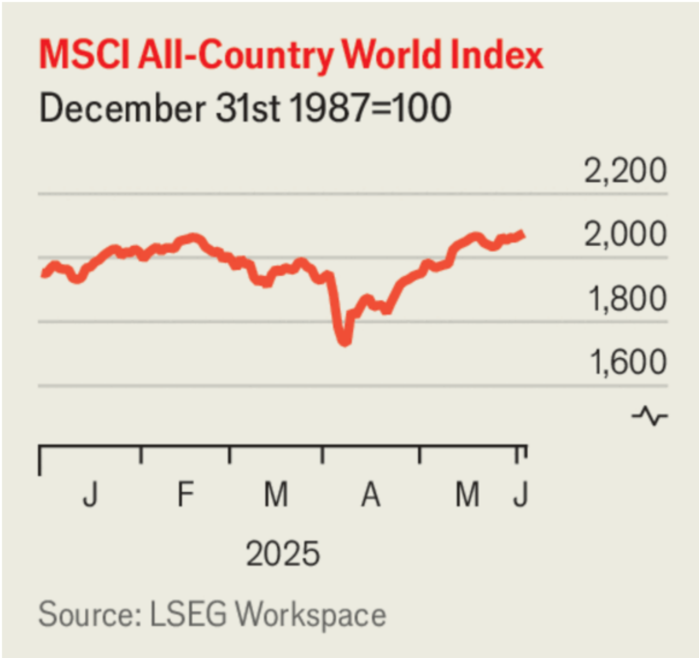


Chart: The Economist

Despite Mr Trump's metals tariffs, stockmarkets were buoyant. On June 4th the MSCI All-Country World Index, which tracks global equities, reached a new high, beating the record it set in February. The index plunged after Mr Trump announced his punitive "Liberation Day" tariffs on April 2nd. He has since paused most of these levies to negotiate with America's trading partners.

The Organisation of the Petroleum Exporting Countries and its allies agreed to lift oil production by 411,000 barrels a day in July, the third increase in as many months. The cartel has been unwinding its production cuts after they failed to raise oil prices and caused its market share to fall. The oil price is down by 13% since the start of the year.

Annual inflation in the euro zone fell to 1.9% in May, down from 2.2% in April. That is the first time it has fallen below the European Central Bank's 2% target since September 2024. Inflation had been above 2% for more than three years.

Elon Musk began a $5bn debt sale to fund his artificial-intelligence company, xAI. The firm also plans to sell $300m in shares. That would value xAI at $113bn. Mr Musk said he was "super focused" on his businesses after leaving the Trump administration.

After ten weeks of due-diligence investigations into Thames Water, KKR abandoned a plan to rescue the ailing utility. The American private-equity titan had just days earlier submitted a bid to Ofwat, Britain's water regulator, to inject £4bn ($5.4bn) into the company. Thames Water's debt-to-equity ratio is 25 percentage points higher than Ofwat's recommended level. The government could renationalise the firm if it fails to provide basic services.

## Atoms for lease

The price of shares in American nuclear-power firms briefly leapt by as much as 9% after Meta signed a deal with Constellation Energy. The tech giant will purchase electricity from one of Constellation's nuclear plants for 20 years. Constellation said the deal was worth "billions of dollars". Tech companies are interested in nuclear plants to power the energy-hungry data centres needed for training artificial-intelligence systems.

Shares in Airbus, Europe's biggest aerospace firm, rose by 3% on reports that China is preparing to order hundreds of the company's planes. The deal would be a snub to Boeing. The American planemaker is about to resume deliveries, after China paused orders in April.

The Federal Reserve removed a $1.95trn cap on the assets of Wells Fargo, America's fourth-largest bank. The Fed imposed the sanction in 2018 after Wells disclosed that it had opened as many as 3.5m unauthorised accounts between 2009 and 2016, during which time it became the world's most valuable bank. Charlie Scharf, Wells's boss since 2019, called the cap's removal a "pivotal milestone" as the bank seeks to put the scandal behind it.

Rémy Cointreau withdrew its sales targets for 2030, citing tensions between Europe, China and America. The French maker of cognac said trade barriers erected by the two countries could cost it €100m ($114m), nearly half its operating profits in 2024-25, over the next financial year.

The European Union warned that China's restrictions on exports of rare-earth metals were creating an "alarming situation" for European industry. The European Association of Automotive Suppliers, a trade body, said that only a quarter of requests for export licences had been granted by China since the country tightened controls in April. It added that some plants had already stopped production because of the curbs.

Texas removed BlackRock, the world's biggest asset manager, from a blacklist of businesses that the state accused of boycotting oil and gas companies. Glenn Hegar, the Lone Star State's comptroller, praised BlackRock for reducing its green commitments. BlackRock's place on the blacklist meant that it missed out on billions of dollars from Texan state-run investment funds, which manage $300bn.

### Super smash-hit

Around the world, gamers queued outside shops to get their hands on Nintendo's latest console. Retailing for $450 in America, the Switch 2 is 50% pricier than its predecessor, which came out in 2017. Nintendo predicts it will sell 15m of the devices by March.

# America's tax on foreign investors could do more damage than tariffs

**Provisions in the Republican budget are a dangerous step**

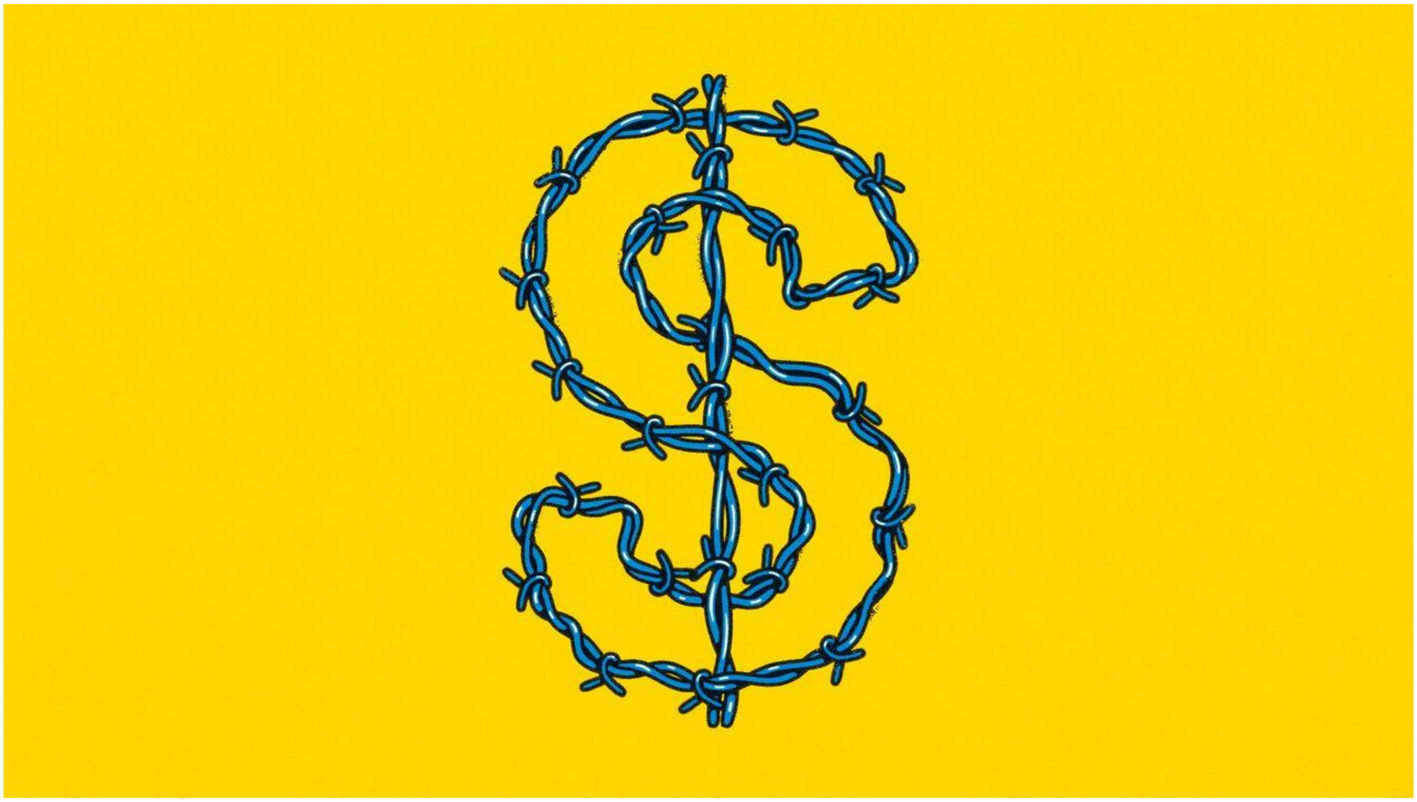

Illustration: Alberto Miranda

America needs foreign investors, and foreign investors need America. Yet clauses buried in the Republican budget bill in Congress are a threat to this crucial symbiosis. Under the obscure "Section 899", the treasury secretary will gain the power to tax interest, dividends and rent flowing to foreigners in countries with tax systems that the law defines as "unfair". The rate will start at 5% but could rise as high as 20%. That could mean lower returns for pension funds, governments and individual investors from the rest of the rich world. Companies with operations in America would also be caught in the net when they remit their profits. A separate clause taxes at 3.5% money sent out of the country by any non-citizen.

It is a worrying new front in the trade war. President Donald Trump's tariffs have been highly disruptive, but at least America's economy does not depend heavily on trade, which as a share of GDP is less than half the rich-world average. The same cannot be said for foreign investment, on which America is unusually reliant. Foreigners own $62trn-worth of American assets (including derivatives) compared with only $36trn owned abroad by Americans. The balance, at -90% of GDP, is by far the lowest "net international investment position" of any big, rich economy. One third of America's government debt, amounting to $9trn, is held by foreigners.


Chart: The Economist

This is a particularly bad time for America to become less attractive to foreign investors. The budget bill, by making past unfunded tax cuts permanent, will also make annual government borrowing worth 6-7% of GDP the norm. Treasuries will probably be exempted from Section 899, but that is not yet certain. Even if they are carved out, foreign buyers might reasonably wonder if the rules could change in the future. Scaring them when there is such a big deficit to finance is reckless, especially when foreign investors have already become skittish about American assets after Mr Trump's "Liberation Day" tariff announcement. Moreover, the bill works against the president's desire to have foreign companies build factories in America. Why would they, if they and their foreign staff must pay a steep price to send money home?

Capital protectionism will also badly hurt the rest of the world. Other countries could, ultimately, create their own trading arrangements and make do with restricted access to America's goods market, which accounts for only 15% of final demand for imports. Being denied entry to Wall Street is another matter. American stocks account for about 60% of global equities by value, and the dollar is the world's reserve asset. Even if American investments no longer produce outsize returns, foreigners would lose the benefits of diversification. The allocation of capital across the globe would be distorted, making the world economy less efficient, and therefore poorer, over time.

Optimists contend that Section 899 is a negotiating tool and that the tax on remittances is small. And didn't other rich-world countries start the tax war by ganging up on America's technology giants with "digital services taxes" and other rules designed to extend the reach of their tax systems across borders? The proposed law specifically targets these rules; it does not give Mr Trump a free hand.

The trouble with these arguments is that new taxes tend to expand over time regardless of their initial scope and size. There is no constituency in Congress to defend the interests of foreigners, and the legislature's failure to avert tariffs shows how unwilling it is to challenge the president's self-harming protectionism. The budget bill is a sign that the world could be entering an era of hostility towards foreign capital, not just foreign goods. If that day arrives, the damage will be so great that who started the fight will be irrelevant.

# Finance & economics

# Trump's tariffs have so far caused little inflation

**Our estimate of their impact will update every month**


Photograph: Getty Images

Rarely have economists spoken in such unison. Even before Donald Trump's "Liberation Day" tariffs on April 2nd, the median estimate among the 48 who were surveyed by the University of Chicago's business school was that Mr Trump's levies would raise inflation in 2025 by 0.8 percentage points. Meanwhile, the president's position is that, in his press secretary's words, "tariffs are a tax hike on foreign countries [which]...have been ripping us off". The implication is that foreigners will "eat the tariffs" and leave America's consumer prices unaffected.

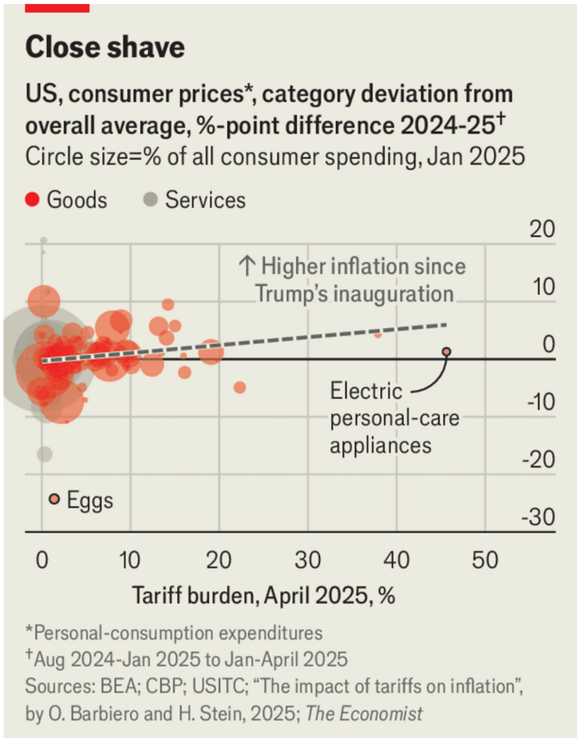


Chart: The Economist

When the first post-Liberation Day data for personal-consumption expenditures (pce), the Federal Reserve's preferred price index, came out on May 30th, evidence of tariffs' impact was strikingly absent: seasonally adjusted goods prices rose by just 0.1% in April. Many companies will have hoarded imports and drawn down inventories in order to avoid raising prices. But the administration should not be cheering just yet. With tariffs higher than during much of the Depression, consumers are bound to see some effect in time. The question is how much, and how soon? To answer it, The Economist has produced an estimate of the impact of tariffs on prices, which we will update monthly.

The most straightforward way to measure this effect would have been to calculate the share of American consumer spending represented by imports from each country, before multiplying it by tariff rates. Unfortunately, doing so would be too simplistic. Although consumers bear much of the cost of tariffs, American and foreign firms pay a share as well, and imports represent only part of a retail price: much of the cost of a shirt, for instance, goes on rent, wages, transport fees and profits. Moreover, many imports are intermediate goods, such as the crude oil that gets refined into petrol once in America.

## Pricing protectionism

Fortunately, a recent paper by Omar Barbiero and Hillary Stein of the Boston Fed tackles these issues, modelling all the channels through which imports feed into shopping baskets. Since America is a fairly self-sufficient, services-driven economy, the duo find that the potential impact of tariffs on consumer prices is small. In 2023 imports that were directly consumed made up 6% of the core PCE index, which excludes food and energy. Those of inputs like steel, after counting all the products that use them, constituted another 4%.

Their study did not address one crucial question: how behaviour will change. In the long run, exporters will probably shift production to countries that face lower levies, even if doing so makes manufacturing less efficient. This should yield costs somewhere between the previous level and the rate implied by new tariffs. Similarly, consumers may switch to inferior local goods, or buy different products altogether. Such adjustments are difficult to predict. However, if tariffs do raise prices, then the gap between goods facing heavy levies and those with lower ones will grow during Mr Trump's term. Our estimate of the "tariff tax" rests on this comparison.

The first step in calculating the tax is determining the tariff rate for each possible pairing of a product and an exporting country on each day. There is no website listing all current tariffs. Officials rely on a bulletin run by Customs and Border Protection, which updates after every executive order. With the help of Chatgpt, we have extracted data from these messages and reconstructed the shifting rules.

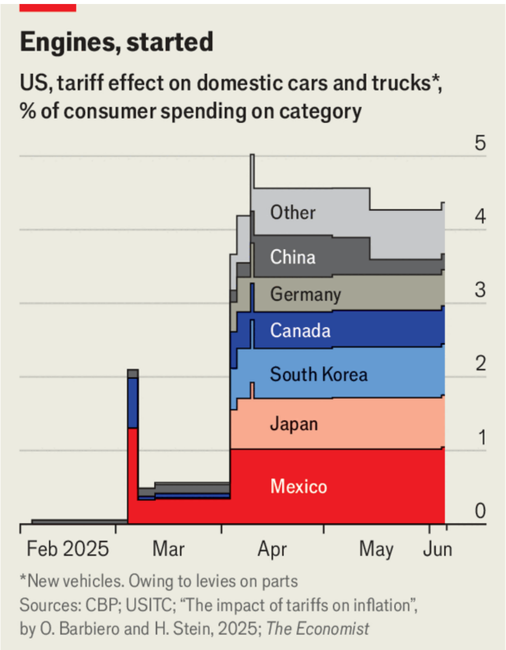


Chart: The Economist

Next, using these rates and historical data, we calculated the average tariff on each product on each day, assuming trade patterns remain unchanged. In late April, for goods often imported from China, such as prams, this was 141%. By contrast, for those like cod, which comes from lightly tariffed countries, it was 11%.

Using the method outlined in the Fed paper, we calculated the share of total consumer spending accounted for in 2024 by imports of each product in each of 212 pce sub-indices. For most services, this was tiny: for expenditure on lawyers it was just 3%, reflecting attorneys' use of, say, computers and phones. It was far higher in categories where imports account for much of the final price paid by consumers, reaching 47% for televisions.

Last, we multiplied these proportions by the tariffs for each product and country, yielding the tax burden in each category. Most affected is "electric personal-care appliances". For every dollar spent on hairdryers, razors and so on in late April, importers faced a bill of 59 cents, of which 56 came from China's triple-digit rate. The next-highest categories—small appliances (total burden of 49%), cook- and tableware (28%); and military uniforms (25%)—were also dominated by China. The 18% on personal computers in early May came from China (7.6 percentage points), Mexico (4.8), Taiwan (2.6), Vietnam (1.6) and Thailand (0.7). Of the 9.2% on watches, in effect only on April 9th, Switzerland accounted for 5.7 percentage points. Cars produced at home faced a still lower burden.

In practice, prices for hairdryers did not rise by 59%. But using these notional rates, we can estimate the tariffs' effect on inflation. For each category, we first measured how much its inflation rate differed from the economy-wide average during Joe Biden's final six months in office. We compared this with the corresponding figure for the period from January to April. Then we tested how changes in relative inflation rates following Mr Trump's inauguration lined up with his tariffs.

So far, their impact has been modest. In April each percentage point of increased input cost from tariffs for a given category was associated with 0.14 points of "excess inflation" for that grouping. Because the consumption basket consists mostly of tariff-free services, these costs have risen by almost 1% economy-wide. Holding all else equal, this implies prices are just 0.13% higher than if Mr Trump had never imposed new tariffs.

No one knows where tariffs are heading. However, even if they remain at or below their current levels, firms may raise prices because of the tremendous uncertainty. If they do, prices for goods should rise relative to those for services, which would increase our estimate of the tariffs' impact. To know whether to blame Mr Trump if your Amazon basket seems strangely expensive, watch this space.

# Why investors lack a theory of everything

**Markets have no fundamental laws, which is why they are so interesting**

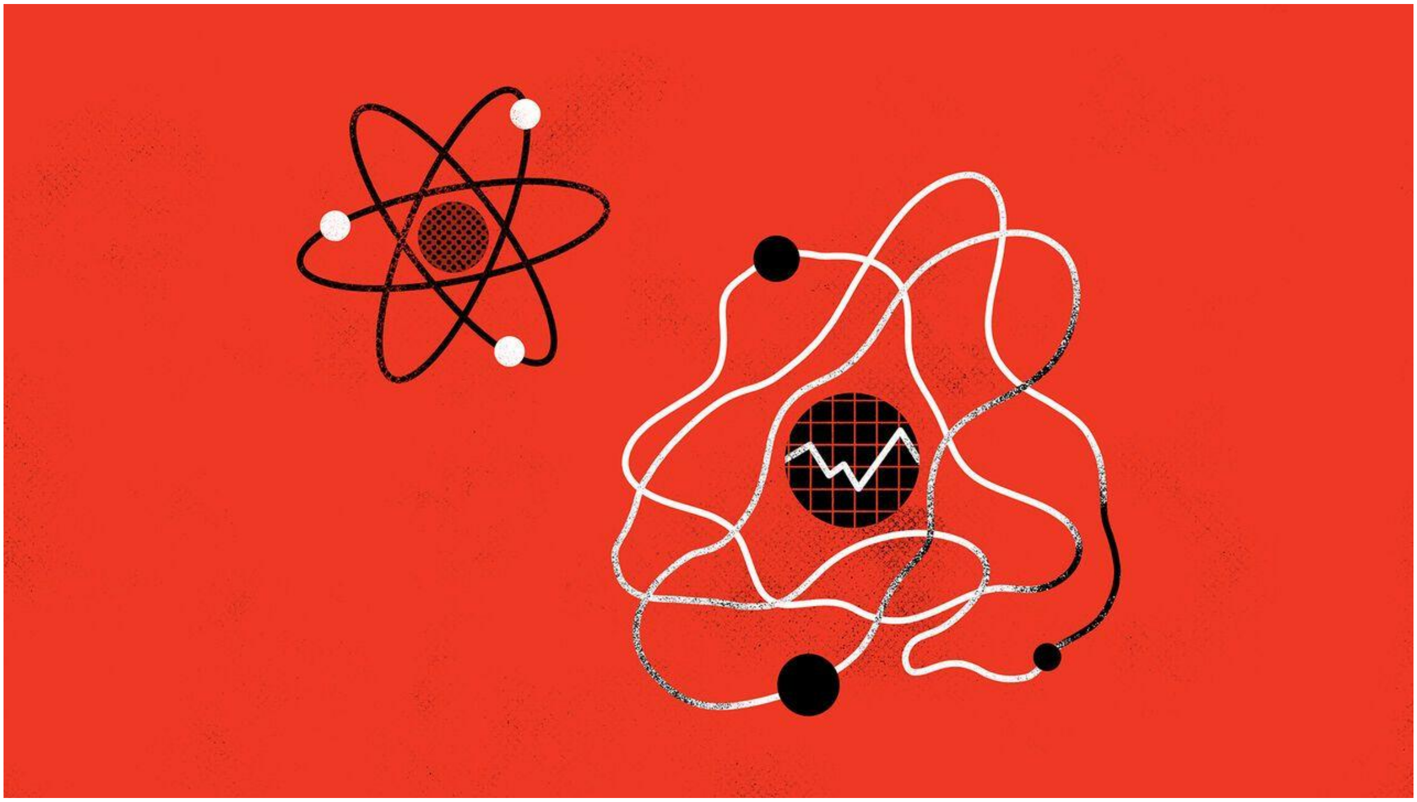

Illustration: Satoshi Kambayashi

If there was to be some cataclysm, and he could preserve just one sentence for future scientists, Richard Feynman would have made it about atoms. Tell them everything was made of tiny particles in constant motion, thought the great 20th-century physicist, attracting and repelling each other along the way. With a little imagination they could then uncover the rest. That was because the universe had a marvellous feature: though vast, it could be described by surprisingly few laws. Armed with the knowledge of atoms, Feynman reckoned his successors could work some of these out and then deduce far more.

At first sight, the less illustrious field of financial theory resembles Feynman's. A popular destination for recovering physicists, it includes many people who would have studied his old lectures as undergraduates. Some of the equations look similar, too. Were you to pick one branch of maths to teach a budding financial theorist, it would probably be stochastic calculus—the same one used to analyse the behaviour of Feynman's jiggling atoms. Asset prices, after all, also jump around with seeming randomness. If you could specify how—and how they, too, jostle each other—you would have markets cracked for good.

But that is where finance and physics part ways, because the quest for the laws of markets is doomed. This is seldom as obvious as it has been recently, when the ground has been shifting and long-standing links between assets have snapped. Rich-world currencies normally strengthen when bond yields rise; no longer for the dollar and American Treasuries. Gold is supposed to do well when investors are panicking, and share prices when they are ebullient; now, both gold and plenty of stockmarkets are at or near all-time highs. The volatility implied by the options market is supposed to rise when things get riskier. It has been falling for months. Who, then, thinks markets have become safer—those dumping their dollars or snapping up gold?

There are plausible narratives to explain all these developments. But the reason investors reach for them is that they lack anything more concrete. Even physical laws that are merely approximate govern multitudes: Newton's concerning gravity and motion got men to the moon, as well as explaining why apples fall. By contrast, all the financial candidates are both limited and empirically dubious.

The efficient-market hypothesis says that investors, in aggregate, perfectly and promptly incorporate new information into asset prices. It is an appealing thought, though not a convincing one if you have observed a crowd, a trading floor or a stockmarket bubble. Arbitrage theory, which says portfolios of assets with the same pay-offs must have the same price, is more useful. It governs how derivatives (contracts with pay-offs dependent on some underlying asset price) are valued by specifying how traders can replicate them. But the replication strategies it prescribes can come badly unstuck if prices jump sharply. Models relating risk to returns—such as the widely taught "capital asset pricing model"—usually make the maths tractable by assuming returns are distributed along a bell curve. Unfortunately, they are not.

None of these approaches the ideal theory of markets, which would fully explain how fundamentals move prices and how they sway each other. It is no surprise, then, that practitioners pursue narrower goals. The bright sparks who work at today's dominant quantitative hedge funds are not searching for a theory of everything. They want to find links between assets that have held in the past, will hold in the near future and from which they can make money. One example is "trend following", which does what it says after spotting a new pattern early. Another is "statistical arbitrage", which searches for assets that usually move in a set relationship to each other, snapping back if they get out of line.

If that sounds unsatisfying to investors who are wondering what comes next, it is not the theorists' fault. The complexity of markets is dizzying, and in complex situations even the iron laws of physics can produce surprising, unstable results (think of aeroplane turbulence). More important still, finance is ultimately driven by people, not particles, and they do not always respond to similar stimuli in similar ways. They look at what happened last time, try to do better, anticipate what other traders will do and seek to outfox them. The absence of fundamental laws in markets is frustrating, disorientating—and what makes them so interesting.

***The Economist:*** *https://www.economist.com*