The Economist

AI and the death of the web

The geopolitics-defying economy

KGB v CIA

The rise and rise of women's sport

JULY 19TH–25TH 2025

Winning the war on

Business

Photograph: Getty Images

The European Union said that it would be virtually impossible for its current volume of trade with America to continue if Donald Trump carried out his threat to impose tariffs of 30% on EU goods on August 1st. The EU is considering tit-for-tat duties on American products, such as aircraft, bourbon and cars. The president also announced that he would impose a 30% tariff on Mexican imports. A duty of 17% was immediately levied on Mexican tomatoes, to protect American farmers. Around 70% of the tomatoes sold in America come from its southern neighbour.

Although Mr Trump's promised trade deals have been few and far between he did strike one with Indonesia this week, which lowers its reciprocal tariff rate from 32% to 19%.

Chart: The Economist

America's revenue from customs duties hit a new monthly high of $27bn in June, bringing the total over the second quarter to a record $64bn. The extra revenue helped the government register a surprise budget surplus in the month. Meanwhile, Chinese exports picked up again in June after America and China agreed to lower tariffs. China's exports to America grew by 32.4% compared with May. The port of Los Angeles, the main hub for Chinese exports to the US, had its busiest-ever June. Exporters are rushing to beat a new tariff deadline in August.

Boosted by the rush to ship goods abroad, China's GDP was 5.2% bigger in the second quarter compared with the same three months last year, a slightly better growth rate than economists had expected. The figure masks a sluggish domestic economy.

Nvidia announced that it would resume sales of its H20 artificial-intelligence chips to China, after receiving assurances from the Trump administration that licences would be granted. Jensen Huang, the company's chief executive, had lobbied hard to urge Mr Trump to lift restrictions on selling the chips. Nvidia's share price jumped, as did that of Advanced Micro Devices, which can resume shipments of its MI308 chips to China.

What do I do to please you?

Not all the stars of the AI boom are shining. ASML, the dominant supplier of high-end lithography machines in chipmaking, saw its stock slide when it forecast lower sales this quarter and possibly no growth next year. It blamed increasing "macroeconomic and geopolitical" uncertainty. Still, ASML's revenue rose by 23% in the second quarter, year on year.

The annual rate of consumer-price inflation in America rose in June, to 2.7%. Core inflation, which excludes energy and food prices, crept up to 2.9%. It was unclear how much of the rise in prices was due to tariffs. The price of clothing was up but car prices fell. Fuel and food prices drove an unexpected rise in Britain's inflation rate, to 3.6%, an 18-month high.

Alimentation Couche-Tard, the Canadian owner of the Circle K chain, dropped its $46bn bid for Seven & i Holdings, the Japanese operator of 7-Eleven convenience stores. It blamed Seven & i's board for a "campaign of obfuscation" over the deal. It would have been the biggest foreign takeover of a Japanese company.

WPP, the world's largest advertising company, appointed Cindy Rose as its new chief executive. Ms Rose is currently an executive at Microsoft. She joins WPP as investors fret that it is too big to adapt to the challenges from AI and digital platforms, which are disrupting the industry. WPP recently issued a profit warning, causing its share price to plunge.

Renault's stock also crashed, by 18%, after it announced a surprise profit warning. The French carmaker has been relatively shielded from the market turmoil caused by tariffs on foreign cars in America, where it has limited exposure.

Britain launched a new £650m ($870m) electric-vehicle scheme to encourage the transition away from petrol cars. A grant of up to £3,750 will be made available for eligible new EVs priced under £37,000. There have been several such schemes to encourage motorists to buy green. Fleet sales have accounted for the bulk of Britain's new EV registrations in recent years.

The European Commission warned the Italian government that it had not provided "sufficient reasoning" in its attempt to block UniCredit's hostile takeover bid for Banco BPM on grounds of national security. The commission has already given the go ahead for the merger of the two Italian banks and could overrule the government.

America's big banks reported solid earnings for the second quarter, helped by strong revenues from trading in equities amid the market volatility over tariffs. Jamie Dimon, the chief executive of JPMorgan Chase, described the American economy as "resilient" and praised "tax reform" and deregulation, a change of tone from his bleak outlook at the end of the first quarter of the year.

The bully pulpit

Investors were spooked and the dollar fell amid reports that Donald Trump had asked some congressmen if he should fire Jerome Powell as chairman of the Federal Reserve. Earlier the president suggested he could dismiss Mr Powell over a $2.5bn renovation of the central bank's building. "I didn't see him as a guy that needed a palace to live in," said Mr Trump, who has his own monarchical tendencies. King Donald later said it was "highly unlikely" he would sack Mr Powell.

Bit by bit, the world economy's resilience is being worn away

Growth has held up astonishingly, given geopolitics. But it can't last for ever

Illustration: The Economist /Getty Images/Shuttershock

As Donald Trump prosecutes his trade war and muses about sacking Jerome Powell, the chairman of the Federal Reserve, analysts are poring over the data—and they are seizing on the smallest dips in stockmarkets and rises in inflation as proof of harm. Take a step back, though, and what is striking is how calm it all is. Over the past decade the global order has been upended by populists, authoritarians and war. Yet, as we explain this week, the economy is powering on, unfazed. Aside from a brief contraction as covid-19 lockdowns went into effect, global gdp has grown at a respectable annual clip of about 3% since 2011. Across the rich world, unemployment is near a record low. Both America's S&P 500 and the global MSCI index of stocks are near record highs.

Chart: The Economist

This resilience, a Teflon-like superpower, is cause for celebration. It means that the twin scourges of recession and unemployment have been kept at bay. The trouble is that threats are now mounting. Because governments do not appreciate the economy's resilience, they are undermining the fundamental sources of its strength.

To see the danger, consider first what has propelled the long expansion. Around the world, economic policy now cushions demand more effectively. After the long agony of the global financial crisis, rich-country governments decided that decisive fiscal stimulus was the best way to avert economic pain, and low interest rates made their interventions affordable.

Meanwhile, policy in the emerging world improved. The number of inflation-targeting central banks rose to 34 in 2022, from five in 2000. More governments let their exchange rates float and issued debt in local currency, sheltering them from the vagaries of American interest rates. That helped stave off debt crises even as rates rose and commodity-price spikes made life harder for importers.

More stable demand has been met by increasingly flexible supply. During the pandemic, early shortages of masks and chips convinced politicians that markets could not be trusted. In fact, supply chains responded quickly: hand sanitiser was churned out by the gallon; shipments of chips spiked in 2021. More recently, a glut of oil—thanks in part to America's shale drillers—meant that even as Israel and then America bombed Iran, the price of crude barely budged.

You should be worried, therefore, that the fundamentals of Teflon capitalism are now looking shaky. The costs of activist policies are mounting. Politicians in the rich world spent more than 10% of GDP shoring up demand during the pandemic; those in Europe allocated, on average, another 3% during the energy crisis. Interest rates on ten-year government debt now average 3.7%, up from 1% during the pandemic.

Yet because voters increasingly expect the state to step in, and fiscal consolidation is hard, debts are ratcheting up. Even as the economy hummed along last year, America ran a deficit of 7% of GDP. Britain's attempt to cut benefits for the disabled ended in tears; French pension reforms seem just as doomed. With every increase in the fiscal burden today, governments' ability to step in next time trouble hits is sorely constrained.

Moreover, the instinct to protect now extends to supply chains. Prices play a crucial role in a market economy, sending signals about what is scarce and what is plentiful. But governments are seeking to override them in the name of sparing voters' wallets and jobs. According to the imf, the rich world had 1,000 industrial-policy measures in place in 2022, up from 100 in 2017. While Mr Trump uses tariffs, the European Commission is relying on subsidies and strictures; it is reportedly mulling a plan for its school-meal scheme to buy food locally.

All this will only make supply chains more brittle. The pandemic revealed that diversified supply was more resilient than local production, which could be taken out by a lockdown or natural disaster. And governments are hardly the best backers of new supply. The biggest triumph of American reshoring, the rise of the shale industry, came about not because of policy, but because entrepreneurs spied an opportunity.

History shows that economies do not stay stable for ever. The longer an expansion, the more politicians, investors and companies take risks, hastening its demise. On July 16th Mr Trump said that he was "highly unlikely" to sack Mr Powell. If he were to change his mind, undermining the central bank's independence, the placidity of the past decade would be put to the test. The economy has surprised so far; it could surprise for a while still. But the Teflon is wearing thin.

Finance & economics

War, geopolitics, energy crisis: how the economy evades every disaster

A new form of capitalism may explain its success

Illustration: SMLXL.Company

After Adolf Hitler's troops rolled into France in 1940, many feared the imminent destruction of Europe and its economy. British investors did not. In the year following the invasion, London's stockmarket rose; indeed, by the end of hostilities, British companies had delivered real returns to shareholders of 100%. The plucky investors must have seemed mad at the time, but they were proved right and made handsome profits.

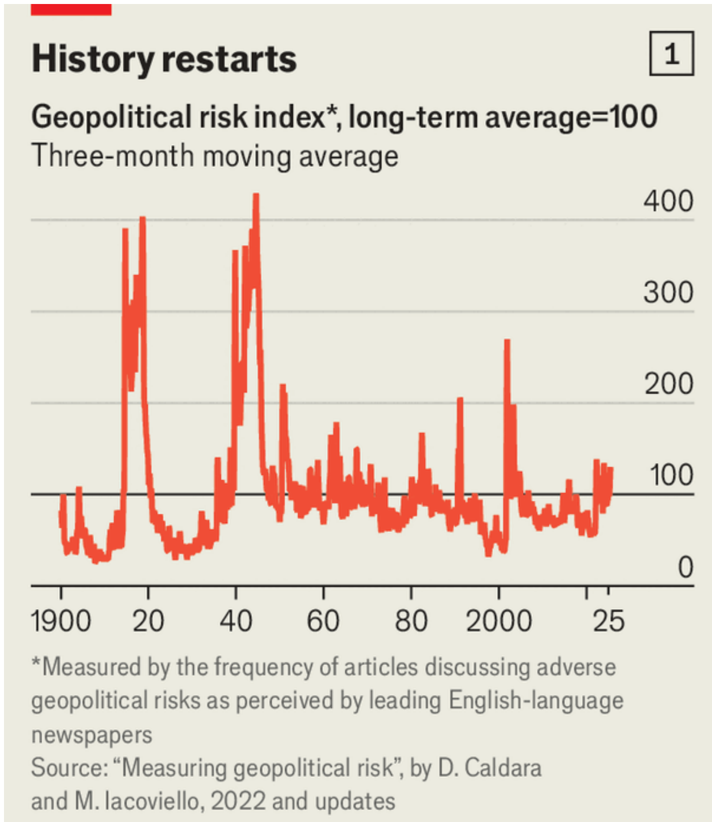

Chart: The Economist

Although today's dangers are not in the same league as a world war, they are significant. Pundits talk of a "polycrisis" running from the covid-19 pandemic, land war in Europe and the worst energy shock since the 1970s to stubborn inflation, banking scares, a Chinese property bust and trade war. One measure of global risk is 30% higher than its long-term average (see chart 1). Consumer-confidence surveys suggest that households are unusually pessimistic about the state of the economy, both in America and elsewhere (see chart 2). Geopolitical consultants are raking it in, as Wall Street banks fork out on analysts to pontificate about developments in the Donbas or a potential Chinese invasion of Taiwan.

It is, in some ways, a repeat of 1940. In the face of chaos, the global economy powers on. Since 2011 growth has continued at around 3% a year. During the worst of the euro crisis in 2012? Around 3%. What about 2016, the year Britain voted for Brexit and America for Donald Trump, or 2022, when Russia invaded Ukraine? Also 3%. The exception was in 2020-21, during the pandemic. When governments introduced lockdowns, many feared a slump to rival the Depression. In fact, over the following two years the world ground out annual GDP growth of 2%; one year of contraction, followed by a storming recovery.

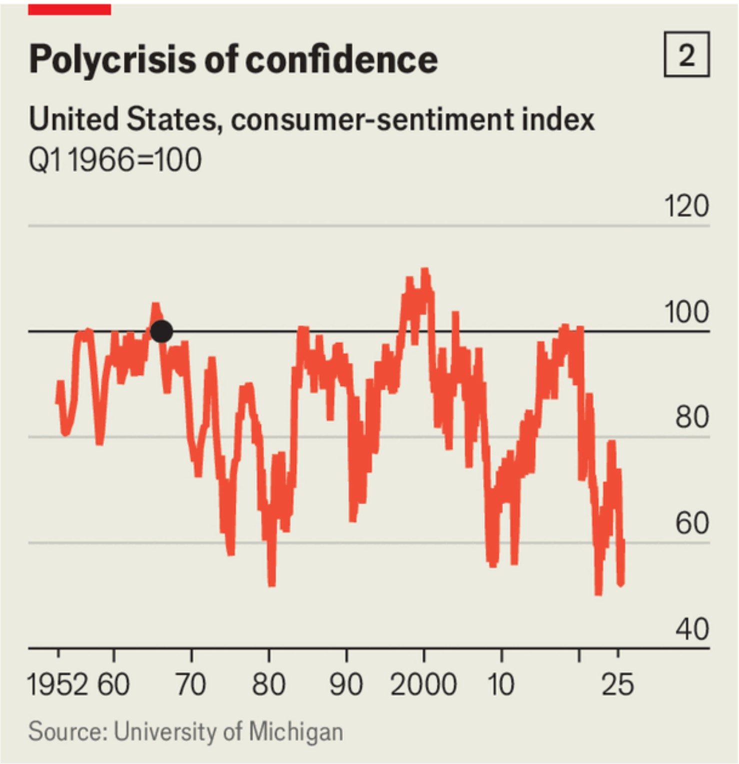

Chart: The Economist

The world economy appears impressively and increasingly shock-absorbent. Supply chains in goods—widely believed to be a source of fragility—have shown themselves to be resilient. A more diverse supply of energy and a less fossil-fuel-intensive economy have reduced the impact of changes in the oil price. And across the world, economic policymaking has improved. According to the conventional narrative, the "great moderation", a period of steady growth and predictable policymaking, ran from the late 1980s to the global financial crisis of 2007-09. But perhaps it did not die alongside Lehman Brothers.

This year just 5% of countries are on track for a recession, according to IMF data—the least since 2007. Unemployment in the OECD club of rich countries is below 5% and close to a record low. In the first quarter of 2025 global corporate earnings rose by 7% year on year. Emerging markets, long prone to capital flight in times of trouble, now tend to avoid currency or debt crises (see chart 3). Consumers across the world, despite claiming to be down in the dumps, spend freely. On almost any measure, the economy is basically fine.

Chart: The Economist

Little wonder that investors are optimistic. Over the past 15 years, as the polycrisis has built, American stocks have marched upwards. More than half the rich world's stockmarkets are within 5% of their all-time high. Wall Street's fear gauge, the VIX, an index of stockmarket volatility, is running below its long-term average. Markets fell in April, when Mr Trump announced his "Liberation Day" tariffs, but quickly recouped their losses. Many investors now follow a simple rule whenever markets decline: "Buy the dip."

They do not even seem to worry much about firms at the sharp end of geopolitical risk. American ones especially exposed to tariffs, such as sporting-goods businesses, are only mildly underperforming the market. When Vladimir Putin started his war in 2022, Ukraine's stockmarket collapsed. It has since made up ground, rising by 50% or so in the past year. Nowhere is there a starker divide between pundits and investors than Taiwan. Goldman Sachs, a bank, produces two indices of "cross-strait" risks. According to the one built using newspaper articles, the strait has rarely been so dangerous. By contrast, the market-based index, derived from share prices, hardly seems bothered (see chart 4). Either investors are naive—or, as in 1940, they have a more sophisticated intuition of how a conflict with China would play out.

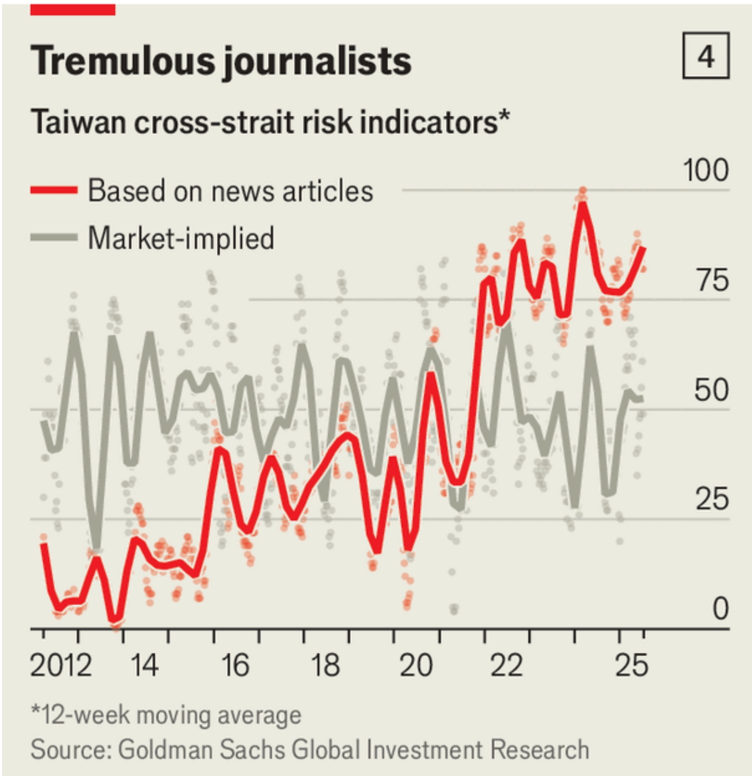

Chart: The Economist

So there is a puzzle: chaotic geopolitics and a placid economy. This may mirror events in 1940, but it is unusual historically. Economists suggest a link between geopolitical ructions and a worsening economy. Dario Caldara and Matteo Iacoviello, both of the Federal Reserve, find that higher geopolitical risk "foreshadows" lower investment and employment. Hites Ahir and Davide Furceri of the IMF and Nicholas Bloom of Stanford University find that increases in uncertainty tend to be followed by "significant declines in output".

Perhaps something has changed. Mr Ahir and his colleagues present evidence suggesting so. Since 1990 uncertainty has hurt growth less than before. Recent developments hint at further progress.

Out of the fire

The emergence of a new form of capitalism, which could be called "the teflon economy", may be behind these shifts. On one side of the equation, firms are better than ever at dealing with shocks, meaning markets continue to function even at a time when politics breaks down. On the other side, governments offer their economies unprecedented levels of protection.

Start with supply chains. The conventional narrative that they are prone to "failure" is largely wrong. During the pandemic some commodities became a lot more expensive—but this was a consequence of an enormous surge in demand, rather than falling supply. Semiconductors are a classic example. In 2021 chipmakers shipped 1.2trn units, some 15% more than the year before. The industry did not really suffer a "supply crunch". Rather, it responded well to an extreme surge in demand.

According to the New York Fed's supply-chain pressure index, bottlenecks have remained in line with the long-run average, even in the face of Mr Trump's trade war. We find similar results in our analysis of 33,000 commodities that America imported from 1989 to 2024. For each year, we counted the number where imports declined from the previous year by more than 20%, even as the price of those imports rose by more than 20%. This hints at situations where a supply chain genuinely "fails". We calculate that the failure rate has been trending down over time.

Modern supply chains are resilient because they are professionally run. Specialised logistics firms have global reach, with cutting-edge warehousing and transport capabilities. Better communications enable rerouting when required. Lots of people have jobs that in effect amount to finding the most marginal of marginal gains. In America there are 95% more supply-chain managers than two decades ago.

Some investors believe structural changes to the economy are also playing a part. "A services economy is incredibly consistent," says Rick Rieder, chief investment officer for fixed-income markets at BlackRock, the world's largest asset manager. "They really do not go into recession except when there is a real major shock: a pandemic or a financial crisis." Since 1990, goods consumption in America has fallen on a quarter-on-quarter basis in 27 quarters. Spending on services, by contrast, has contracted in only five quarters.

Fast growth in American shale oil and gas production has made the world less dependent on both Russia and the Middle East, as became apparent after Mr Putin's invasion of Ukraine, which failed to produce the deep recession in Europe expected by many analysts. OPEC produced fewer than 33m barrels of oil a day last year, just 12% more than in 1973, when the cartel curtailed production and sent prices rocketing. At the same time, the rest of the world produced 64m barrels of oil a day, a figure that has more than doubled since the oil shock of the 1970s. Moreover, the global economy is becoming less dependent on the fuel: oil intensity, defined as the amount consumed per unit of GDP, has dropped by around 60% since 1973 (see chart 5). Hence why events such as the recent Israeli and American bombing of Iran barely dent the price of crude.

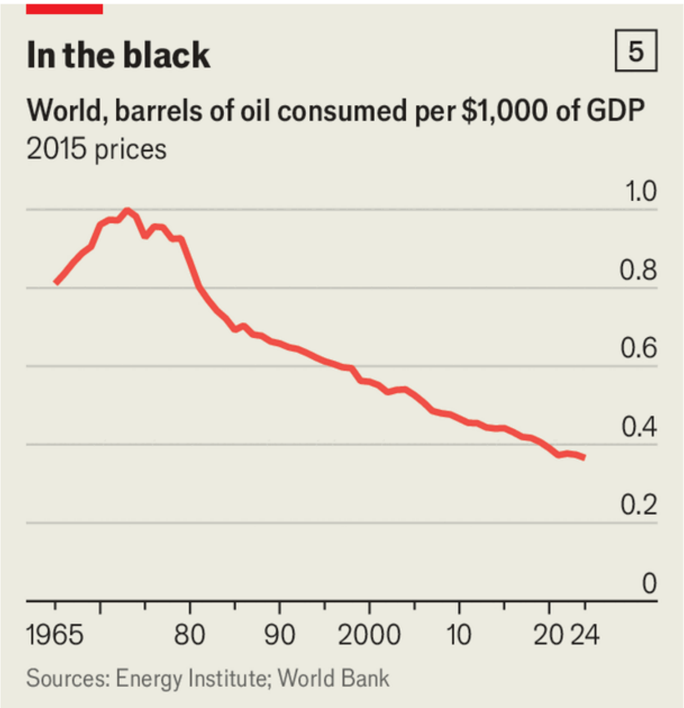

Chart: The Economist

Excellent as supply-chain agility may be, it would matter less if consumer demand crashed every time sentiment soured. That does not happen, in large part because of government action. Politicians in the rich world have become extreme fiscal activists. During the pandemic, they spent over 10% of GDP on rescue packages. In 2022, during the energy crisis, the average European government spent another 3% of GDP. In 2023, in the middle of a banking scare, America hugely expanded its deposit insurance. When there is bad news, politicians are quick to spend big.

And even when there is no bad news, politicians spend big just to be sure. The average rich-country government now runs a fiscal deficit of over 4% of GDP, far above the norm in the 1990s and 2000s. Their support goes beyond budget deficits, which are simple to measure. Many countries now have vast "contingent liabilities"—off-balance-sheet commitments that nonetheless represent an enormous potential outlay. America's federal government is on the hook for contingent liabilities worth more than five times the country's GDP. When the feds are backstopping the entire economy, it is hardly surprising that recessions are few and far between.

This approach has clear benefits. Is it not better to live in a world where joblessness rarely spikes? Even during the pandemic the OECD's unemployment rate never exceeded 9%. Losing a job can scar someone for life; avoiding that fate boosts incomes and health. Persistently high asset prices, meanwhile, are good for anyone with a retirement account or stock portfolio. However, the system also has costs. If central banks and governments succeed in postponing financial crashes, they will simply encourage more reckless behaviour, sowing the seeds of a deep downturn.

Emerging markets have made progress, too. Flexible exchange rates are more common; policymakers are better at avoiding shocks. From 2000 to 2022, the number of emerging-market central banks targeting inflation rose from five to 34, as Gita Gopinath of the IMF has noted. Local bond markets are more established, meaning poor countries can borrow in their own currencies at respectable rates, leaving them less exposed to global fluctuations. Even the combination of a pandemic, surging commodity prices and rising American interest rates did not derail developing economies. As a share of emerging-market GDP, excluding China, sovereign debt in default rose to 1.2% in 2023, up from 0.6% in 2019. That pales in comparison with past crises. In 1987 the volume of emerging-market debt in default hit 11.7% of GDP.

False security

Truly troubled countries, such as Egypt and Pakistan, today avoid default. Yet, as in the rich world, this comes with costs. As China has grown as a lender and entered negotiations, restructurings have almost ground to a halt. The IMF and official creditors are reluctant to force borrowers into default, instead preferring to drip-feed loans. Although few countries default, 59 were under strain in 2024 by the IMF's and World Bank's count, a record high.

Many aspects of teflon capitalism are here to stay, for better or worse. Policymaking in emerging markets is unlikely to regress. China is not about to make default talks any easier. Rich countries, which are rapidly ageing, want economic security; populist politics demands it. Investors now expect rescue packages at the first sign of trouble, and will keep buying the dip.

Two risks loom in the meantime. First, higher interest rates make profligacy expensive. This year America will spend over 3% of GDP on debt service, more than on defence. At some point, governments will have to cut back. Second, geopolitical shocks may yet escalate to a point where even today's robust supply chains cannot cope. A Chinese invasion of Taiwan could destroy, pretty much overnight, the West's supply of high-end semiconductors.

In 1940 investors in the City wagered that the war would not stand in the way of their profits. Investors in 2025 are making a subtler bet: that politicians, regulators and central bankers will continue to stand behind them when things go wrong. The danger is that, in the next crisis, the bill for perpetual protection could come due—and it could be steep.

Stablecoins might cut America's debt payments. But at what cost?

The Trump administration will take any help it can get

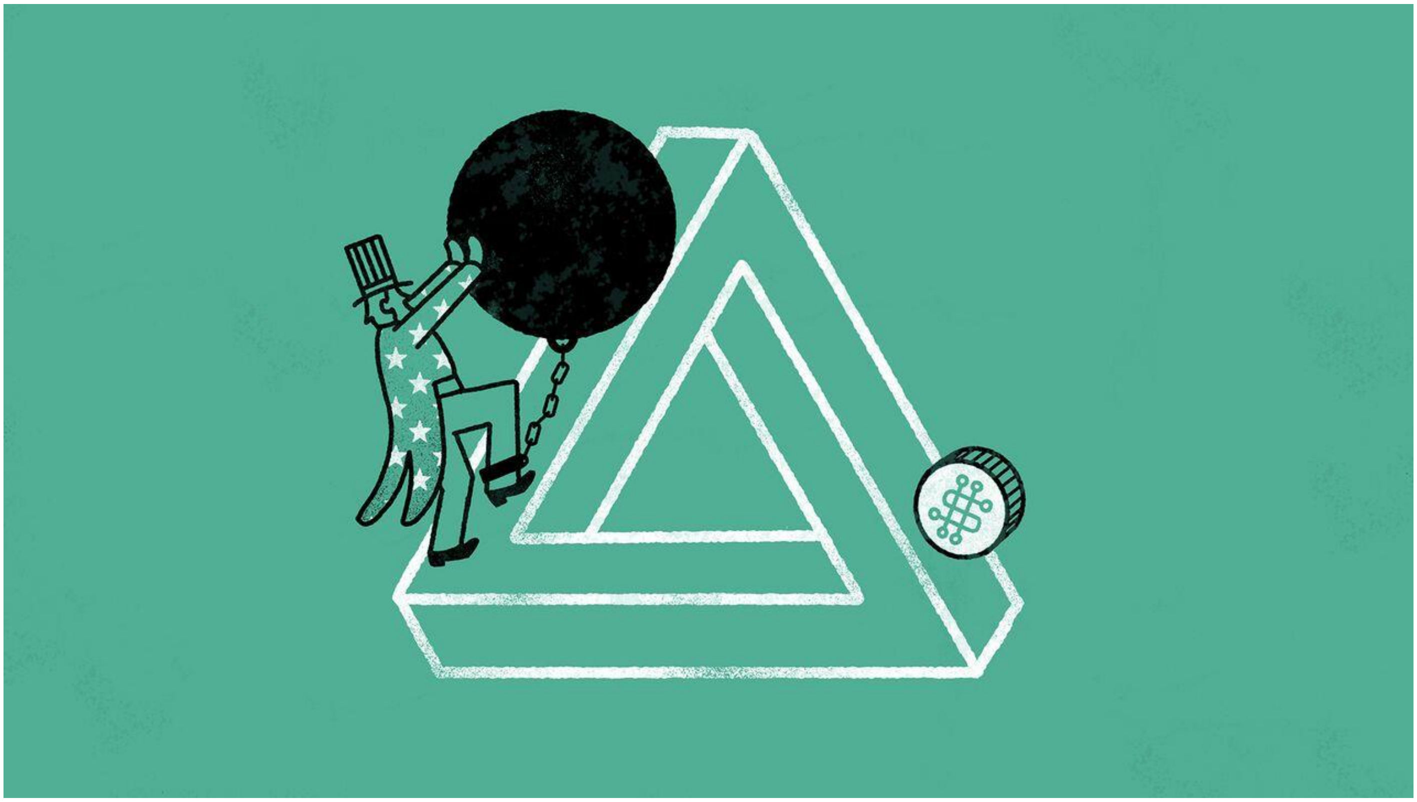

Illustration: Satoshi Kambayashi

ATRILLION DOLLARS. That number may keep Scott Bessent, America's treasury secretary, up at night. Next year his government's net interest payments will break the 13-figure mark. The combination of a bulging deficit, now worth 7% of GDP, and the sharp increase in government-bond yields over the past four years makes America's budgetary mathematics increasingly ugly.

Ideas for how to squeeze the country's interest bill, ideally without cutting spending or raising taxes, are thus at a premium. One has recently raised the hopes of Mr Bessent. Could stablecoins—cryptocurrency tokens backed by safe assets such as short-term Treasury bonds—drive up demand for American debt, and pull down borrowing costs?

The idea is not as outlandish as it seems. Regulatory certainty, which analysts believe is crucial to widespread stablecoin adoption, is on the way. The GENIUS bill, currently steaming through Congress, will allow Treasuries maturing in 93 days or fewer to be used as collateral. Tether, the biggest stablecoin, says it holds more Treasuries than all German investors combined. Citigroup, a bank, expects stablecoin issuance to surge from $257bn today to $1.6trn by 2030. Standard Chartered, another bank, is still more bullish: it thinks the coins will be worth $2trn in just three years.

Demand for dollar assets already helps the Federal Reserve keep down interest rates. In 2020 Thiago Ferreira and Samer Shousha, who worked at the central bank, estimated that the $6.1trn of Treasury bonds held overseas in 2015 reduced the neutral interest rate (that which keeps employment and inflation stable) by about 0.5 percentage points. If optimistic forecasts about stablecoin demand turn out to be correct, the volumes involved could be enough to significantly reduce America's interest costs.

Indeed, research suggests that stablecoins are already tamping down yields. Sang Rae Kim of Kyung Hee University finds that a burst in tether issuance causes Treasury prices to rise over the subsequent hour, even if the effect then quickly fades. Other studies suggest a much bigger impact. Rashad Ahmed of the Andersen Institute for Finance and Economics and Iñaki Aldasoro of the Bank for International Settlements estimate that a $3.5bn inflow into stablecoins trims three-month Treasury yields by as much as 0.05 percentage points over the next 20 days.

Good news, then, for Mr Bessent. Yet taking advantage of any boom will be very difficult. If stablecoins grow big enough to meaningfully cut borrowing costs, they will also threaten both America's government finances and the financial system.

An increase in the issuance of short-term government bonds would, for instance, create a new risk for Mr Bessent or his successor. At present, more short-term debt is an appealing idea. Investors expect the Fed to cut interest rates twice this year, which would lead quickly to lower borrowing costs. The problem is that when rates next go up the impact will feed through just as fast.

More important is what a stablecoin boom would do to the rest of the financial system. Trillions of dollars in invested capital will not be magicked into existence. If dollars invested in the coins come from money-market funds, the effect for the Treasury will be a wash, with money transferred from one vehicle invested in short-term bonds to another. If coinholders instead transfer money from bank deposits, that could put pressure on funding for American lenders, in time limiting the credit they can extend to customers. In this scenario, a stablecoin boom would be robbing private-sector Peter to pay public-sector Paul.

Some demand will come from overseas, which will be less of a problem. Stablecoins may be most useful for people in emerging markets with capital controls; an easily acquired dollar asset will protect them from expropriation and inflation. Yet JPMorgan Chase, a bank, estimates that only 6% of demand for stablecoins is now attributable to such investors. And they seem less likely to care about the regulatory certainty provided by the GENIUS bill.

Mr Bessent's desire to hook the world on stablecoins is in some ways ironic. If foreign demand for the coins were to surge, then demand for the dollar would also climb. As a consequence, American consumers would gain purchasing power and American-made goods would become more expensive when purchased abroad. For a mercantilist administration, and a president who has long dreamed of reducing the trade deficit, that is quite a sting in the tail.

Trump’s real threat: industry-specific tariffs

Which countries would be hit hardest by levies on electronics and pharmaceuticals?

Photograph: Getty Images

When Donald Trump’s tariffs are mentioned, you might recall his “Liberation Day” duties on uninhabited islands, his on-again, off-again threats against Canada, or the curt letters he has sent foreign leaders informing them of imminent rates. These country-level tariffs dominate attention. So it is easy to forget that the steepest tariffs Mr Trump has thus far implemented are on products, not countries. And by all indications more of these “sectoral” tariffs are coming soon.

Mr Trump has already enacted some, including levies of 50% on aluminium and steel and 25% on cars. Details about tariffs on electronics and semiconductors will arrive at the end of the month when national-security probes have finished, according to Howard Lutnick, America’s commerce secretary. At a recent cabinet meeting, Mr Trump pledged a tariff of 50% on copper, to come into effect on

August 1st. On July 15th he added that America would “start off with a low tariff” on pharmaceuticals, probably at the end of the month, before making it “a very high tariff” within a year or so, having previously suggested it could hit 200%. Others, such as on critical minerals and lumber, may also be in the offing.

Shouldn’t you just tune out? After all, a pattern of revoked threats and watered-down proposals has convinced investors of the TACO mantra (Trump Always Chickens Out). There is, nevertheless, reason to think that the president’s industry levies might be a different matter.

For a start, here Mr Trump’s threats are less hollow. They rest on section 232 of the Trade Expansion Act of 1962, which lets America restrict imports it deems a threat to national security, however defined. Other than a mandatory probe, of which nine are under way, few limits exist. Investigations will help the administration avoid chaos similar to that unleashed on Liberation Day, when a slapdash announcement triggered investor panic and, ultimately, a partial reversal. At least some markets are already heeding Mr Trump’s warnings. His 50% copper-tariff announcement sent prices to a record high.

Rates for specific industries are generally higher than those for countries, seemingly because the administration expects them to induce reshoring in strategic sectors. Whereas “reciprocal” tariffs take aim at countries running trade surpluses with America, sectoral tariffs are more sweeping. They would curb American demand for a range of products that rely on global production processes. Any country with a foothold in the value chain would be hit.

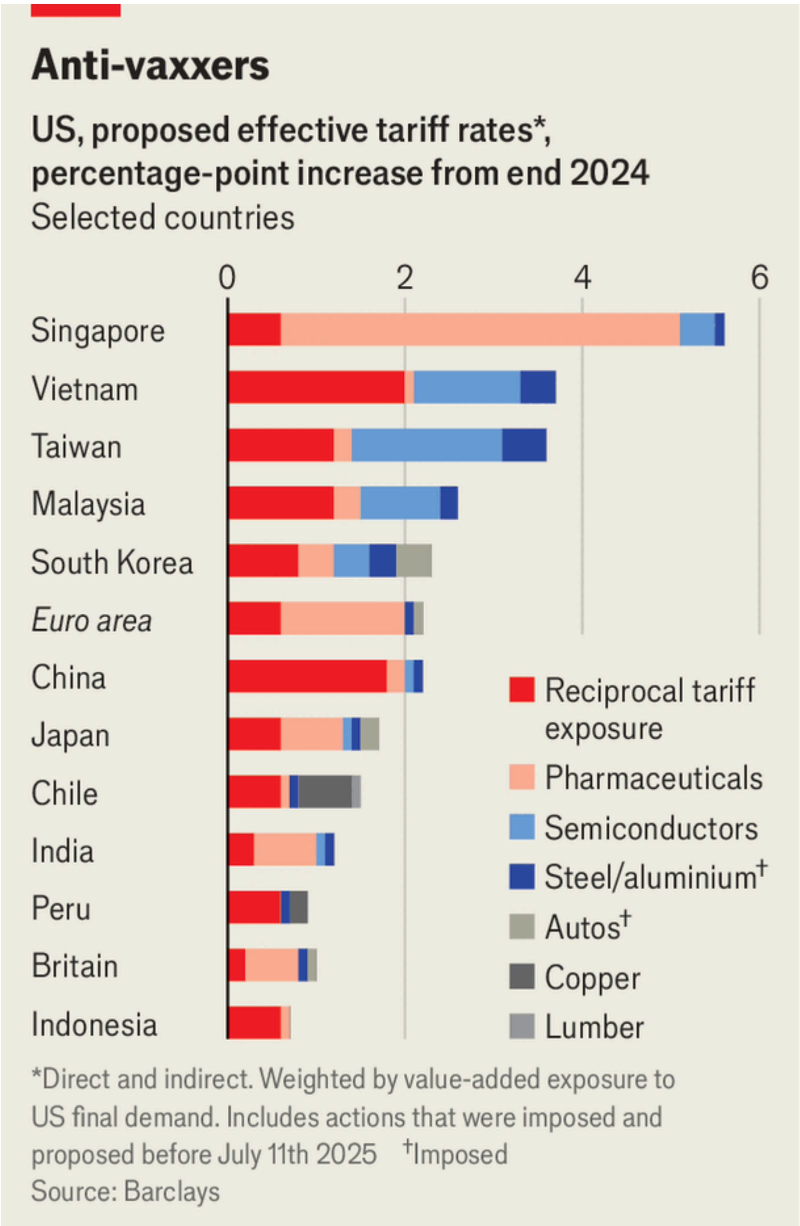

Chart: The Economist

In order to quantify the impact, Barclays, a bank, has calculated “effective” tariff-rate increases by estimating, for each country and product, how much domestic value added is exposed to American border taxes (see chart). This captures the direct impact of a decline in exports to America, and the indirect impact of falling demand for inputs that end up in products which Americans buy.

Countries that are home to advanced industries would suffer most. Consider Indian and Singaporean pharma exports to America. They both average $10bn or so a year. Yet Singapore would face an effective tariff hike six times as steep as India, since its industry's sophisticated products, such as vaccines, embed more domestic value-added than India's, which are often generic. Taiwan would face the biggest effective tariff hike on semiconductors; Japan and South Korea are already suffering on cars.

Sectoral tariffs are also less likely to be haggled down, since America's counterparty is less obvious for tariffs on copper than those on, say, Qatar. A few countries are still trying their best. Gan Kim Yong, Singapore's lead trade negotiator, has made winning concessions on pharmaceuticals his top priority. Japan's discussions with America broke down after reaching an impasse on car tariffs. America's deal with Britain, which cut levies on British cars from 27.5% to 10% subject to a quota, sustains hopes of wriggle room elsewhere. Some believe his ill-defined pharma-tariff timeline is a sign he is not serious. For now, that seems like wishful thinking.

Americans can still get a 2% mortgage

At a time of high interest rates, there are bargains to be found

Photograph: Getty Images

WHEN ADNAN SABIC began looking for a home in 2023, he was shocked. The hotel executive, whose wife had just given birth to twins, could not believe how mortgage rates had rocketed. Then he found a four-bedroom house listed for $775,000 with a nice selling point. Rather than borrow at 6% and pay $4,500 a month, Mr Sabic could "assume" the seller's mortgage, at 2.6%, and pay just $3,100.

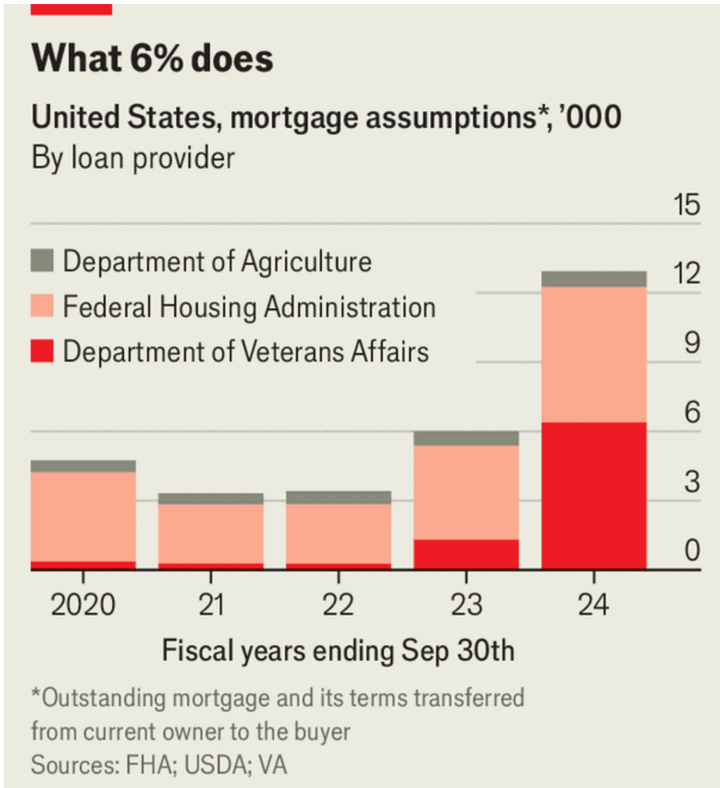

Chart: The Economist

Assumable mortgages first gained popularity, with other creative financing methods, in the early 1980s, when rates exceeded 18%. Over the subsequent four decades, when rates were either falling or low, they were of little use. But in 2023 the average rate on a 30-year fixed mortgage was 6.8%, its highest in 22 years. Last year it was only slightly lower. And so the tricks of 40 years ago are back. Mr Sabic is among a small but growing band of homebuyers who have taken over their seller's mortgage. In 2024 some 13,000 loans were transferred to the buyer along with the property, nearly four times as many as in 2022 (see chart).

Estate agents say such mortgages have snags. Only loans backed by the Federal Housing Administration, Department of Veterans Affairs or the Department of Agriculture are assumable. Lenders tend to be reluctant. And buyers must pay the difference between the sale price and the mortgage balance. "For somebody that has the money…it's kind of a no-brainer," says Brooks Carveth of Perch Real Estate in Colorado. But not everyone has the cash (or the sterling credit needed to borrow it).

Buyers unable to find an assumable mortgage can try other tactics. “Buy-downs” occur when a property has been sitting unsold for a while: rather than drop the price, sellers pay a fee to cut the interest rate. They use part of the sale proceeds to cover the difference between the actual mortgage rate and the lower one. In a typical two-year deal, instead of paying the 6.7% market rate, the buyer will pay 4.7% in the first year, 5.7% in the second and 6.7% thereafter. Mr Carveth says that such deals were virtually “non-existent” five years ago; now they account for 80% of his sales.

Some strategies are less common, and more risky—especially for sellers. Those who own their homes outright, and are willing to wait for their money, may allow buyers to pay them directly in instalments, in effect cutting out lenders. Such “seller financing” might be used when the buyer cannot qualify for a conventional loan. If sellers offer below-market rates, they will typically demand a higher price.

The riskiest trick is the “subject to” transaction. As with an assumable mortgage, the buyer agrees to take over an existing mortgage in exchange for legal title to the property. Yet those who sell their home subject to an existing mortgage are still on the hook for the debt. This means the lender could call in the loan if it realises the property has changed hands, or foreclose if the buyer fails to make their payments. Mr Carveth says such deals are often arranged by investors trying to take advantage of situations where owners have fallen behind on payments and are desperate to sell.

With interest rates near two-decade highs, it is no wonder that homebuyers want to cut corners. In 1983 Leon Kendall, boss of a mortgage insurer, told the Washington Post that creative-financing techniques, then starting to fall out of favour, would not die but merely lie dormant. “They’re fading into the background as the pendulum swings towards lower rates, but they’re ready and waiting to be dusted off...whenever consumers need them.” It seems that time has come.

Americans can still get a 2% mortgage

At a time of high interest rates, there are bargains to be found

Photograph: Getty Images

WHEN ADNAN SABIC began looking for a home in 2023, he was shocked. The hotel executive, whose wife had just given birth to twins, could not believe how mortgage rates had rocketed. Then he found a four-bedroom house listed for $775,000 with a nice selling point. Rather than borrow at 6% and pay $4,500 a month, Mr Sabic could "assume" the seller's mortgage, at 2.6%, and pay just $3,100.

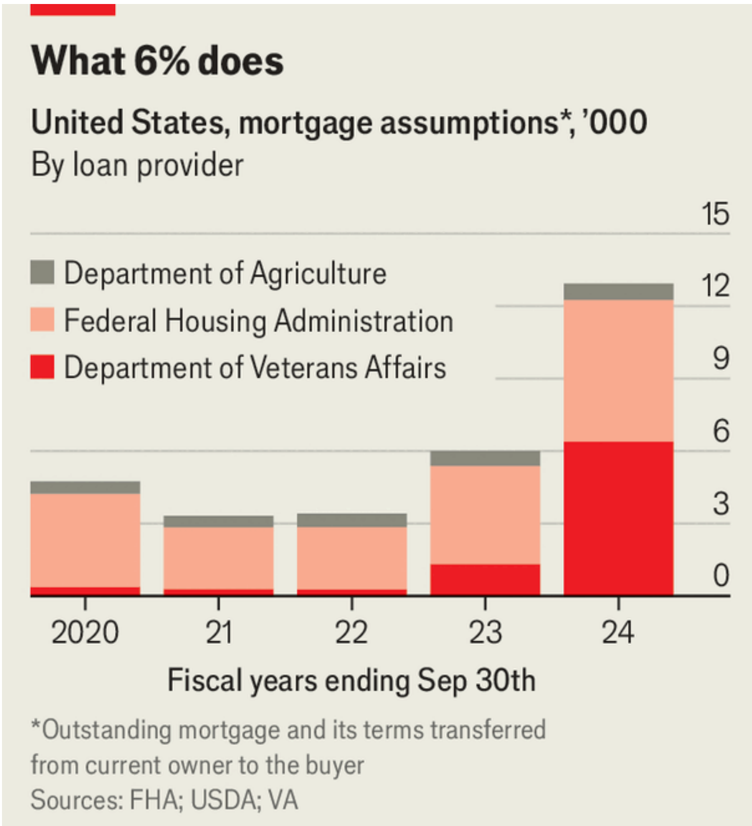

Chart: The Economist

Assumable mortgages first gained popularity, with other creative financing methods, in the early 1980s, when rates exceeded 18%. Over the subsequent four decades, when rates were either falling or low, they were of little use. But in 2023 the average rate on a 30-year fixed mortgage was 6.8%, its highest in 22 years. Last year it was only slightly lower. And so the tricks of 40 years ago are back. Mr Sabic is among a small but growing band of homebuyers who have taken over their seller's mortgage. In 2024 some 13,000 loans were transferred to the buyer along with the property, nearly four times as many as in 2022 (see chart).

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Why is AI so slow to spread? Economics can explain

Businesses are ignoring the street of hundred-dollar bills

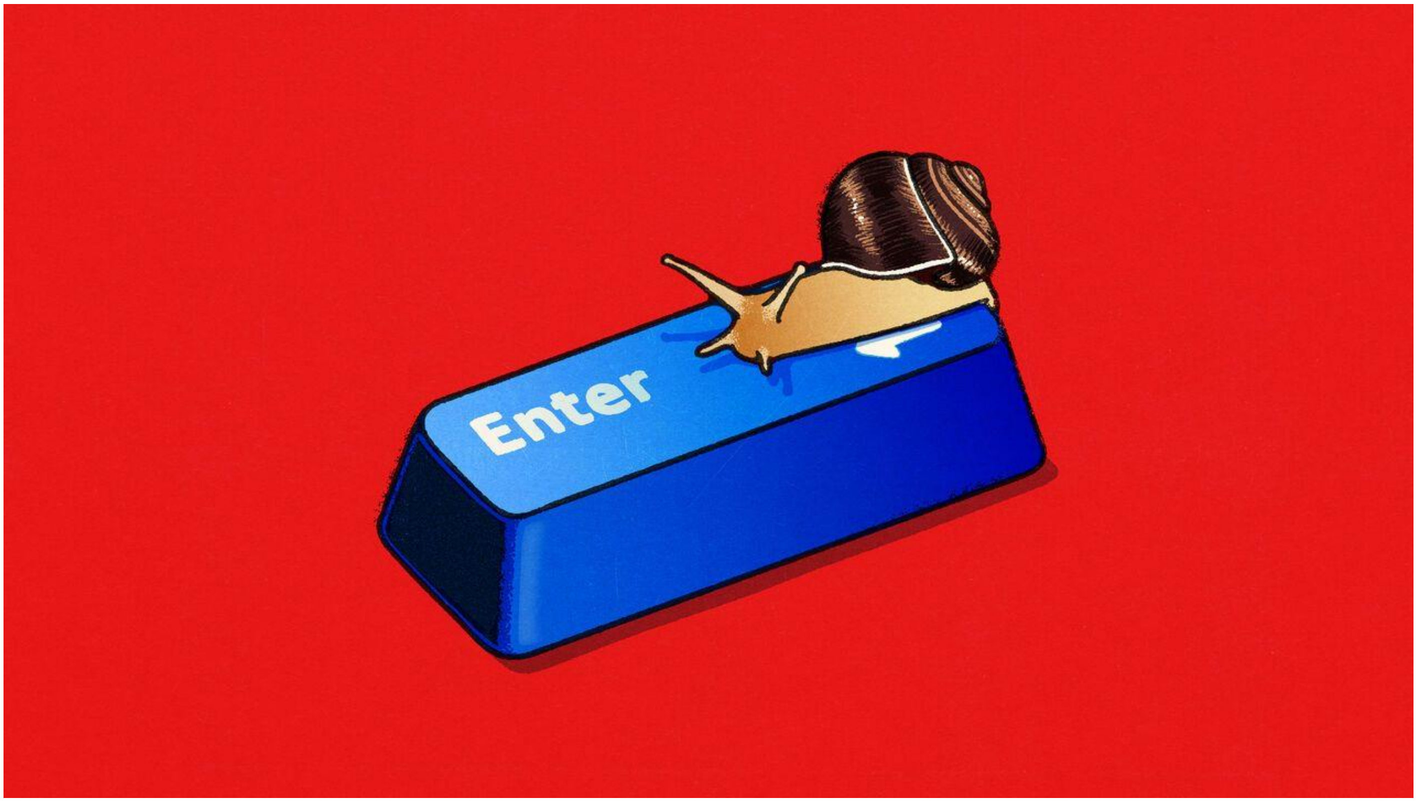

Illustration: Alberto Miranda

Talk to executives and before long they will rhapsodise about all the wonderful ways in which their business is using artificial intelligence. Jamie Dimon of JPMorgan Chase recently said that his bank has 450 use cases for the technology. “AI will become the new operating system of restaurants,” according to Yum! Brands, which runs KFC and Taco Bell. AI will “play an important role in improving the traveller experience”, says the owner of Booking.com. In the first quarter of this year executives from 44% of S&P 500 companies discussed AI on earnings calls.

Whatever the executives may say, however, AI is changing business much more slowly than expected. A high-quality survey from America’s Census Bureau finds that a mere 10% of firms are using it in a meaningful way. “Enterprise adoption has disappointed,” notes a recent paper by UBS, a bank.

Goldman Sachs, another bank, tracks companies that, in the view of its analysts, have "the largest estimated potential change to baseline earnings from AI adoption". In recent months the firms' share prices have underperformed the market. With its fantastic capabilities, AI represents hundred-dollar bills lying on the street. Why, then, are firms not picking them up? Economics may provide an answer.

Of course, it is still early days. Putting AI to use requires dealing with frictions, such as datasets that are not properly integrated into the cloud, meaning some lags were to be expected. AI diffusion has, though, disappointed even these more modest expectations. Analysts at Morgan Stanley once said that 2024 would be "the year of the adopters". That came to little. This year was supposed to be "the year of agents", involving autonomous systems that perform tasks based on data and predefined rules. But, according to the UBS paper, 2025 is instead "the year of agent evaluation", with companies merely dipping their toes in the water. Perhaps there are deeper reasons for the disconnect between C-suite enthusiasm and sluggishness on the shop floor.

Economists of a "public choice" persuasion have long argued that government officials behave in a manner which maximises their personal gain, rather than furthering the public's interests. Bureaucrats may refuse to implement necessary job cuts if doing so would put their friends out of work, for instance. Companies, especially large ones, may face similar problems. In the 1990s Philippe Aghion of the London School of Economics and Jean Tirole of Toulouse 1 Capitole University distinguished between "formal" and "real" authority. On paper, a chief executive has the power to mandate large-scale organisational change. In practice, the middle managers who understand the nitty-gritty and control day-to-day implementation of projects hold the real authority. They can shape, delay or even veto any change requested from above.

Public-choice dynamics are often at play when companies consider adopting new technologies. Joel Mokyr of Northwestern University has argued that "Throughout history technological progress has run into [a] powerful foe: the purposeful self-interested resistance to new technology." Frederick Taylor, an engineer credited with introducing proper managerial techniques to America in the late 19th century, complained that power struggles within firms often jeopardise the adoption of new tech.

More recent research finds that these conflicts remain alive and well. In 2015 David Atkin of the Massachusetts Institute of Technology, and colleagues, published a paper examining factories in Pakistan that made footballs, discussing the fate of a new technology which reduced wastage. After 15 months, they found take-up remained "puzzlingly low". The new tech slowed down certain employees, who as a result stood in the way of progress, "including by misinforming owners about the value of the technology". Another paper, by Yuqian Xu of the University of North Carolina, Chapel Hill, and

Lingjiong Zhu of Florida State University, found similar battles between workers and managers in an Asian bank that is trying to automate its activities.

Few economists have yet examined intra-company battles over AI, but it seems likely they will be fierce. The modern firm in a rich country is astonishingly bureaucratised. American companies have 430,000 in-house lawyers, up from 340,000 a decade ago (a growth rate much faster than that of overall employment). Their role is generally to stop people doing things. They may worry about the risks of introducing AI products. With little to no case law, who is liable if a model goes wrong? Close to half the respondents to UBS's surveys say that "compliance and regulatory concerns" are one of the main challenges for AI adoption in their company. Other legal eagles fret about the tech's impact on boring things such as data privacy and discrimination.

People in other roles have their own concerns. HR staff (whose numbers in America have swollen by 40% over the past decade) may worry about the impact of AI on jobs, and thus put up roadblocks in front of adoption programmes. Meanwhile, Steve Hsu, a physicist at Michigan State University and an AI-startup founder, argues that many people behave like Pakistani football-makers. Middle managers worry about the long-term consequences of adopting AI. "If they use it to automate jobs one rung below them, they worry that their jobs will be next," says Mr Hsu.

The tyranny of the inefficient

Over time market forces should encourage more companies to make serious use of AI. As with previous new technologies, such as the tractor and the personal computer, innovative firms ought to outcompete the holdouts and eventually put them out of business. Yet this process will take a while—too long, perhaps, for the big AI companies, which need to make huge profits on their investments in data centres. The irony of labour-saving automation is that people often stand in the way.

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