
THE BULL &
THE BOAR
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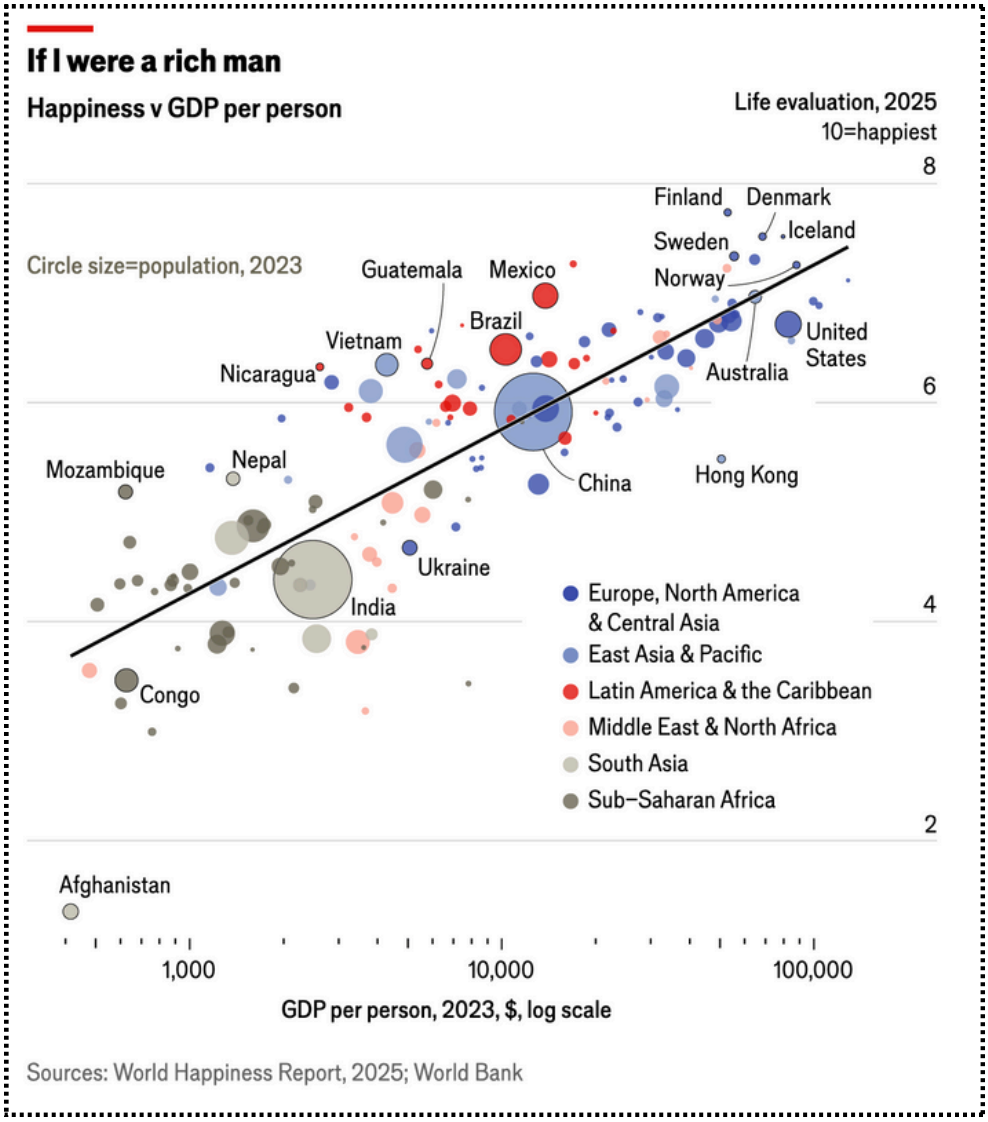
FINAL STAGE
90%
4th Edition



In this edition, you will find diagrams like this showing social sciences data reported in 2024/25. The editors hope that you find them somewhat interesting.

THE BULL AND THE BOAR EDITORIAL TEAM

SOCIAL SCIENCES JOURNAL

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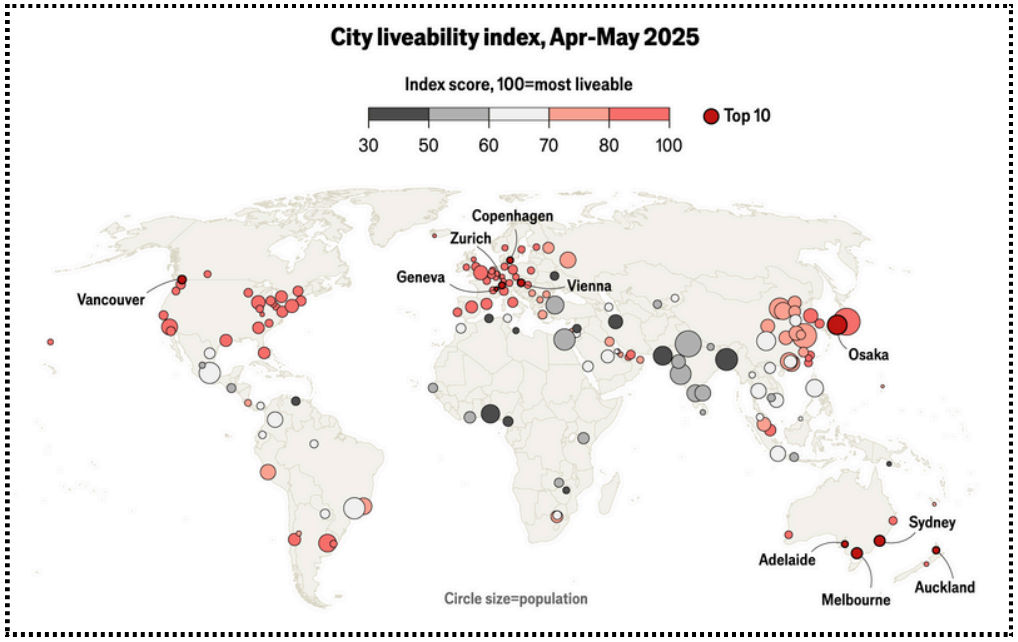
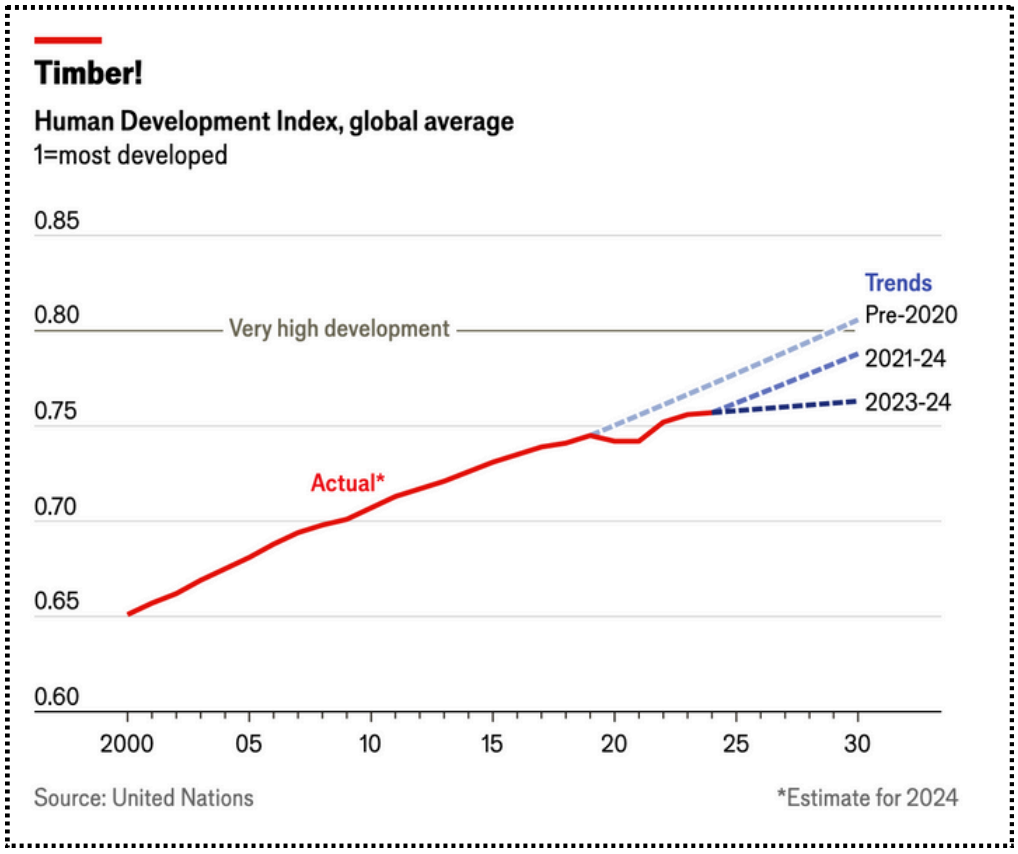

City liveability index, Apr-May 2025
Index score, 100=most liveable
30 50 60 70 80 100
Top 10
Copenhagen
Zurich
Geneva
Vienna
Vancouver
Osaka
Sydney
Adelaide
Melbourne
Auckland
Circle size=population


Timber!
Human Development Index, global average
1=most developed
0.85
0.80
0.75
0.70
0.65
0.60
Very high development
Trends
Pre-2020
2021-24
2023-24
Actual*
2000 05 10 15 20 25 30
Source: United Nations
*Estimate for 2024

A NOTE FROM THE EDITOR-IN-CHIEF

ALIDA CHAN

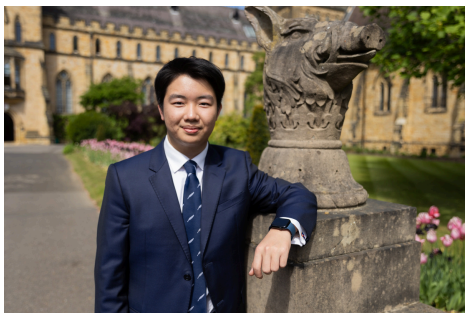
Welcome to the 4th edition of The Bull and The Boar! Since the publication of the last edition, the tiny blue planet on which we all live has experienced significant political upheavals, military conflicts, and economic turbulence. Amidst a time of great chaos, the mission of social scientists at Tonbridge remains the same — to make sense of it all. The circumstances of such an extraordinary year highlight the purpose of this journal — It is a special document of zeitgeist and contemplation.

In this edition, boys and staff have taken deep dives into a range of topics, from America to Europe, home to abroad, from football to mining, and from geopolitical tensions to financial meltdowns. We do not aim to simply report events but to trace the threads of human behaviours and aspirations that bind the occurrence of different events together. The editorial team engaged in a discussion with Mrs Yael Selfin, Vice Chair and Chief Economist at KPMG UK, who generously shared her insights. Additionally, in the largest voting year in human history, we have carried the spirit of political participation by polling the most powerful constituency, Tonbridge School.

Social science is, at its core, the study of ourselves. Politics has been a part of human society since the dawn of human civilisation, and it permeates all forms of social interaction. Business is in play the moment one person trades an apple for a fig; it underpins the exchange of ideas and desires that societies rest upon. Economics, as any A-level student will tell you on day one, is the study of how we allocate scarce resources to fulfil infinite wants — but more deeply, it is the study of our choices and values.

Social science is unique in that we possess and create all the knowledge of these disciplines, yet it is nearly impossible for anyone to fully grasp them. Each phenomenon is a mirror held up to the collective forces shaping our present and our future. This element of complexity, mystery and inexhaustibility, I think, is the very reason why we love these studies.

It is with great pleasure and honour that I present this edition to you. If you find any typos, please keep them to yourself. And no, we did not use ChatGPT to write all of this. Only most of it.

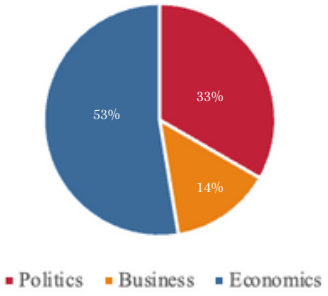


Alida Chan
Chief Editor
B&B, Edition 4

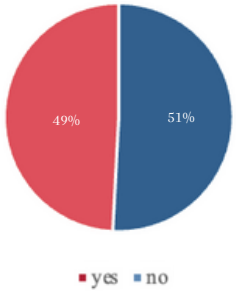
TONBRIDGE POLLS PART 1

"Never mind YouGov, Survation, More in Common and, indeed, JL Partners. *The Bull and The Boar* editorial team are here to listen to the only constituency that really matters – Tonbridge School!

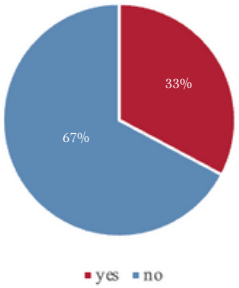
Politics, Economics, or Business? Which do you prefer?



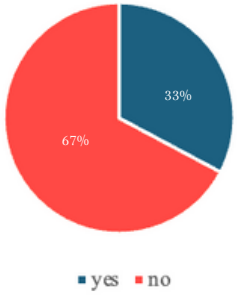
Do you believe that cash will still be used by UK citizens in 20 year?



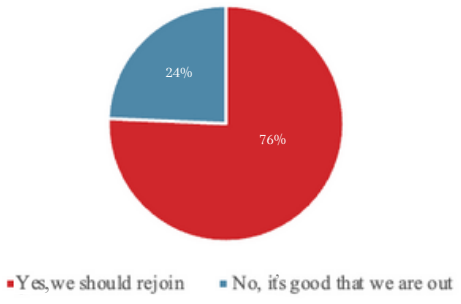
Should the voting age be changed to 16+?



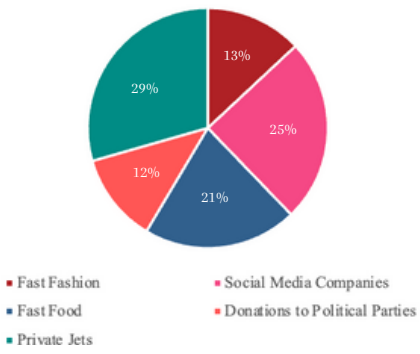
Should the UK make voting compulsory?



Would you vote to rejoin the EU if a referendum were held tomorrow?



As Chancellor, what would you tax more?



CRACKS IN THE 'SPECIAL RELATIONSHIP'?

NICK COXON

Over the past few months of the Trump administration, the UK and the rest of the world have been waiting to see how the impact of Trump's tariffs would unfold over time. Skip forward to the 8th of May 2025, the UK and the US had just finished the historical negotiations of the new 'UK-US Economic Prosperity Deal. This would result in a radical reduction of tariffs from 100% to 25% on most goods, such as steel, as well as a range of other arrangements. In an interview with Yael Selfin (Vice-Chair and Chief Economist at KPMG in the UK), I gained a greater insight into this deal and what it means for the UK.

To understand the significance of this deal, it is essential to recognise that it is a landmark agreement with the US, as no formal agreement had previously existed. Yet, with the impact of the 100% tariffs that Trump had imposed, this was a necessary step for the UK to try and minimise any damage these tariffs could inflict upon the economy, and the main achievement was the avoidance of further escalation of tariffs. The deal has thus also provided ample economic opportunities for the future of the UK and, indeed, this first deal could lead to improvements in what is already labelled a 'special relationship' between the two countries. The levy on cars and car parts, for example, has been reduced to only 10%, and both the UK and the US have gained quotas on goods such as US beef, as well as preferential access to Boeing engines and planes, creating new trade that could only seem to grow in future years.

Within the next month, Keir Starmer will aim to formalise this deal completely, in the hope of accessing all its benefits and, more importantly, mitigating any risk of the tariffs increasing if the deal falls through.

All of this must be completed by the deadline set by the Trump administration, which is July 9; any later, and there is a risk of the currently active tariffs being doubled. British titans of industry, such as Tata Steel and Jaguar Land Rover, are pushing for the swift finalisation of this deal to secure the US market. In the interview, Yael also made clear the impact of this deal on the EU and its trade with the US. With the US being an extremely important international market, many worry that the ongoing trade war will flood the EU with cheap products that would formerly have been sold in the US. There are also concerns that, without easy access to a large market for exporting these goods, the EU's industry could ultimately be destroyed. This is why the EU is extremely keen to follow in the UK's footsteps and begin a new deal with the Trump administration. However, this is easier said than done. With the aftermath of the 2016 Brexit referendum favouring the UK, the EU will struggle to coordinate 27 nations in finding a unified solution. With the UK's deal set to come into effect soon, the EU will rapidly seek solutions as more companies begin to shift their focus towards centralising around US markets rather than the EU, given the US's greater profitability and the more logical approach in this new era.

With all that being said, the 'special relationship' that the UK and the US claim to have is certainly cracking under the pressure. Whilst Starmer has done well to secure a first trade deal with the US, the UK is still on a diverging path to that of 'Trump's America,' and as tensions rise with Ukraine and the Middle East, it will continue to be strained, all while Trump bullies other countries into his tariffs. So, it is hard to say with certainty how much of this trade deal will be finalised by the deadline and just how much arguing the 'special relationship' can withstand before it starts to crack under the weight of Trump's tariffs. ■

IS NOT VOTING BETTER THAN VOTING WRONG?

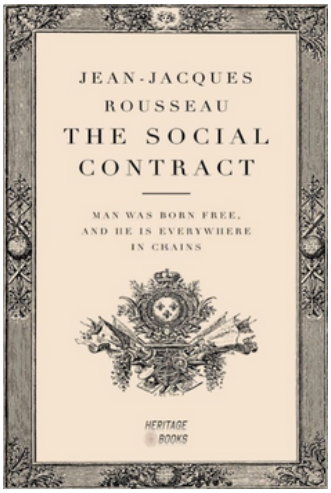
ALIDA CHAN

Introduction

In several UK general elections, a man dressed in a black cloak and a giant bucket on his head proudly campaigned as "Lord Buckethead". His manifesto included promises like "political debates to include swimsuit competition" and "provide funding for the Royal Astronomy Society to come up with a less embarrassing name for planet Uranus". In 2017, over 3,000 people voted for him. Lord Buckethead means no harm; some would even say he is charmingly satirical, symbolising protest against the boredom of everyday politics with a sense of humour. But Lord Buckethead's case raises the question: what if a candidate just as absurd had far more dangerous intentions? Democracy doesn't filter for seriousness or morality. By definition, it counts every vote and responds to every voice. This makes democracy strange: it allows us to make bizarre, unserious, even harmful choices and determines the political trajectory for years to come.

We have just lived through the largest electoral year in history. 1.7 billion voters from more than 70 countries went to the polls, exercising their "sacred" rights guaranteed by their constitutions. While societies celebrated democracy with grandeur, there are so many distortions to democracy, from social media manipulation to global populist waves. Therefore, the need to evaluate the value and limits of democracy feels more urgent than ever. The polarity between my growing up in China, where I witnessed a transition of power at the top level only once, and the overly frequent government changes in the UK over the last few years made me contemplate whether participation is always virtuous. When judgments prove detrimental, can voting still be treated as a triumph instead of a liability? This essay explores these tensions, not to dismiss democracy, but to reflect on what makes it meaningful and whether its intrinsic value outweighs its imperfections.

Democratic Ideals



Democracy is often championed not just for what it accomplishes but for what it represents. At its heart lies two central beliefs: individuals have equal moral worth and rights through the concept of equal suffrage (one person, one vote). To this end, democracy is a moral commitment to justice and inclusion. Second, democracy entails that the electorate can hold the government accountable. Democratic procedures are the authorities' attempt to display how they honour "justice". Voting is a mechanism implemented to ensure justice, as it allows people's opinions to be revealed and their voices to be heard through the casting of votes. Therefore, by combining the two beliefs, one would arrive at the definition of democracy – the justified rule of the people. The pursuit of democratic ideals dates back to the Age of Enlightenment, and since then, governments have adopted democratic systems to increase their legitimacy. Jean-Jacques Rousseau proposed the basic framework of modern democracy. When citizens participate in shaping laws, they obey themselves and thus remain free. Hidden trade-offs are committed – individuals collectively relinquish part of their freedom to protect their rights from being blatantly violated by others. This is the idea of a "social contract". It is not a contract in the conventional sense, where one gets to choose whether or not to sign it. One passively agrees to its terms simply by being born into a society governed by any ruling system, and once they mature, they will inevitably increase their participation in civil society.

Although he recognised the risks of mass ignorance or selfishness, he maintained that collective self-legislation was vital to freedom. The general will might not always align with what each individual wants, but it follows the aims of a common good that protects all.

Elizabeth Anderson adds another layer by arguing that democracy is not only a tool for making good decisions (instrumental value) but, more importantly, an expression of respect for individuals (non-instrumental value). Even when people vote badly, the process affirms their status as equals. Denying that right, even for the sake of better outcomes, risks treating certain groups and citizens as inferior. But this ideal raises a tough question: if everyone has a right to participate, do they also have a right to be wrong, even disastrously so?

There are three types of things which display goodness: things that are good in themselves, things that are good because they're a means to something that's good in itself, and things that are both good in themselves and as a means. In The Republic, Plato placed "justice" under the third category. Anderson's perspective suggests that the value of democracy lies not in what it can potentially achieve, but in what it affirms: the agency of all people, even when that agency is flawed. This conclusion implies that while democracy can potentially be good in itself, it is primarily valuable as a means. Democracy does not necessarily achieve intrinsic goodness; it falls short of the goodness of justice, and therefore, by extension, its ideals are not sufficient to fully legitimise a government's rule.

When Voting Goes Wrong

In reality, democracy often falls short of its ideals. Populism is an approach to democracy that seeks to garner the support of ordinary people by appealing to public sentiments rather than campaigning on policy visions with committed ideologies. In recent years, there has been a global surge in politicians embracing populism, with Donald Trump being the most notable example. A well-supported phenomenon is that voters can be misinformed and manipulated; they are also prone to irrational behaviour. Bryan Caplan argues that voters systematically misunderstand economics, public policy, and even basic facts. These are not random mistakes, but predictable biases. For example, voters tend to prefer protectionism over free trade and to blame immigrants for complex social problems. Both observations are shown to be correct in the 2024 US Presidential election. Caplan suggests a solution to counter the issues of populism directly: reduce the scope of democracy and let experts make more decisions in place of the entire population.

Jason Brennan offers a further criticism. If an ignorant surgeon is dangerous, then so is an ignorant voter. Instead of fostering moral equality by giving everyone an equal say regardless of competence, this approach is morally irresponsible. Brennan proposes "epistocracy", or rule by the knowledgeable. It resonates with Plato's classical "Kallipolis" model, in which a perfect city-state is one headed by a philosopher king. In Brennan's model, the hierarchy of epistocracy influences all social classes. It's not just about installing a knowledgeable ruler; all forms of political participation should be weighted or restricted based on civic competence.

Of course, such proposals raise deep concerns about elitism and exclusion, which is precisely what populism claims to stand against. Who decides what counts as "competence"? Do objective values even exist? And doesn't limiting who can participate in voting or weighing votes based on selected traits of a citizen undermine the very principle of equality that democracy seeks to protect? Still, the underlying worry is hard to dismiss: if democratic systems regularly produce unfavourable outcomes, should we cling to them out of principle, or seek ways to improve them?

Confucian and Legalist Models

Long before Rousseau, Chinese thinkers grappled with similar questions. Mencius, a Confucian philosopher, believed rulers must be virtuous to retain legitimacy. Governance is not about popular will but the ruler's ability to maintain or increase people's welfare. The people have a moral right to rebel against tyrants, but only because moral responsibility defines good rule. This gives room to what is now regarded as a "benevolent dictator".

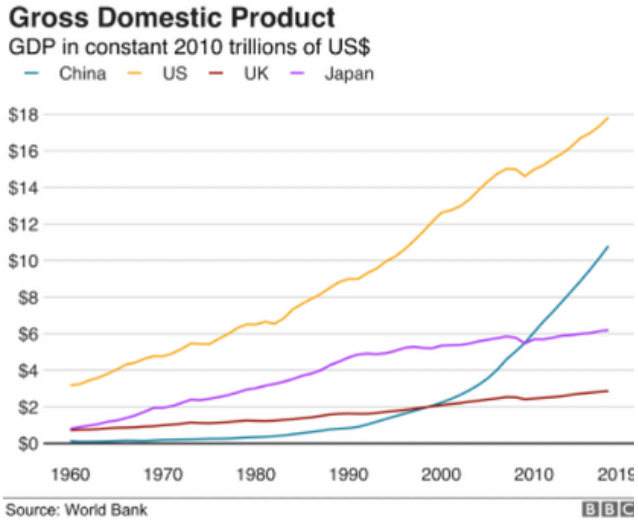
Mencius thought a benevolent dictator is the best ruler, for they have good intentions and plans and the sole power to execute and realise these noble visions.

Contrastingly, Han Feizi, a Legalist thinker, dismissed virtue as naive. He argued that the ruler must impartially maintain order through strict laws and centralised control. People act in their own best interest, so the system must guide them through incentives and penalties. Power should lie with those who can best maintain stability, and hence would never be appropriate to be wielded by the masses.

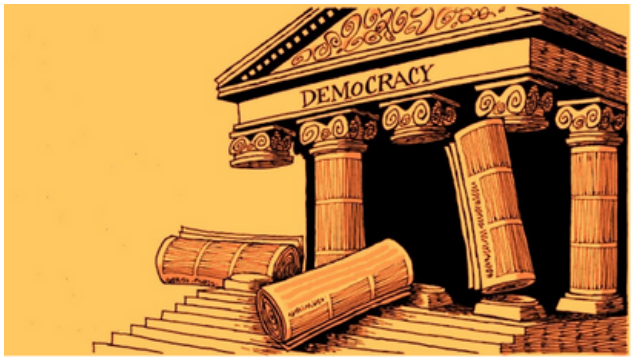
These ideas are still relevant, if not foundational, in modern debates. The Confucian model aligns with a paternalistic meritocracy, where rule is based on moral cultivation. The Legalist view mirrors political realism and technocracy. Neither grants the people a vote, but both aim at effective governance.

The China Model and Performance Legitimacy

Ancient political philosophy theories continue to shape modern politics. Chinese politics reflects a modern political meritocracy. Leaders rise through internal evaluations, not popular vote. This has almost developed into a Darwinian system in which only the fittest, and in this case, the most effective leaders, survive and ascend in the political food chain. The country's legitimacy rests on performance: if the government deliver growth, order, and national pride, it earns the right to govern.



This model challenges Western assumptions. Is voice more important than results? Is voting more sacred than good leadership? Many Chinese citizens accept – or even prefer – a robust system emphasising stability and development over participation.



Where is the Right Path?

Democracy is messy. Sometimes it means electing a lunatic, passing foolish laws, or turning national decisions into popularity contests. However, its essence lies in the messiness because it always upholds the spirit that everyone gets a say, no matter how serious, strange, or silly. Churchill once said, "Democracy is the worst form of Government except for all those other forms that have been tried from time to time". Maybe democracy is not about always being right, but about getting it wrong and learning from the mistakes. The question, then, is not whether democracy is perfect – it clearly isn't – but whether society can afford to try-and-error and work to improve the imperfections. The question "Is it better to vote wrong or not vote at all?"is an important question for our generation to contemplate and figure out, for the answer will guide how we move forward through an age of uncertainty and define the hope we carry while striving for something better. ■

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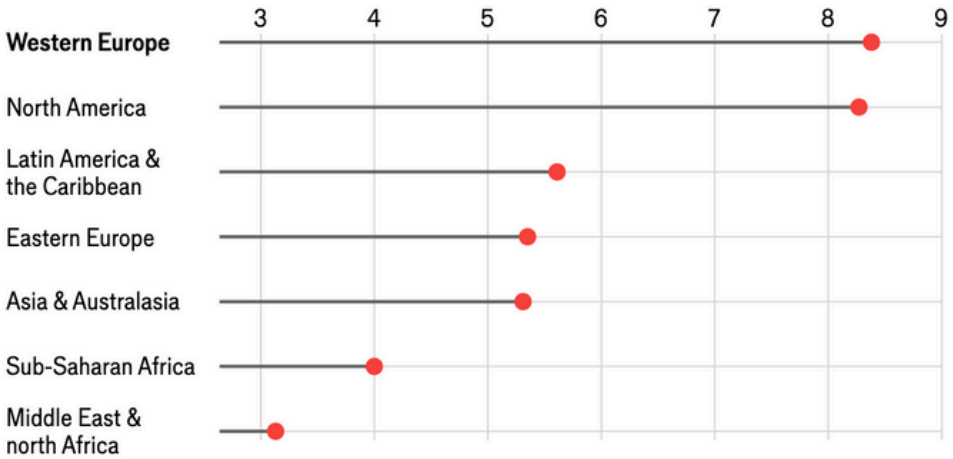
Leading the pack

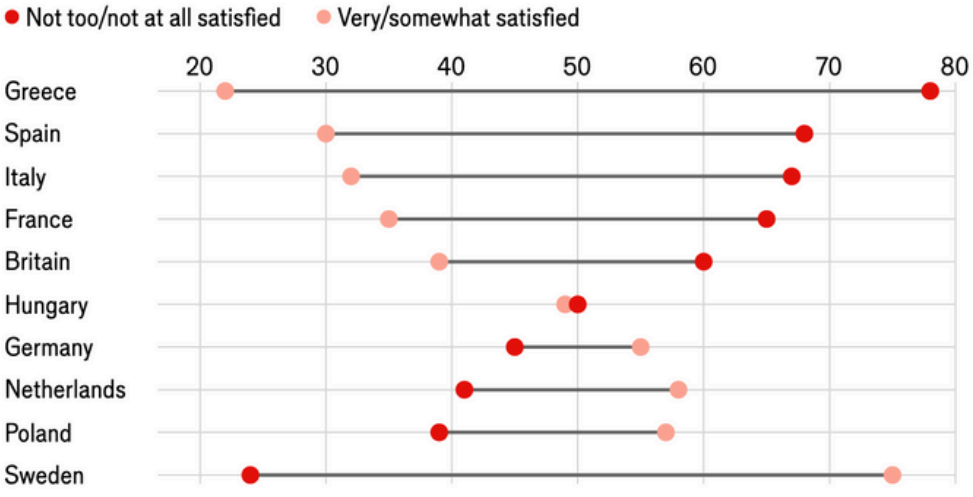
Democracy Index, 10=most democratic, 2024



Source: EIU

Mind the gap

"How satisfied are you with the way democracy is working in your country?", 2024, % responding*



Source: Pew Research Centre

*Excluding those who did not answer

A STUDY OF THE RUSSIAN WARTIME ECONOMY

ALEXANDER CUNNINGHAM

(A caveat to this essay is that most sources are from Western or Western-based news agencies and may not fully represent the true situation of the Russian economy.)

Since the onset of the full-scale invasion of Ukraine in February 2022, Russia has increasingly transitioned from a peacetime economy into a wartime one. A war economy is characterised by the reorientation of a nation's economic structure to prioritise its military development and expenditure. This will often come at the cost of reduced civilian production and inadequate resource allocation to meet civilian demands. Overall, while Russia's war economy has led to short-term boosts in certain sectors, it has also incurred significant structural challenges, including fiscal imbalances and international "pariah" status, which together undermine any long-term economic stability.

Uralvagonzavod - Russia's largest tank factory

Russia has significantly increased its military spending since the war began; this has some notable fiscal implications. In 2024, Russia's military spending reached approximately $149 billion, marking a 38% increase from the previous year and double the amount spent in 2015. This figure accounts for 7.1% of Russia's GDP and 19% of its total government expenditure. Capital invested in military goods, such as tanks and artillery, that are rapidly consumed or destroyed at the front produces no lasting productive capital.

Such productions are not investments in human capital, research, or infrastructure that could raise potential output or productivity in the long run. The fact that defence spending now constitutes 19% of total government spending, surpassing allocations for social services, is a perfect representation of the Russian state's priorities and the urgency of the war.

The increase in military spending has led to budget deficits, with reports indicating a deficit of 2% of GDP in 2024. The fiscal imbalance has forced the Russian Ministry of Finance to draw from the National Wealth Fund and increase domestic borrowing. Both moves pose downward pressure on the Ruble and raise inflationary risks in the medium term. This reflects a classic case of opportunity cost. Resources committed to military build-up cannot simultaneously support civilian economic development. Furthermore, increased deficits in the sanction-constrained economy may lead to further monetary instability or necessitate austerity measures in the future. The war has not gone so well for Russia, leading to the subsequent mobilisation of hundreds of thousands of soldiers. This, in conjunction with the emigration of skilled workers, has led to labour shortages in various sectors. Furthermore, the government's drive to attract military personnel without resorting to further mobilisation waves due to political unpopularity has led to wage inflation and increased competition for labour in the civilian sector.

Over the past year, one-time allowances for signing a military contract have increased an average of five times, with the amount ranging from $8,000 to $30,000, depending on the region. The average annual salary in Russia in 2023 was around $15,000.

This artificial inflation of military wages distorts market signals, making it more difficult for non-military industries to attract and retain talent. This can crowd out investment in productive sectors and risk overheating the labour market in the short run. Additionally, the quality of the workforce may also decline as younger and more highly educated workers opt for emigration or military contracts, thereby decreasing overall human capital.

There has also been a demographic impact; the loss of working-age individuals due to mobilisation and emigration contributes to Russia's existing demographic challenges, potentially leading to long-term economic stagnation. Due to the low birth rates and ageing population, this can only be exacerbated. There has been some mitigation of this demographic challenge with the surprising number of recent contract soldiers being over 45.

The demographic impact represents a negative supply-side shock, reducing the economy's potential growth rate and placing downward pressure on productivity. Combined with corporate flight and international sanctions, this contributes to a worsening outlook for successful development in post-war Russia.

When Russia invaded Ukraine, the Western world reacted with military aid to Ukraine and sanctions on Russia. Western sanctions have targeted key sectors of the Russian economy, including finance, energy, and technology, limiting access to international markets and capital. For example, the West's decision to cut Russia from SWIFT deeply hampered its ability to trade internationally, along with the seizure of international Russian assets (Amounting to around $335 billion as of 2025).

Russia has attempted to circumvent sanctions, such as through its “ghost fleet" or "shadow ships”, a fleet of obsolete oil tankers with opaque ownership flown under the flags of various other countries. However, despite attempts like this, Russia’s oil export revenue has declined,

T-90M MBT at a Victory Day Parade

forcing the government to utilise its National Wealth Fund, which has seen its liquid assets decrease to less than 3% of GDP. A stark example of the desperate measures Russia has undertaken to ensure, for now, economic stability. Restrictions on technology imports have hindered Russia's ability to modernise its industries, leading to increased reliance on outdated equipment and methods. Russia had relied a lot on Western microchips and technical expertise. For example, its most modern MBT, the T-90M, had been fitted with French Catherin FC thermal sights produced by the Thales Group; these had to be replaced with inferior domestic alternative sights by Rostec after sanctions were implemented. Furthermore, over 450 foreign-made components were found in Russian weapons recovered in Ukraine. This is evidence that Moscow acquired critical technology from companies in the United States, Europe and Asia before the war.

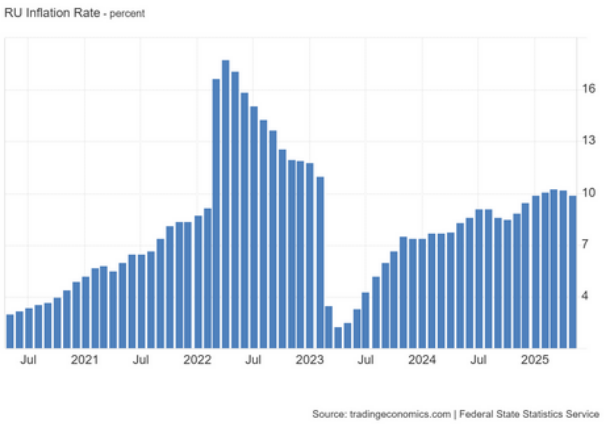
It is apparent that Russia continues to rely on this technology and is experiencing difficulty in finding alternative sources or developing satisfactory, domestic replacements. This demonstrates Russia’s reliance on more foreign tech due to a lack of equivalent quality domestic technology, although Russian companies are attempting to fill the shortfall with uncertain success.

Key macroeconomic indicators suggest mounting pressure on the Russian economy. Inflationary pressures in Russia have been a challenge for the central bank since the war began. The high military spending, in tandem with supply chain disruptions, has contributed to elevated inflation rates, and core inflation reached 9.7% annually in October 2024. To keep up with these inflationary pressures, the Russian Central Bank has hiked interest rates to unsustainable levels, having hit 21% in February 2025.

Furthermore, the Ruble has experienced volatility, immediately crashing after the war began, only to skyrocket due to fiscal measures undertaken. Subsequently, the Ruble exchange rate has continued to fluctuate and remains unstable. The weakened Ruble has also increased inflationary pressures due to the higher cost of imports affecting Russian consumers.

Another indicator is the rising public debt. To finance the budget deficit and the war effort, Russia had increased domestic borrowing, leading to a rise in public debt to approximately 16% of GDP. These indicators help us understand the strain Russia's economy is under, even if it hasn't quite buckled yet.

In the long term, the current war-driven economic model is unsustainable, as it has consistently led to reduced structural economic health, focusing on short-term military gains. Russia has also been consistently reducing the amount of publicly available information on its production and national consumption, which makes it more difficult to understand how it is performing, but the reticence to provide information suggests deteriorating numbers. As such, reduced transparency and increased state control have exacerbated institutional weaknesses and deterred foreign investments, for example, Russia's seizure of Western companies' businesses and their replacement with domestic chains.



The analysis so far is based solely on Western media reports, but an independent assessment suggests some omissions that cast the Russian economy in a more positive light. This includes its GDP growth over the past three years, which has remained stable, with a decline of only 2.1% in 2022, below expectations. Furthermore, some reports indicate that it increased by 3.6% in 2023 and 4.1% in 2024. It should also be noted that a 60-65% increase in industrial output occurred in 2023; however, this was attributed to the Ukrainian conflict.

The "pariah" status previously ascribed is not as severe as it may seem. Bilateral trade between Russia and India surged from $13 billion in 2021-2022 to $27 billion in 2022. India became the largest importer of Russian oil by August 2024. Furthermore, China accounted for 40% of Russia's imports in 2022, with total trade reaching a record $240 billion in 2023. However, given the fog of war, it is difficult to be certain where the precise truth lies, but logic and the balance of probability indicate that Russia does indeed face many of the difficulties outlined in this analysis, to a greater or lesser extent.

Whether or not a more favourable analysis of the Russian economy than that which can be derived from Western media reports is valid, it remains true that Russia faces considerable economic difficulty.

We can note that Russia's transition to a true war economy has further helped boost its military production, especially in the war of attrition it finds itself in today. However, this may be overshadowed by the significant structural issues it faces, including fiscal imbalances, labour market competition, and its "pariah" status. Without taking steps to increase its international competitiveness and boost innovation to catch up with the West's technology, Russia will find itself economically and militarily behind. This is coupled with the risk of entering a period of prolonged economic stagnation, such as occurred in the late Soviet era.

The Russian Government will need to think very carefully about the economic impact of continuing the war in Ukraine, given its high military spending reminiscent of the last days of the USSR, they must decide if they have more to gain than they have already lost. Then they will still have to consider how to weather the economic shocks of a return to peace. It remains to be seen whether Russia can continue to respond to the severe challenges described and what peace dividends eventually bring. ■

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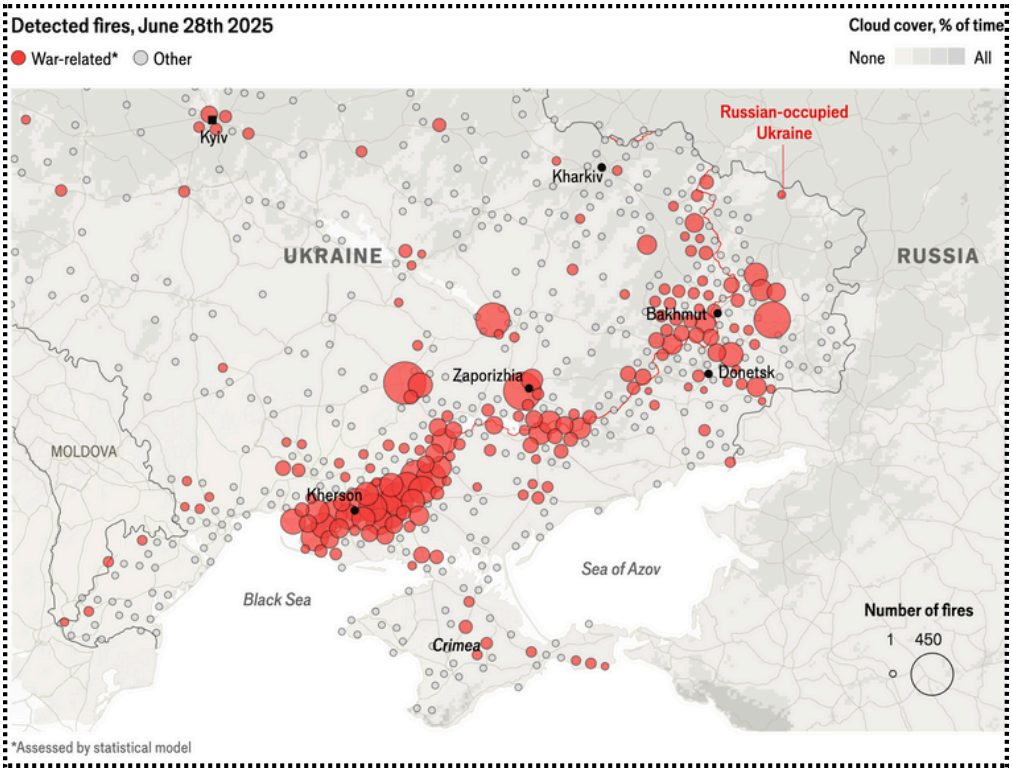
Detected fires, June 28th 2025
War-related*
Other
Cloud cover, % of time
None
All
Russian-occupied Ukraine
Kyiv
Kharkiv
UKRAINE
RUSSIA
Bakhmut
Donetsk
Zaporizhia
MOLDOVA
Kherson
Sea of Azov
Black Sea
Crimea
Number of fires
1
450
*Assessed by statistical model


Ukrainian territory controlled by Russia, %
4
30
25
20
15
10
5
0
First Ukrainian counter-offensive begins
Russia completes retreat from northern Ukraine
Second Ukrainian counter-offensive begins
Before the war
2022
2023
2024
2025
Sources: Institute for the Study of War; The Economist

THE UNSEEN COST OF ILLEGAL MINING TO GHANA'S ECONOMY

YAW DUFFUOR

Introduction

In Ghana, the fight for resources and land is as old as the country's fabled gold mines. Among the numerous forms of economic activity, illegal small-scale mining, or *galamsey*, as it is referred to in local slang, is special not only due to its ecological consequences but also because of its all-encompassing nature in the unstructured economy. *Galamsey* means "gather them and sell", and it is a sector of uncontrolled mining that is not under government control, part of the tax regime, or subject to any formal labour institution. Despite its legal ban, *galamsey* has turned into the only means of survival for the majority of Ghanaians who have lost jobs in the formal sector. The situation cannot be turned around without substantial implications on economic planning and labour statistics. It also creates a situation where economic needs frequently clash with national development goals.

Galamsey has emerged as a complex issue in the Ghanaian economy, presenting both opportunities and challenges simultaneously. While it brings immediate economic gains to its operators, the sector undermines long-term economic development by polluting water bodies, depleting forestry resources, and evading regulatory structures, from which income would otherwise be channelled into the country's GDP. Such a duality between informal existence and formal economic growth is representative of the broader issues in emerging economies, where informal sectors expand against the backdrop of weak institutions and inadequate social protection systems. This article examines the impact of *galamsey* on the informal labour market in Ghana, its exclusion from official economic statistics, and how this distorts national employment and GDP estimates.

The Economic Underpinnings of Galamsey in Ghana's Informal Economy

Ghana's grey economy is vast and includes street vending, farming, artisanal manufacturing, and, most notoriously, illicit small-scale mining. Approximately 86% of the labour force works informally, a figure that not only indicates the scale of the issue but also the structural constraints in the formal work market. *Galamsey* forms a significant fraction of the informal sector, accommodating employment for labourers from rural and peri-urban regions whose economic opportunities are limited. The economic motivation for *galamsey* is clear: if legitimate job opportunities are scarce, especially for those without a university education, illegal mining is a comparatively well-rewarded alternative. Operatives in *galamsey activities earn* significantly greater daily wages than subsistence farmers or casual labourers. However, it is an activity that is untaxed and unregulated, representing a significant black hole in state finances. The International Growth Centre (IGC) recognises that Ghana loses an estimated $2.3 billion annually in untaxed gold exports. Aside from the nation's financial health that this loss endangers, it also bars the government from using this funding to invest in required public services and infrastructure.

Moreover, poor regulation deprives employees of labour rights, insurance, and pensions, exposing them to work-related hazards and exploitation.

Additionally, the informal economy has given rise to supporting industries that provide food, equipment, and shelter for miners. These ancillary markets further entrench informal economic practices and contribute to a cycle of unregulated labour and environmental degradation. This way, *galamsey* is not just an economic activity; it is an informal commerce system that lives at the fringes of legality and formal legitimacy.

The secretive nature of *galamsey* makes it very difficult to quantify its employment and contribution to GDP, hence distorting official figures and hindering policy interventions. The Ghanaian government largely relies on official sector figures to estimate national productivity and employment; hence, the thousands of illegal miners are statistically non-existent. Underreporting provides a skewed view of the labour market, reflecting a higher rate of unemployment or underemployment than actually exists.

Moreover, recovered gold from *galamsey* operations is often smuggled out of official boundaries, introducing more inaccuracies into GDP accounting. Only about 60% of the country's gold exports are reportedly captured through official means. The remaining 40%, a substantial portion, either leaves the country illegally through smuggling or is sold domestically off the books. This shortfall results in a large proportion of national wealth not being taxed and reinvested in the economy. Instead, the profits from illegal mining often circulate within informal networks and are accumulated by a small group of intermediaries. As a result, the government is unable to adequately fund development projects, and this leads to a consequential aggravation of income inequality as wealth is extracted from the general population. Effectively, *galamsey* is a hidden sector of economic activity that is large and important, but not included in national accounts. *Galamsey*'s informality prevents it from being regulated or captured by the rest of the economy, and the outcome is a dual economy in which the formal and informal sectors coexist but do not meaningfully relate to one another.

This disconnect prevents the creation of inclusive growth and broad economic reform, as policymakers lack sufficient information to develop effective strategies for promoting these.

Environmental and Social Consequences of Illegal Mining

When we speak of *galamsey*, issues of economic concern are not the only ones that are immediately considered; there are also important environmental and social issues that have indirect implications for the Ghanaian economy. These illegal mining operations usually rely on primitive methods which use mercury and other toxic chemicals, which can poison our land and water. The Pra and Ankobra rivers, the water sources for millions of human beings, have been severely contaminated by *galamsey* activities. The environmental loss is a heavy burden to the government and to the local communities, from water treatment costs to lost agricultural production.

Socially, *galamsey* has been linked with increased incidence of child labour and school dropouts, as children leave school to work in mines, and gender-based violence. Usually, children in mining communities make the

decision to quit school to help their parents with work, thus jeopardising the growth of human capital in the future. Moreover, the arrival of workers from rural areas causes local resources to be depleted quickly and leads to social tensions. Although such social costs are hard to measure, their effect can be felt in the economy.

G*alamsey's* social and environmental externalities capture the broader impact of illicit economic enterprise. While in the short term there may be financial gain, in the longer term the cost tends to outweigh the benefit. These externalities must be addressed through a multifaceted approach that includes increased enforcement of environmental laws, further community education, and the provision of alternative means of livelihood.

Policy Responses and the Need for Inclusive Reform

The Ghanaian government has implemented several measures to put an end to illegal mining and formalise informal miners. The Inter-Ministerial Committee on Illegal Mining (IMCIM) was introduced in 2017 to organise and formalise small-scale mining by releasing Community Mining Schemes (CMS). The schemes were designed to grant miners formal status, training, and access to equipment in exchange for compliance with environmental and safety standards. Despite this, the implementation of these programmes has been irregular, plagued by corruption and poor financing, as well as strong resistance from native communities who view formalisation as endangering their ways of life. Small-scale miners fear that it may work against them due to arduous licensing procedures or surveillance that will disallow them from mining in the same areas by depriving them of access.

In addition, anti-*galamsey* legislations have tended to be reactive in enforcement. Crackdowns conducted in a military fashion, although effective in the short term, have resulted in human rights violations and the destruction of equipment without necessarily solving the underlying causes of illegal mining. The report from the Centre for Democratic Development (CDD-Ghana) highlights that these methods have had minimal impact on reducing *galamsey* activities. This is mainly because they fail to offer alternative economic opportunities.

The absence of an organised and stable policy environment has resulted in a piecemeal approach to tackling the issues associated with *galamsey*.

For any significant impact to be made, efforts to formalise the industry need to be followed by broad economic reforms aimed at creating employment opportunities, particularly in rural communities. This means investing in technical and vocational training, agriculture, and rural infrastructure that can deliver sustainable livelihoods, thereby rendering the economic appeal of illegal mining unattractive. *Galamsey* is not only an environmental or legal issue but a complex socio-economic process propelled deep into the recesses of Ghana's informal economy.

Its impact on GDP and employment rates is colossal, but it goes largely undocumented due to its informal nature. Therefore, any serious attempt to resolve the issues posed by *galamsey* must consider the legion of economic marginalisation, informal employment, and rural underdevelopment. Governments must follow an even-handed agenda that balances enforcement against inclusion and acknowledges that economic progress can never be sustainable if significant portions of society remain economically invisible.

In the medium to long term, legalisation of such illegal activities as *galamsey* can not only improve national statistics but also fiscal revenues, environmental management, and social cohesion. This will, however, require political will, institutional restructuring, and most importantly, an acceptance of the economic imperatives that drive people to *galamsey* as a survival option. ■

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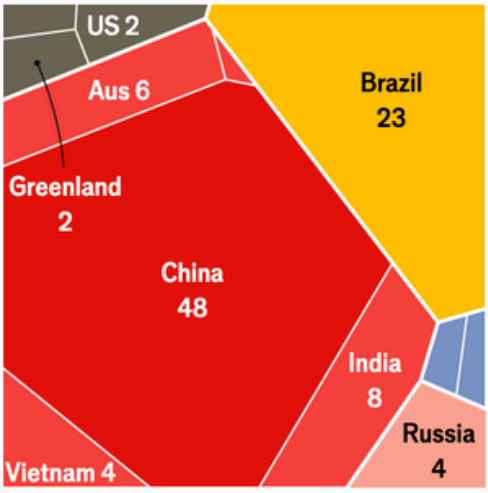
Rare-earth elements, estimated % of world total

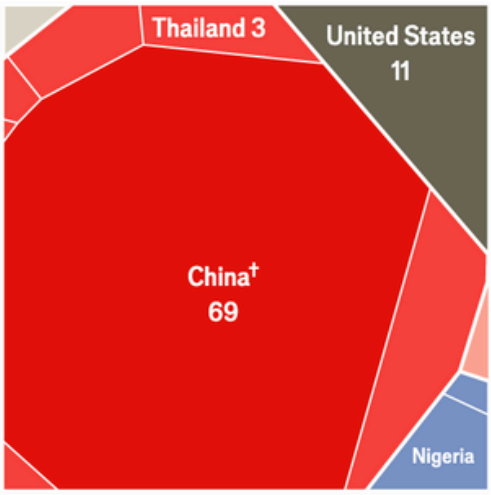
Asia Pacific · Europe · North America
Latin America · Africa · Not specified

Known reserves*



Total: 90m tonnes of
rare-earth oxide equivalent

Mine production, 2024



390k tonnes of
rare-earth oxide equivalent

*Countries and territories that have mapped out deposits in detail.
Data unavailable for Myanmar, Madagascar, Malaysia and Nigeria
†Estimate is a production quota and excludes undocumented production
Source: USGS Mineral Commodity Summaries, January 2025

ECONOMICS IN THE REAL WORLD

PATRICK NORTH

Taking cover at the base of Jakarta's 'Selamat Datang' monument (ignoring the irony of the name) while the Indonesian Army (ahead of me) opened fire with their M16s on the crowd of student demonstrators (behind me), I had some moments to reflect on how an education in Economics had led to this moment.

I studied Philosophy, Politics, and Economics at university and landed a job in corporate finance at J.P. Morgan. That had certainly had its moments, including flying on a private jet around central Asia with a Mujahideen bodyguard, trying to figure out the credit risk of an oil & gas pipeline through Afghanistan on behalf of a giant US oil company. In my report, I concluded that the Taliban government was too unstable to attract financing. Five years later, the US military invaded Afghanistan and replaced the Taliban with a more stable and more financially sustainable regime.

Young Patrick North's JP Morgan security card

But I had left JP Morgan in the wake of the 1998 Asian Financial Crisis, to join a Singaporean friend to restructure the debt of Indonesian companies. The exchange rate of the Indonesian Rupiah had devalued by 75% compared to the US dollar, owing to a wholesale loss of market confidence in mainly Southeast Asian countries. In Indonesia, the problem was compounded by large companies that had taken advantage of lower US dollar interest rates to borrow and issue bonds denominated in US dollars (pre-Financial Crisis, they could borrow at 5% p.a. in US dollars, compared to 20% p.a. in Indonesian Rupiah).

You might think that this made sense, but of course, their earnings and cash flow were denominated in Indonesian Rupiah. So there was an enormous foreign-exchange mismatch – if the Rupiah depreciated, their cash flow would not be able to pay interest or repay those loans. Today, you'd simply use derivatives markets to 'hedge' the risk. But in those less sophisticated days, the Indonesian firms hadn't done this, partly because the market for 'exotic' US dollar / Indonesian Rupiah currency swaps didn't really exist. Indonesian borrowers hired us (well, really, my Singaporean friend and mentor, and I just tagged along) to negotiate with the US dollar lenders and bondholders. The first step was to educate them on some realities. The British, Japanese and American financiers were used to taking over company assets to repay debt in the event of default.

Mujahideen fighters in Afghanistan

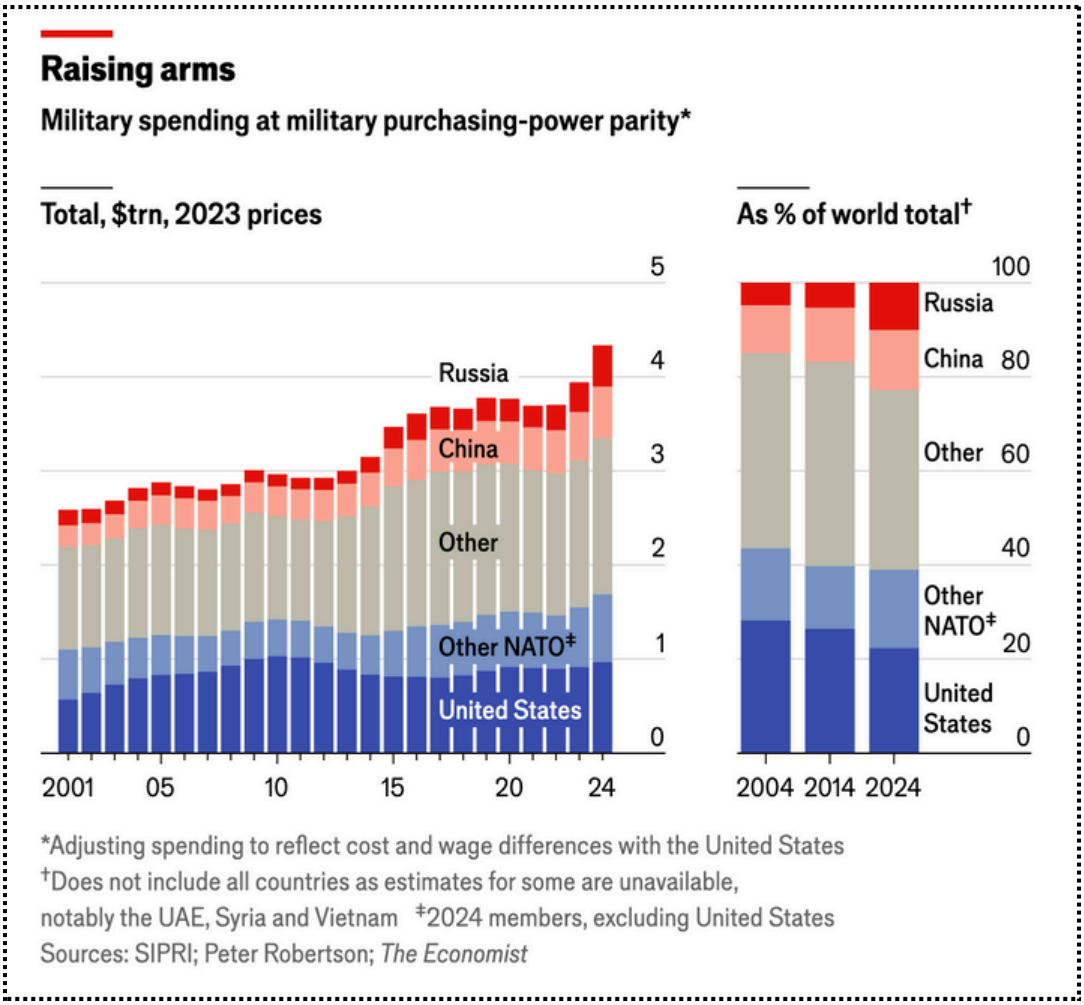
Under Indonesian law, that was unenforceable – our clients, the borrowers, were 100% sure that the Indonesian courts would never favour foreign financiers over them. Either the process would drag out for years, or it would founder in technicalities. Either way, our Indonesian clients impressed on us that the foreigners were at their mercy and would have to accept whatever terms we imposed. That was our 'negotiating strategy'. We tried to be creative – swapping debt for shares in the company, deferring payments, rolling up interest. But ultimately, the negotiations became very aggressive as the banks objected to our client's heavy-handed tactics, particularly as the creditor steering committee prepared to fly into Jakarta for a big showdown meeting.

I had by this time learned some Indonesian. Enough to overhear my client's personal assistant on the phone to the airport police. I went to my Singaporean partner and said that I wasn't sure, but I thought I heard something about arrest at arrivals ... cells ... and was that "rubber glove" she had said? I managed to avert a very uncomfortable and undignified experience for the very senior and dignified panel of bankers. I confess to thinking about this as I sat opposite them as they shouted and banged the table and accused me and my colleagues of all sorts of underhanded malpractice. If only they knew.

But how did I end up under live fire just outside Trisakti University in Jakarta? It was another creditors' meeting for another of our clients. It was 1998, during the student protests against the authoritarian three-decade rule of President Suharto. Everyone seemed keen to leave the meeting early, but I stayed to update my master spreadsheet model of the transaction, and by the time I left the building, the tear gas was swirling around. I thought better of it almost immediately, but the security team had slammed down the steel doors the moment the last person left the office (me).

The army and police were meant to be using blanks, but elements of the security forces had loaded live rounds. Four students were shot and killed that afternoon: Elang Mulia Lesmana, Heri Hertanto, Hafidin Royan, and Hendriawan Sie. The incident prompted nationwide popular uprisings, which led to Suharto's resignation later that month.

We concluded a few transactions, democracy was restored to Indonesia, and I have not been back since. I came back to the UK and decided that becoming a teacher was a saner life choice. So, I went to work in a 2500-pupil London comprehensive, but that's a different story... ■


Raising arms
Military spending at military purchasing-power parity*
Total, $trn, 2023 prices
As % of world total†
5
4
3
2
1
0
Russia
China
Other
Other NATO‡
United States
2001
05
10
15
20
24
100
80
60
40
20
0
Russia
China
Other
Other NATO‡
United States
2004
2014
2024
*Adjusting spending to reflect cost and wage differences with the United States
†Does not include all countries as estimates for some are unavailable, notably the UAE, Syria and Vietnam ‡2024 members, excluding United States
Sources: SIPRI; Peter Robertson; The Economist

HOW DID CHELSEA EXPLOIT THE FINANCIAL FAIR PLAY RULES?

OUGE LIU

If you've ever been puzzled about how Chelsea Football Club could seemingly spend more than £1 billion on players in just three transfer windows whilst remaining within UEFA's Financial Fair Play (FFP) and the Premier League's Profit and Sustainability Rules (PSR), you might assume it was some dodgy activity, but in reality, the strategy is formed on the exploitation of an under-exploited regulatory loophole in UEFA's accounting framework: the uncapped use of Amortisation.

By utilising an under-exploited aspect of UEFA's financial regulations more systematically than has been seen before, Chelsea's owners and Clearlake Capital introduced a new approach to structuring the spending of transfers. While the core mechanism was known within football finance, its aggressive application at a scale as large as Chelsea's represented a shift in how financial strategy could be used to shape squad building in football. In response, regulators and market actors have begun to adapt, and its usage has prompted UEFA to revise its regulations accordingly. This article examines how Chelsea, under Clearlake Capital, pioneered a new form of financial engineering in football through amortisation, arbitrage, and asset speculation.

What is Amortisation, and how did Chelsea use it?

In the accounting world of football, a player is not treated as a one-time expense (i.e. their transfer fee) but as an intangible asset (e.g. a contract is a legal right to the player's services). So, when a club signs a player for a transfer fee, the cost of the fee is spread evenly across the length of the player's contract. This is called amortisation, and it works similarly to how a business may depreciate the value of a capital good such as a machine over several years, aligning costs with expected benefits.

The Chelsea ownership aggressively applied this principle, for example, with the signings of Enzo Fernandez (£106.8 million total fee on an 8.5-year contract), Mykhailo Mudryk (£88.5 million total fee on an 8.5-year contract), and Moises Caicedo (£115 million total fee on an 8-year contract). Although these headline transfer fees seem hefty, under annual amortisation, the costs are fairly modest. Enzo Fernandez's transfer is amortised as £12.6 million, Mykhailo Mudryk as £10.4 million, and Moises Caicedo as £14.4 million.

Why did Chelsea's ownership use this approach?

Chelsea's approach is best understood in the context of its ownership. The club was acquired in 2022 by a consortium led by Todd Boehly, an American businessman, and the private investment firm Clearlake Capital, co-founded by Behdad Eghbali, an Iranian American. Their background brought a private equity mindset to the world of football ownership. Private equity refers to investment firms that acquire companies (or clubs), restructure them for growth and efficiency, and aim for long-term financial return, using leverage and strategic asset management.

Behdad Egbhali (left) next to Todd Boehly (right)

Boehly, who also co-owns the Los Angeles Dodgers baseball team, is accustomed to long-term asset strategies. For example, the LA Dodgers signed Shohei Ohtani to a 14-year deal and Mookie Betts to a 12-year contract. While both models represent long-term asset management, they also serve as a means of brand enhancement.

At Chelsea, Boehly, who acted as an interim sporting director for one window, reportedly sought a similar symbolic signing in Cristiano Ronaldo (Ornstein, 2022), although then-manager Thomas Tuchel rejected it. The logic was to acquire a marquee signing to not only achieve sporting aims but also enhance brand value and global marketability.

In this model, players are treated as intangible assets whose value can be maximised over time. Boehly and Eghbali's strategy mimicked the practices in private equity, identifying regulatory inefficiencies and applying financial engineering.

Arbitrage: Exploiting Gaps in Regulation

Chelsea did not simply use a clever accounting technique, they also systematically exploited an aspect of UEFA's Financial Fair Play framework that no other club had exploited on such a scale. This is an example of Regulatory Arbitrage – a strategy where clubs exploit gaps or inconsistencies in regulations to achieve financial or competitive advantages, while remaining technically within the rules.

At the time, UEFA's rules allowed clubs to amortise transfer fees over the full length of a player's contract, with no cap on the period. While most clubs followed convention by offering contracts of 4 or 5 years, Chelsea broke the norm by offering longer contracts of 7 to 8.5 years to minimise annual accounting costs.

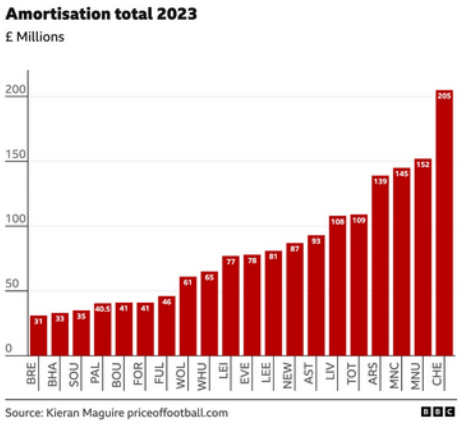


Figure: Chelsea stands out with greater amortisation compared to every other club in the Premier League in 2023.

How exactly was the rule exploited?

The loophole: Amortisation was calculated over the contract length.

The tactic: Extend contract length to reduce annual amortisation charges.

The Result: High-fee signings appeared as relatively modest annual costs in the accounts, enabling multiple large transfers to occur without breaching FFP thresholds.

No other club in the league had pursued this strategy systematically. Clubs such as Arsenal and Liverpool remained much more conservative, wary of the sporting and financial risks associated with long-term wage commitments and regulatory perception.

Chelsea's approach was sufficiently new and unconventional that it triggered a regulatory response. Following the club's application of long contracts, UEFA amended its Financial Sustainability Regulations in July 2023. The updated rules introduced a cap of five years on the period over which transfer fees may be amortised for regulatory purposes - regardless of contract length, meaning that clubs like Chelsea can still sign players on 7-year deals, however it cannot be amortised over 7 years, but instead must meet the threshold of the cap on 5 years. This was a direct response to the accounting practices observed during recent transfer windows, with UEFA officials acknowledging that the update was intended to preserve the spirit of financial controls.

Chelsea's market behaviour thus had wider effects. The selling clubs, such as Shakhtar Donetsk (with Mudryk) and Brighton (with Caicedo), raised asking prices, aware that Chelsea could offer higher fees while smoothing the financial impact through amortisation, benefiting both clubs to a degree.

More recently, the emergence of "regulatory gaming" (when clubs exploit gaps or flexibilities in regulations to achieve competitive or financial advantages, while remaining technically compliant but outside the spirit of the rules) further illustrates the market influence of Chelsea's model. For example, Chelsea's £19 million signing of Omari Kellyman from Aston Villa – a relatively unproven academy attacking midfielder occurred just ahead of financial year-end deadlines. This deal enabled Aston Villa to record pure capital gains, helping it meet PSR requirements, while Chelsea assisted Aston Villa in complying with PSR. Fans accused Chelsea of 'player laundering' after Ian Maatsen was sold for £37.5 million from Chelsea to Aston Villa in a separate deal a day earlier, allowing both clubs to meet their PSR deals. (Pavitt, 2024)

Asset Bubbles

An asset bubble is a surge in asset prices driven by speculation instead of intrinsic value, which carries the risk of collapse if expectations are not met. Asset bubbles form when prices inflate far beyond the intrinsic value of the asset due to speculation. Football is not immune to this dynamic. By turning young players into long-term financial assets, Chelsea's model relies on the assumption that their market value will increase.

Chelsea's model assumes that players will develop, and if not, they will be sold at a profit. If this does not occur, the club may face long-term financial inflexibility, with significant wage commitments and ongoing amortisation costs. An example is Kepa Arrizabalaga, who cost Chelsea £71.6m from Athletic Bilbao, whose performances declined after signing.

Conclusion: Genius or Gamble?

Chelsea's strategy is legally clever and financially innovative. It demonstrates a deep understanding of accounting, financial regulation, and risk management. But it also introduces potential vulnerabilities: from wage rigidity and sunk costs (costs that have already been incurred and cannot be recovered) to the risks of an asset bubble.

If players underperform or fail to generate expected returns in profit, Chelsea may face financial constraints in future seasons. ■

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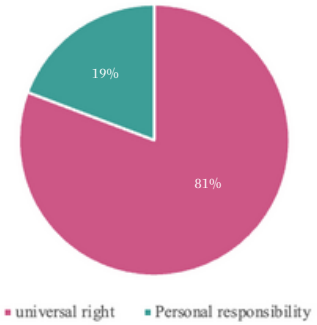
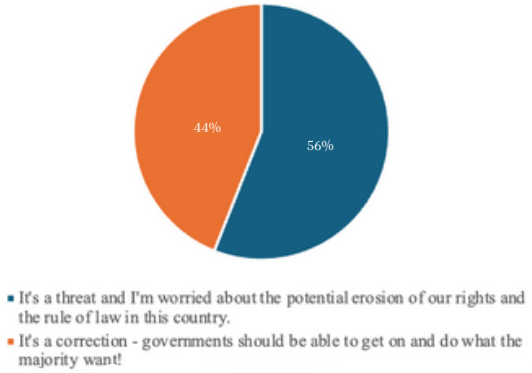
TONBRIDGE POLLS PART 2

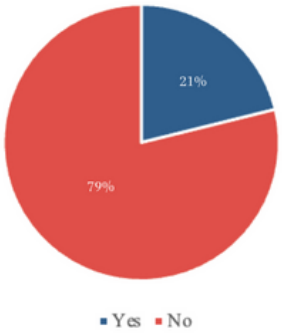
Should healthcare be an universal right or a personal responsibility in modern democracies?



Is populism a threat or a correction of democracy?

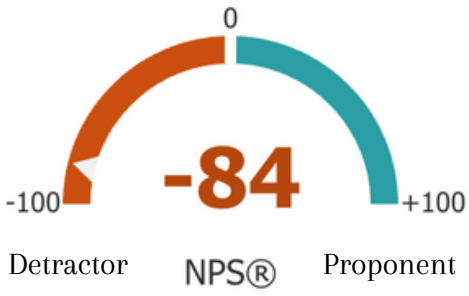


Should the UK abolish university tuition fees, even if it means paying more in taxes?

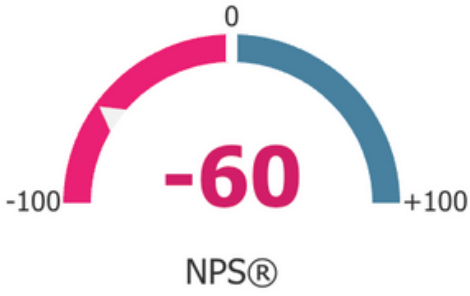


Rank these issues the UK faces from the most important to the least important

To what extent do you agree with the idea that UK politicians are trustworthy and civic minded?



To what extent do you agree that the government should tax the rich to make the distribution of income and wealth in the UK more equal?



JAPAN'S QUANTITATIVE EASING EXPERIMENT: STIMULUS OR STAGNATION?

SAM BRANT

What is Quantitative Easing?

When we talk about monetary policy today, the term "quantitative easing" appears so casually that you would think it had always been an economic staple. Central banks in the West only embraced QE after the 2008 financial crisis, but Japan had begun two decades earlier, in a desperate attempt to revive an economy that had thrived in the 1980s. But did QE offer a lifeline or even more trouble?

Quantitative easing, or QE, is one of a central bank's methods to inject money into the economy when traditional interest rate cuts no longer work. It is essentially a digital printing press. Central banks buy financial assets, mainly government bonds, from the private sector. This gives banks and investors more cash to spend, so theoretically it should lead to increased lending, investment, and ultimately economic growth. It's meant to be a last resort, like sending the keeper up for a corner.

Japan's Economic Collapse and The Rise of QE

For Japan, the economy suffered from stagnation in the early 1990s. After an enormous asset bubble burst in 1991, stock and land prices collapsed, wiping out vast amounts of wealth in a large crash that triggered a deflationary spiral. Prices fell year after year, households saved more and consumed less, and investment from firms dried up. Japan entered what became known as the "lost decade", although it lasted more than ten years. The Bank of Japan (BoJ) cut interest rates to almost zero by 1999, but even that wasn't enough to kickstart the economy. With no room left to cut rates, it had to try something new. In 2001, the BoJ pioneered quantitative easing.

It began purchasing government bonds in large quantities to increase the money supply and encourage lending. This move, although radical at the time, proved necessary. The BoJ hoped that by flooding the economy with money, banks would start lending again, businesses would borrow and invest, and the economy would kick back into gear. But Japan's banks, still recovering from the crash, were hesitant, and households weren't exactly keen to spend either. Despite this, QE became a staple of Japanese policy. The BoJ doubled down in 2013 under the leadership of Governor Haruhiko Kuroda, working closely with then-Prime Minister Shinzo Abe. This marked the start of so-called "Abenomics," an economic strategy involving aggressive QE, fiscal stimulus, and structural reforms. The BoJ started buying not only government bonds but also corporate debt and even exchange-traded funds (ETFs). By 2020, its balance sheet, which reflects the assets and liabilities of a central bank, had grown to over 130% of GDP, an unprecedented level among major economies. For comparison, at the height of QE in the US, the Federal Reserve's balance sheet was around 35% of GDP.

Success or Survival?

But the question remains: did it work? The answer depends on what you perceive success to be. Japan did avoid a full-blown depression. There were no widespread bank collapses, no social unrest, and the unemployment rate remained relatively low, particularly in comparison to other advanced economies.

In that sense, QE may have acted as a life support machine and kept the Japanese economy stable, if not exactly healthy. On the other hand, the Japanese economy was never truly the same again. GDP growth remained low. Inflation, the very thing QE was supposed to boost, barely moved. The BoJ had aimed for 2% inflation since the early 2010s, but this target was rarely achieved and never sustained for long. Interest rates remained stuck near zero, dipping below zero on occasion, and public debt increased to over 260% of GDP by 2023, the highest among all developed countries. Investors seemed unbothered, thanks to the BoJ effectively guaranteeing bond demand. There is also a psychological cost. QE encouraged risk-averse behaviour, making both banks and households more cautious. After decades of stagnation, Japanese consumers had become accustomed to expecting flat or falling prices. So, to them, saving makes more sense than spending, which undermines the very idea and aim of QE. Meanwhile, as a result, businesses remained hesitant to expand in the face of low demand.

Quantitative Easing, The New Normal?

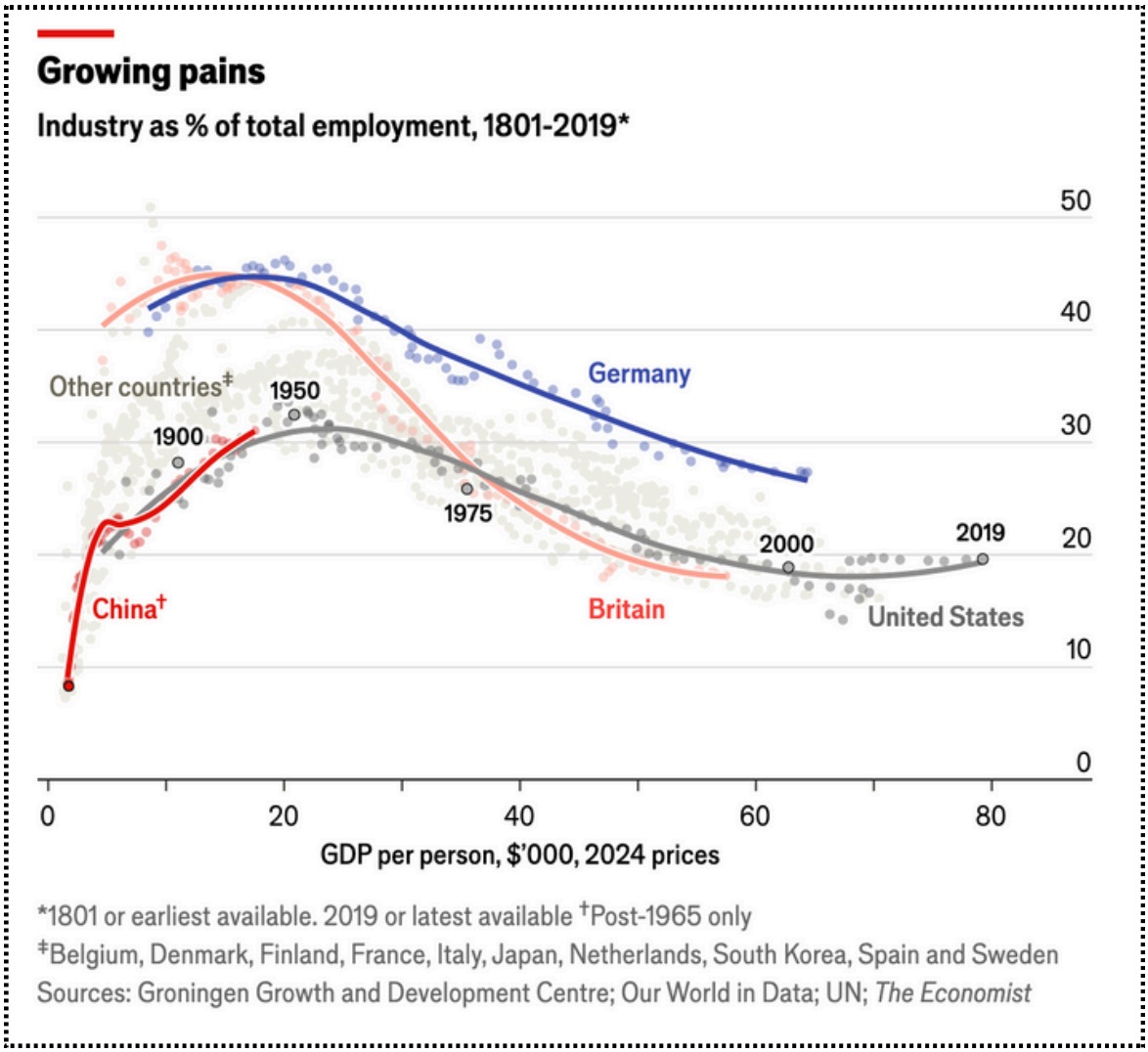
What really sets Japan's QE usage apart is the timescale and how deeply it has become embedded in the country's financial system. When the US, UK, and eurozone launched QE in response to the 2008 financial crisis, they presented it as an emergency measure. In Japan, it became the norm. The Western world used QE as a short-term solution; Japan, however, made it a permanent feature of its policy. That may explain why Japan's QE appears less effective. It became predictable, and eventually, banks, firms, and people stopped responding to it. It is important to note that Japan is undergoing a major demographic crisis. With one of the world's oldest populations and a shrinking workforce, demand in the economy is low. QE is supposed to stimulate spending and investment, but it is having to fight against the undemanding elderly. People in their 60s and 70s simply don't spend like younger generations do. No amount of 'free' money can fully counteract the economic drag of a declining population.

Japan vs USA

Japan's situation can be compared to the USA's, where QE helped stabilise markets and aided recovery after 2008. The American economy was more responsive, with its younger population and a more responsive banking system. So, inflation did return, but in Japan, the BoJ was still struggling to generate even modest price growth. In early 2023, while the Federal Reserve hiked rates above 5%, Japan maintained negative interest rates, illustrating the differences in the attitude and demographics of the populations.

Conclusion

So, did quantitative easing work? The answer is: QE seems less like a rapid action measure and more like a long-term stabiliser; it prevented economic collapse and bought time, but it didn't spark the recovery that the Bank of Japan wished for. This then raises the question of its sustainability. Can a central bank use QE forever? What happens when inflation finally does return, or when investor confidence disappears? Japan may not have faced a crisis yet, but that doesn't mean one isn't lurking in the shadows. When the BoJ finally raised interest rates in early 2024, it did so extremely cautiously, aware that even the small increase could destabilise the whole economy. QE isn't an easy way out. It's a tool with trade-offs, risks, and diminishing returns. So, we're left with a difficult question: was QE a necessary intervention? Japan's economy doesn't give a straightforward answer, but it does act as a warning signal. Once you start printing money to save the system, it's very hard to stop. ■


Growing pains
Industry as % of total employment, 1801-2019*
50
40
30
20
10
0
Other countries‡
1900
1950
1975
2000
2019
Germany
China†
Britain
United States
0
20
40
60
80
GDP per person, $'000, 2024 prices
*1801 or earliest available. 2019 or latest available †Post-1965 only
‡Belgium, Denmark, Finland, France, Italy, Japan, Netherlands, South Korea, Spain and Sweden
Sources: Groningen Growth and Development Centre; Our World in Data; UN; The Economist

MISSING THE LAST TRAIN: HOW TO REFORM PUBLIC TRANSPORT

XANDER MORRISEY

Introduction

In a world where policy decisions affect the lives of billions, unintended consequences are everything. Nevertheless, they often are left in the shadows in the governmental decision-making process. There are certain policies on which policymakers are granted a permanent, unquestioned green light. Take, for example, public transport — the 'one-size-fits-all growth stimulant'. In 2023, even as the economy was recovering from Covid, London saw over 26 million trips being made via public transport each day. When so many people's lives are at stake, we must ensure we are making the right decisions, and that these decisions lead to the outcomes intended. And while public transport is ubiquitously seen as a growth-inducing merit good by those in Westminster, whether this holds up is up for debate.

Positive Impacts on Socioeconomic Outcomes

Well connected, consistent, and affordable transport, assumed to be what policymakers invest in, has a multitude of positive impacts. Indeed, it gives rise to higher geographical mobility across the economy, opens up access to additional educational opportunities for low-income students or students with time-poor parents, and healthier citizens both through encouragement of walking or cycling to and from stations, and access to facilities, such as healthcare centres and parks, that support physical and mental well-being. Where there is equality of opportunity and access, public transport encourages lower income inequality by levelling the playing field between those who can afford the most expensive housing in central areas, and those who live further out in the suburbs or commuter towns.

On a more practical level, public transport also means safer travel and lower pollution; the latter comes in conjunction with increased shielding from any existing pollution, which is especially important for households in developing economies who may otherwise rely on motorbike transport. In these countries, the loss of household income due to breadwinners suffering fatal or non-fatal accidents can have a devastating impact on entire families, and pollution is a key health concern as access to quality healthcare is low or expensive, making these factors of particular importance.

Finally, in an era of 'time poverty', public transport enables us to get more done: we save energy by not having to drive during our commutes, which increases labour productivity. More generally as well, we save time by being able to complete other tasks or engage in leisure activities, such as reading, during commutes. With high usage of public transport also further reducing congestion and traffic, allowing for shorter journeys even for those who commute by car, it has certain characteristics that suggest it is a merit good.

Unintended Consequences

Though they generally benefit economies, we can see in the cost burden of public transport, for example, how current systems are helping certain factions grow, while leaving others behind. Low-income workers spend a far larger portion of their income on public transport fares, leaving less for them to buy other necessities. As public transport is a necessity, being required for many to access their jobs, consumer demand among low-income workers is price inelastic, and the result is a highly regressive fee system that may, in some cases, worsen inequality. Londoners with £1,000 or less in take-home income spend 13% of their income on transport, whereas those with take-home pay of over £2000 only see 5% of their wages going towards it. A lack of suitably affordable alternatives means that low-income workers have no choice but to put up with such issues, leaving them with even less disposable income relative to high earners, and thus preventing them from increasing consumption of other goods and services that would lead to a higher quality of life.

This point is particularly important when combined with the fact that across many major cities, such as New York and London, ULEZ and similar laws are being implemented. These laws affect low-income households the worst as they are the least able to buy new cars or service old cars to ensure they are compliant with new regulations. When public transport fees are high — as 44% of the population finds them to be — and cities are levying such fines, the result is a severe burden being placed on lower-income individuals. This, in conjunction with the status of transport as a necessity, would theoretically encourage fare skipping. mpirical data, however, provides contrasting results: both in New York and London, fare evasion on the Subway and the Underground, respectively, fell following the implementation of congestion charges and ULEZ laws.

On the other hand, the fare evasion rate on buses in New York remained largely unchanged, falling from 44.9% to 44% following the introduction of the congestion charge, while the number of bus-related penalty fares issued in London per annum increased by over 5,000 from 2017/18 to 2018/19.

The discrepancy between the bus fare evasion rates may be explained by the differing nature of the congestion charge and ULEZ laws. While the former does not focus directly on cars' emissions and offers significant discounts for low-income drivers — 50% off for those earning under $50,000 a year and tax credits for those with a gross income under $60,000 — the latter is designed to discourage the use of polluting vehicles and does not offer relief for low-income drivers; as bus transport is the cheapest public transport option in London, ULEZ would force more working class commuters to use the bus system than the tube, potentially causing the increased fare evasion seen. This, combined with the fact that the MTA began a crackdown on fare evasion on the Subway around the time of the congestion charge's first implementation, and there being similar efforts from the TFL, provides a possible explanation for why the data differ from what theory would suggest.

Aside from this, increased investment solely into the highest-demand transport links may also alienate rural populations. While some of these communities are in the direst need of affordable public transport, they are the worst off in terms of access as there is little incentive for the government to invest when the costs are far higher than the potential benefits (with low demand). The average travel time to the nearest hospital in rural areas is over an hour, which is double that of urban communities.

Moreover, while public transport connections are strong in some suburbs and semi-rural regions, many such areas are still completely car-centric in the sense that to get to many stations within a reasonable timeframe car transport is still needed — or else commuters suffer, in some cases, a commute twice as long. In terms of the pollutionary goals of transport, this model, therefore, still provides in-city benefits. It does not aid, however, in the reduction of inequality: those able to afford cars are still significantly better off, while others struggle just the same as before. The inequality-driving impacts of public transport have the greatest effect in the early years of adulthood. With the high price and low availability of driving lessons raising initial costs both in terms of money and time,

a lack of public transport only serves to exacerbate underlying issues in the income distribution. Early career decisions and development are integral in the growth of later earnings, so less opportunity at the start may end up having a greater overall impact in the long run.

The Path Forward

Public transport, when implemented in a certain manner, is one of the most important tools used in the pursuit of growth, higher living standards, and lower inequality. As seen, however, it is not easy.

A good starting place would be fares. As it stands, high earners benefit far more, monetarily, than the poor from the current fixed fare system. While a radical overhaul like a sliding-scale system, in which all riders directly pay fares that are proportional to their income, would certainly ameliorate the situation, it would likely be extreme and difficult to implement. A better solution would be the provision of railcards as a part of a benefits package. By making railcards, which in these cases would provide highly discounted or free transport for those under a certain level of income or those not currently in work, the default choice in a benefits package where people can opt-out to receive an amount of money less than the estimated value of all trips on the railcard in cash, we may be able to encourage more legitimate usage of public transport. This means less fare skipping (as railcard holders, who pay far lower prices, have a significantly smaller incentive to evade fares) which decreases the burden on public transport authorities in terms of paying for staff or new systems to prevent hopping.

It may also mean higher incentives to work: for people in extreme poverty, the high initial costs of finding a job — having to pay for transport to get to an in-person meeting or interview, for example — is one of the key barriers preventing many from getting back in to work,

and the reduction of monetary benefits in this manner, where the government is cutting them by providing a default alternative of equivalent value, would be sure to promote work for many people.

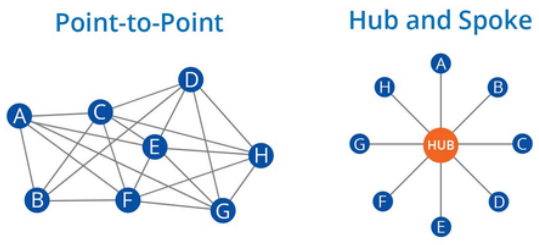
In the long run, not only those on benefits but the whole future economy gains because of the growth that is encouraged— especially considering that low-income workers have a high marginal propensity to consume.

That being said, implementing such a programme is easier said than done. These railcards would require a daily trip or mileage limit to prevent people from taking advantage of the system. Moreover, the loss of benefits eligibility due to rising income, once job seekers return to work, for example, could disincentivise the job search and entrance into work when we consider the monetary loss of benefits from railcards. To counter these perverse incentives, we can taper off these benefits by giving railcards, with different discount rates, to workers up to a certain income level.

Additionally, in an era where the quality of experience is becoming increasingly important relative to cost, we must strive to make public transport more accessible and enjoyable for women and people with disabilities. Wheelchair ramps for all stations, or perhaps all vehicles, would cost £1000 on average per unit, but the increased traffic and positive external impacts would make up for this in the long run. The introduction of women-only carriages, as has been seen in Japan, could help protect women from harassment. While it is a band-aid fix, some form of solution today is better than relying solely on nebulous plans to change overall societal views and actions in the long run.

The issue of rural access is, perhaps, the most difficult to solve. It would be uncontroversial to argue that rural areas need better public transport. Nevertheless, the reality is that rural areas suffer from a paradox in which demand is not high enough to justify investment, but still too important to ignore. The introduction of a substitute in the form of minibus-focused demand-responsive transport, where smaller vehicles are sent out without a schedule according to how many people need them, has seen varying levels of success across different economies. In many cases, such minivans remain largely unfilled, wasting resources in terms of time and space.

Those commuting between very small villages or towns will likely continue to require cars simply due to the overall cost of running empty buses both monetarily and to the environment being too high relative to the benefits. However, those moving between medium-sized towns could greatly benefit from a rural transport hub-and-spoke system.



Much like what is seen in aeroplane transport, such a system in which key central towns in each region are environmentally friendly transport hubs — providing both bus services to different towns and rail transport to major cities — could prove a great solution.

Over the 2010s and early 2020s, bus service provision, per capita, has declined by 28%. With buses being the most affordable form of transport for many people, this is a move in the wrong direction. Introducing a new rural transport model, as shown, will help develop not only the 'hub' towns, but whole regions.

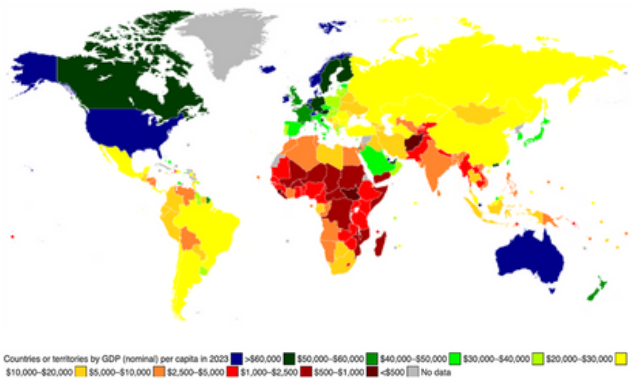
In the pursuit of growth, we should not simply aim for higher standards of living for certain groups, but for everyone. As such, occasionally, we need to stop to take stock of whether everyone is truly reaping the rewards of our collaborative innovation and work. With transport, we have an opportunity to take a theoretically sound tool that has already positively impacted many and adapt it to important real-world needs in a way that helps us all rise together. In the end, it is clear who public transport is propelling forward, and who is left behind, stuck on the metaphorical platform of life. Public transport should be public. Let us treat it that way. ■

WHY ARE COLD COUNTRIES RICHER THAN HOT COUNTRIES?

DANIEL CARMONA-SELFIN

When we think of developed economies, countries such as Germany, Switzerland and the United States come to mind. These countries all seem to be located north of the Tropic of Cancer. To the south of these countries, we see underdeveloped economies worldwide. These are found in Sub-Saharan Africa, Central America and parts of Southeast Asia. Many different factors contribute to a nation's wealth, including political stability, industry, and natural resource wealth. Yet, examining a map that shows each nation's nominal GDP per capita (Figure 1), a clear geographical pattern emerges. On average, countries in colder regions appear to be wealthier than those in hotter regions. In addition, almost all developed countries appear to be located outside the tropics. As such, this raises the question of whether there is a potential causal relationship between temperature and wealth, or if it is simply coincidental.

Figure 1 - List of Countries by GDP (nominal) per capita



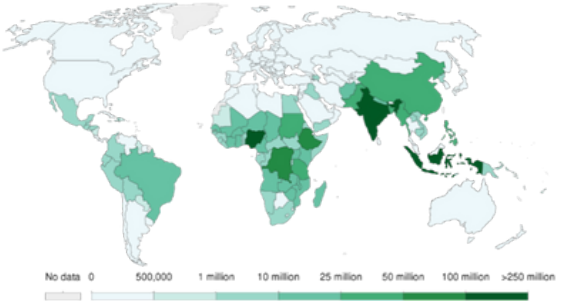
This phenomenon can even be seen within specific countries. Take Australia with its two largest cities, Melbourne and Sydney, located in the Southeast of the country. At first glance, Darwin, located in the North of the country, should be the wealthiest city. Its access to an abundance of natural resources and its proximity to important trading partners, such as China, Malaysia, and Indonesia, should give the city a significant economic advantage. However, Darwin is actually the poorest provincial capital in Australia, whilst also being the hottest.

We can also represent this pattern using data and a simple linear regression. When studying the correlation between a country's temperature and its GDP per capita, several interesting results are discovered. As expected, we see a negative relationship between temperature and GDP per capita. More specifically, for every degree Celsius in extra national temperature, the expected value of the country's GDP per capita falls by £570 per year. This means that for a country 10 degrees Celsius colder than another, we would expect it to have a GDP per capita £4954 higher.

The R_2 value is used in statistical analysis to assess the relationship between causes and effects. The value describes how much of a result is determined by variables in the model compared with other factors that haven't been considered. For example, we would expect to see a positive relationship between height and weight. This means that the taller someone is, the heavier they tend to be. In this example, the R_2 value for this correlation is 0.5, which means that their height accounts for 50% of someone's weight. The relationship between a country's temperature and its GDP per capita yields an R-squared value of 0.09. This means that its temperature determines 9% of a country's wealth. The other 91% of a country's wealth can be attributed to other factors mentioned previously, such as government stability and natural resource wealth. While this may seem insignificant at first glance, it actually has significant implications when examined more closely. Before explaining why the relationship between the temperature of a country and its wealth is connected, it's important to look at a few outliers. Several countries in the Middle East, such as Bahrain, Qatar, and the UAE, are extremely wealthy yet experience some of the hottest temperatures on Earth. In these cases, it is clear that their access to natural resources has helped these countries overcome potential problems associated with the heat. In contrast, North Korea is a very cold and poor country, with a GDP per capita of just £898 in nominal terms. This can be attributed to the negative impacts of political instability and the absence of a private sector on its economic growth.

There are several different reasons that can be used to explain the relationship between temperature and prosperity. First is the sheer difference between the winters of hotter and colder countries. During ancient times, inhabitants of colder countries, such as Norway, would have to plan ahead to survive their long, harsh winters. This occurred through methods like stockpiling food, building good shelters and reserving fuel to burn. In comparison, inhabitants of countries with more bearable winters, like Somalia, would have been less motivated to plan ahead and innovate. Due to their pleasant climate, food was available all year round, and dwellings could be constructed in a simpler and affordable fashion, without needing to accommodate for cold temperatures. Warmer countries, particularly those in the tropics, have traditionally focused primarily on agriculture as their comparative advantage. However, this form of specialisation is poor at driving strong economic growth. In contrast, bleak winters forced cold countries to innovate and industrialise, to brave the weather and improve their standard of living. These forced actions compounded themselves over many generations to produce societies that value capital goods more highly. This has translated into countries with colder climates possessing better infrastructure and more advanced industries, which has led to them becoming more productive economies that facilitate higher levels of economic growth. Many people would also argue that very high temperatures, such as those seen in countries like Saudi Arabia during the summer, also reduce productivity. This is because workers will struggle to concentrate and work in these uncomfortable conditions, especially workers carrying out manual jobs outdoors.

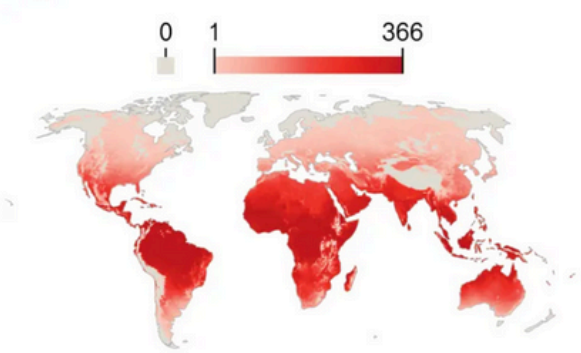
Secondly, hotter climates are also more conducive to vector-borne diseases like malaria, dengue and yellow fever and allow them to spread more easily. Diseases increase the strain on the healthcare system and reduce productivity, thus making economic development more difficult. Lastly, a third reason that explains this correlation is the colonial history of many of these warm countries. Some of these countries were colonies of countries located in temperate zones, most notably in Europe. These countries often exploited their colonies for their raw materials, boosting their own economic growth at the expense of their colonies. This focus on extraction prevented the colonies from taking advantage of their own raw materials, causing them to fall behind economically.



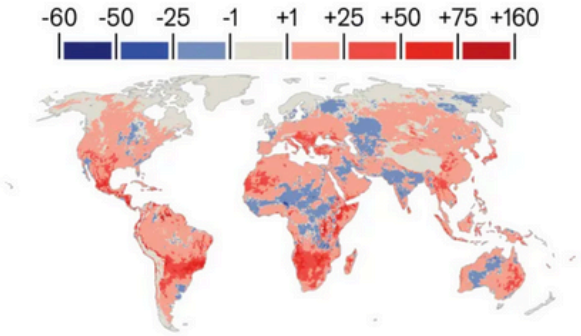
That said, there is a potential criticism of the general theory. This is because many people would argue that the majority of particularly prosperous ancient civilisations were actually centred around warmer regions. These include the empires of ancient Egypt, Mesopotamia and the Persians. However, instead of discrediting the theory, it actually provides us with an interesting insight. The correlation between wealth and temperature would give us the opposite result 2000 years ago. But why is this the case, and why is the result different in the present day? The answer is simply that 2000 years ago, the wealth of a country was effectively determined by the quantity of food it could produce. Producing a large surplus of food was vital to sustaining a growing population, which was particularly critical during times of war. This is because an empire's survival was often determined through battles based on sheer manpower. Hotter climates had, on average, better conditions for growing food and therefore could produce more. However, the modern world has undergone substantial changes since then. The wealth of a country now depends on its level of industry and innovation. Modern farming techniques and the ability to import food have also reduced farmers' dependency on the weather, allowing for immense food surpluses to sustain populations even in colder climates. Colder countries that innovated their way around their hostile climate now seem to lead the modern world of industry and find themselves with an economic head start. ■

5

Number of strong heat-stress days in 2024*



Compared with 1991-2020 average, days



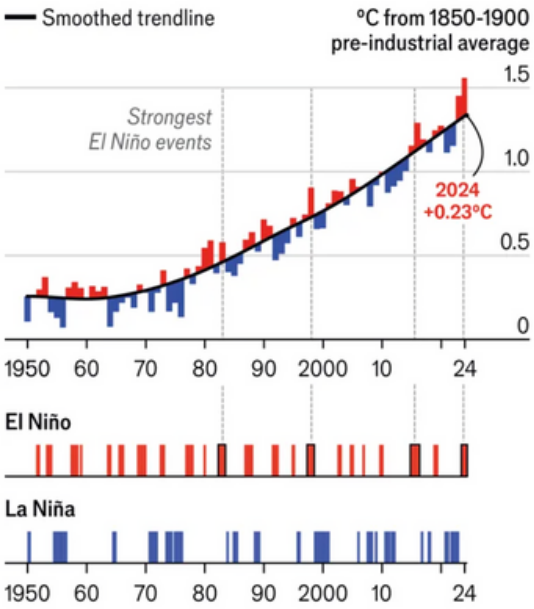
*Heat stress is a measure of how conditions feel based on air temperature, solar radiation, humidity and wind speed. Strong heat stress feels like 32°C

Source: Copernicus, ERA5

MAP: THE ECONOMIST

2

Annual deviation from global surface-temperature trend



Source: Copernicus, ERA5

CHART: THE ECONOMIST

THE LAW THAT KILLED HOUSING: THE TOWN AND COUNTRY PLANNING ACT OF 1947

BATU OSMANOGLU

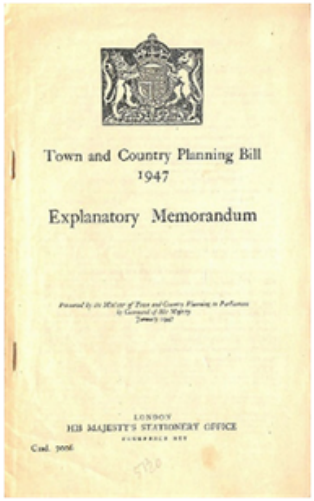
If you've ever wondered why buying a home in the UK feels almost impossible, or why rent prices keep soaring, you might blame things like Brexit, greedy landlords, or a booming population. But there's one powerful piece of legislation – often overlooked – that has shaped Britain's housing crisis for more than 75 years: the Town and Country Planning Act of 1947.

This Act changed the rules of building forever. It introduced strict controls on land development, limited where new homes could be built, and handed local authorities enormous power over planning decisions. While it was created to protect the environment and prevent chaotic urban sprawl after World War II, many argue it has now become a system that chokes housing supply, drives prices through the roof, and keeps young people trapped in expensive rental markets or living with their parents.

In this article, we'll explore how this seemingly dry, obscure law turned into a key culprit behind Britain's housing shortage – and why fixing the housing crisis means revisiting the planning system itself.

What Is the Town and Country Planning Act?

Passed in 1947 under Clement Attlee's Labour Government, the Town and Country Planning Act was part of the post-war effort to rebuild Britain in an orderly and controlled manner. Before the Act, landowners had significant freedom to develop land as they wished. The new law changed that by introducing a requirement that any new building or land development needed government permission, known as planning permission.

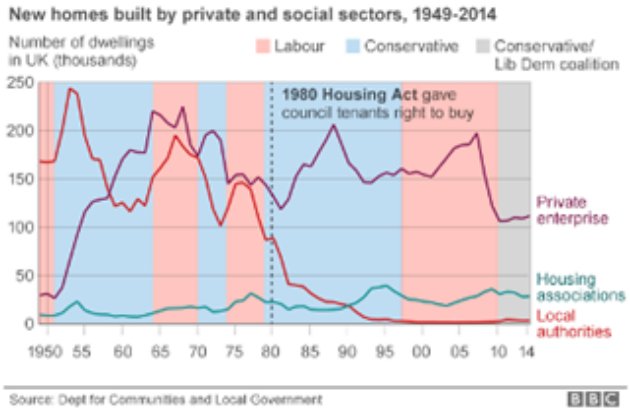

Town and Country Planning Bill
1947
Explanatory Memorandum

The goal was to halt the random, uncontrolled expansion of towns and cities (known as "urban sprawl") that could harm natural wildlife and farmland. The Act gave local councils the power to decide what could be built and where, establishing a planning permission system that remains in place today.

It also led to the establishment of Green Belts – protected zones of open land around cities – designed to preserve the countryside and limit urban growth.

The Shift Under Thatcher: From Public to Private Housing

Following decades of significant public housebuilding after World War II, the landscape underwent a dramatic change when Margaret Thatcher came to power in 1979. Her government pursued a policy of reducing direct state involvement in housebuilding and promoting private sector-led development. This was partly achieved through the Right to Buy scheme, which sold millions of council homes to private individuals.

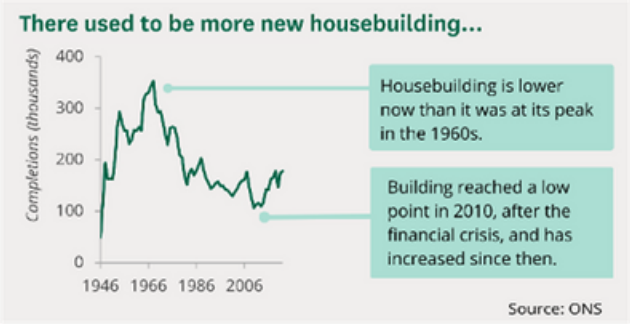


However, while the government expected the private sector to pick up the slack in housing supply, the existing planning system, rooted in the Town and Country Planning Act, significantly constrained their ability to do so. As a result, housing construction fell by nearly 40%. Housing economist Stephen Gibbons notes, "The planning system restricts land supply and acts as a bottleneck, limiting the private sector's ability to respond to increasing housing demand" (Gibbons, 2017).

Economist Paul Cheshire similarly observes, “Planning restrictions, especially Green Belt policies, have severely constrained the growth of housing supply despite rising demand, contributing to the UK’s affordability crisis” (Cheshire, 2014).

During the 1950s and 60s, public housing construction frequently exceeded 200,000 homes per year, which helped to meet the post-war demand (National Housing Federation, 2020). However, after Thatcher’s election, public housing construction began to plummet. By the 1980s, fewer than 50,000 new council homes were being built each year. Although private sector housing construction increased somewhat, it never fully offset the decline in the public sector.

Overall, total housing construction slowed dramatically, falling short of the estimated need for at least 300,000 new homes per year. Between 1979 and 1990, the UK built an average of only around 150,000 new homes per year, compared to over 200,000 in the two decades preceding. This supply shortage contributed to rising house prices and exacerbated affordability issues.



How Did Planning Restrictions Block Private Sector Growth?

Despite the government’s push for private developers to lead housebuilding, strict planning controls from the 1947 Act remained in full force. Planning permission delays and refusals often slowed or stopped development projects, while Green Belt protections blocked expansion into new areas near cities, where demand was highest. Local opposition, often referred to as NIMBYism (“Not In My Back Yard”), influenced councils to reject or significantly downsize housing proposals.

As a result, developers faced increased costs and uncertainty, which made many projects financially unviable.

According to Hilber and Vermeulen (2016), "Planning restrictions in the UK are among the most stringent in the developed world, contributing directly to constrained housing supply and higher prices."

Research by the Royal Institution of Chartered Surveyors (RICS) found that approximately 1.2 million homes in England alone were potentially blocked over the past decade due to planning constraints (RICS, 2019). These restrictions have made it challenging for the private sector to construct enough homes to meet the growing demand.

Case Study: The Oxford-Cambridge Arc

One of the most striking recent examples of how the Town and Country Planning Act continues to block essential development is the failure of the Oxford-Cambridge Arc – a proposed economic growth zone between two of Britain’s most productive cities. The Arc was envisioned as a hub for innovation, research, and housing, with plans for up to 1 million new homes to support regional growth and alleviate housing pressure.

However, the plan stalled significantly due to local planning resistance, environmental objections, and Green Belt protections – all mechanisms empowered by the 1947 Town and Country Planning Act. Local authorities across the Arc were reluctant to approve development on the scale required, despite Oxford and Cambridge facing severe housing shortages and rapidly rising costs.

A report by the Centre for Cities (2021) highlighted that “despite the region’s extraordinary economic potential, the planning system has severely constrained housing delivery,” noting that both Oxford and Cambridge rank among the least affordable housing markets in the UK.

In 2022, the average house price in Oxford was more than 17 times the median income, one of the worst affordability ratios in the country.

In 2021, the government quietly shelved the Arc's housing plans, citing strong local opposition and planning obstacles. Critics argue that the collapse of the Arc plan is yet another symptom of a broken planning system, where technological innovation, economic growth, and housing needs are subordinated to outdated land-use protections and fragmented local control.

The Consequences: A Housing Crisis

The UK's ongoing failure to build enough homes has triggered a deep and multi-layered crisis. The most immediate impact is affordability. Average house prices now exceed nine times the annual average wage in England (ONS, 2023), making homeownership unaffordable for many in the population. Among 25–34-year-olds, ownership rates have nearly halved since the early 2000s, falling to just 28% by 2023 (English Housing Survey).

With ownership becoming increasingly unaffordable, demand has shifted to renting, leading to a surge in rents. Between 2023 and early 2024, private rents in England rose by 11.5% (ONS), the steepest increase in over a decade. Many renters now spend over 40% of their income on housing, leaving them with little to spare for savings or other essentials.

Beyond personal finances, the housing crisis hampers the economy. Workers are less willing or able to move to job-rich cities due to high housing costs, which reduces labour mobility and holds back productivity.

The Centre for Cities estimates that the UK's housing shortage cuts national GDP by around 2% per year.

Socially, the crisis fuels inequality and worsens outcomes in health, education, and family stability. Over 130,000 children now live in temporary accommodation (Shelter, 2023).

Without systemic reform, the housing shortage will continue to drag on both national prosperity and social cohesion.

Who Benefits from This System?

Interestingly, while many people suffer, some groups benefit from the planning restrictions. Existing homeowners see their property values increase because of the limited supply. Economist Paul Cheshire explains, "Planning restrictions create scarcity that inflates house prices, benefiting incumbent homeowners but disadvantaging new buyers" (Cheshire, 2014). Landowners and developers who can navigate the system often make large profits by selling scarce land or luxury developments at premium prices. Local politicians may also benefit, as limiting new housing projects can help them avoid unpopular decisions that might upset voters.

Why It's Time to Reform Planning

The Town and Country Planning Act was drafted in a very different era – a time when Britain needed to rebuild after World War II and protect its green spaces. While those goals were understandable then, the same rules now act like a straitjacket, preventing the construction of the homes we urgently need. Today, planning bureaucracy and overly restrictive constraints not only limit housing supply but also lead to poor-quality developments, a lack of building, even if it is in the public interest, and a system that actively stifles long-term economic growth and productivity.

Housing economist Kate Barker emphasised in her 2004 review: "Unless we reform the planning system to allow more flexibility and speed in development, the chronic undersupply of housing will continue, worsening affordability and economic performance" (Barker, 2004).

Policy experts suggest streamlining planning permission to reduce delays, revisiting Green Belt boundaries to allow carefully planned new developments, encouraging higher-density building in cities, and addressing NIMBYism through education and incentives.

Conclusion

The Town and Country Planning Act of 1947 may be one of the most overlooked causes of Britain's housing crisis. What started as a way to protect the countryside has become a major barrier to building enough homes. The shift under Thatcher from public to private housebuilding was meant to stimulate supply, but planning restrictions prevented the private sector from filling the gap, worsening the crisis.

If the UK wants to solve its housing affordability problems, it needs to face this legacy and rethink how it plans for the future. ■

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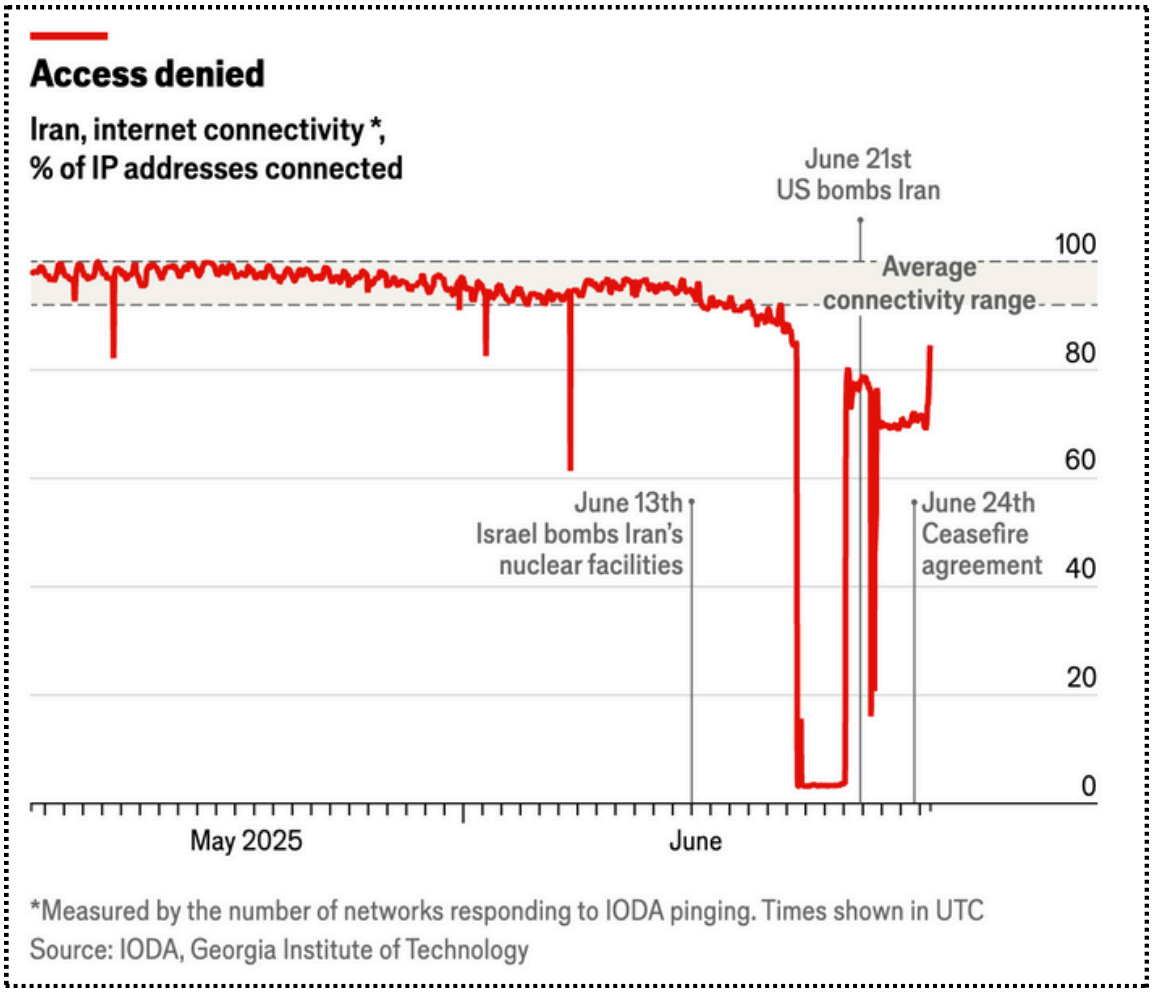
Access denied
Iran, internet connectivity *,
% of IP addresses connected
June 21st
US bombs Iran
Average
connectivity range
100
80
60
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20
0
June 13th
Israel bombs Iran's
nuclear facilities
June 24th
Ceasefire
agreement
May 2025
June
*Measured by the number of networks responding to IODA pinging. Times shown in UTC
Source: IODA, Georgia Institute of Technology

COLLECTION OF ARTICLES FROM TRIP TO THE USA

ADAM SIXSMITH

THE STREETS ARE PAVED WITH GOLD

As you walk down the streets of New York City, to go with the dazzling lights of the billboards are the flashing lights, noise and medley of aromas from the food vendors lining the streets. In Midtown Manhattan, the scent of sizzling hot dogs and the sugary sweetness of roasted nuts might attract a Tonbridgian to stop and buy a M.A.G.A. hat, or perhaps a Democrat Donkey for the upcoming election. In Battery Park, while waiting for the Liberty Island Ferry, the faint trace of fresh-cut fruit hangs in the air. “Mango, mango, mango”, they call out to passersby, their voices blending into the hum of distant traffic and the clatter of subway trains beneath the city’s surface. All of this is an unmistakable example of monopolistic competition.

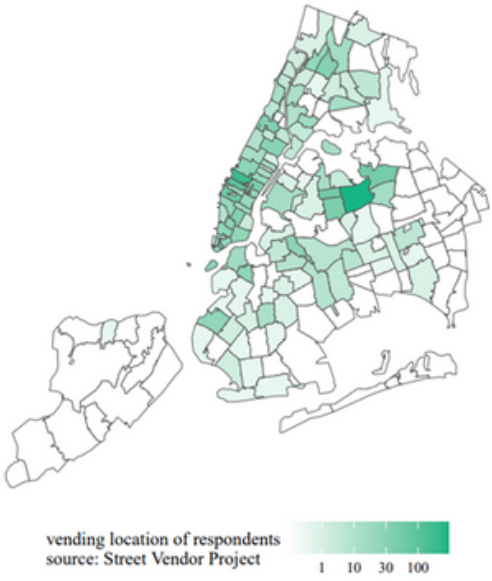


Figure 7: The distribution of mobile vendors in New York City

With 62.2 million visitors in 2023 and tourism expected to reach pre-pandemic levels in 2025 (Coleman, Wong, & Yadavalli, 2024), there are many buyers. Similarly, with over 23,000 street vendors in New York City (Settle, 2024), there are many sellers in a relatively small area. Figure 7 below shows the location of the street vendors. Manhattan has the largest proportion, with 46% of the mobile food vendors and 61% of the merchandise vendors. You will notice the highest number of vendors at prime locations such as Times Square and outside Macy’s at West 34th Street. This is an example of Hotelling’s model of spatial competition. It makes sense for vendors to locate near each other to increase their foot traffic.

The vendors sell similar yet differentiated products. Each cart, kiosk, and stand offers a slightly different twist: one might serve hot dogs with a signature relish, another homemade falafel with a secret sauce, and a third boasts hand-carved souvenirs or vibrant scarves. Not only this, but some kiosks also have speakers, projecting the latest tunes into the Manhattan air, often in competition with the pedicab businesses. According to Settle et al. (2024), only 25% of mobile food vendors hold a license, despite numerous laws and regulations governing the industry. It is very difficult to become a fully-fledged vendor, and many of them are even missing from administrative datasets. This suggests that, although there is some government intervention, it is not very stringent. This means that the barriers to entry for new entrants are low. Other barriers to entry that may exist include language. Spanish is the preferred language of 52% of vendors, and 77% say that English is their preferred second language. Whilst many vendors are not confident of speaking English, a large proportion speak at least two languages, and some can speak more. With New York being a melting pot of cultures and languages, street vendors have found a way to navigate this potential challenge.

So, how do the mobile vendors do on performance? Typically, we would expect them to make supernormal profit in the short-run and normal profit in the long-run. This is because supernormal profit acts as an incentive for other vendors to enter the market to take some of the profits. This would decrease the demand for each individual seller and lead to normal profit being made. This is illustrated in Figures 8a and 8b below.

Figure 8a: Short-run Monopolistic Competition

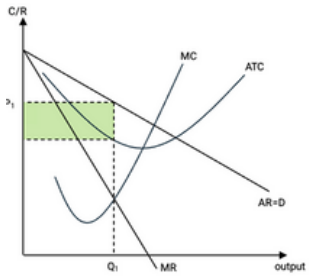
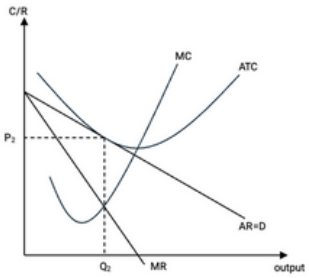


Figure 8b: Long-run Monopolistic Competition



For food vendors, their profits range between $250 and $1000 per week in the summer, but there is a significant drop in the winter. General merchandise vendors can expect more in the summer, between $500 and $1000 per week and in the winter, the average earnings peak at $500 per week (Settle, 2024). Those at the top end of this scale have clearly chosen an ideal location and managed to differentiate their products successfully, such that they are enjoying supernormal profits. A lucky few may be able to earn over $2500 per week! But at the bottom of this scale, there are vendors who are seriously considering whether they are profitable enough to carry on trading – they may be able to in the short run, provided they can pay for their ingredients, fuel, electricity; but in the long run, they may not survive and must shut down. ■

THE PRICE OF LIBERTY

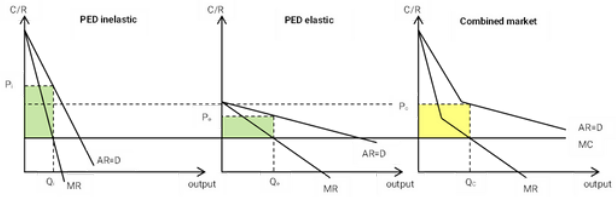
With food and drink being provided in Manhattan by firms operating in monopolistic competition, a different experience awaits on the Liberty and Ellis Islands tours. The way to reach both islands is through Statue City Cruises – the only ferry service that is authorised by the National Park Service. Here we have a single seller with 100% market share, supported by the government that prevents private vessels from docking at the islands, therefore granting a legal monopoly.

Monopolies are a highly concentrated market, which means that they have a high degree of price-setting power. One of their strategies is to use price discrimination to appropriate consumer surplus. This is when a monopolist charges different prices to different groups of consumers for the same good or service, for reasons other than costs. On retrieving the tickets, we noticed both second and third-degree price discrimination in action.

One adult ticket was priced at $25 – the profit-maximising price. If we compare this to the child general admission ($16) and the senior citizen admission ($22), we can see third-degree price discrimination at work.

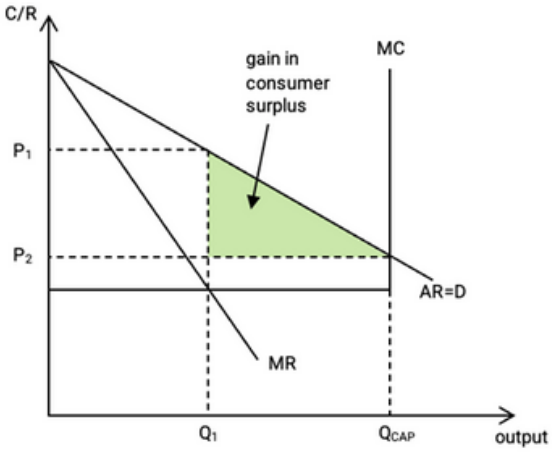
Adults have a lower price elasticity of demand for the cruise, since the price as a proportion of an adult's income is relatively low. Children and senior citizens have a higher price elasticity of demand as the price of the ticket would take up a higher proportion of their income (pocket money, pensions, etc.). The effect of this can be seen below in Figure 9.

Figure 9: Third-degree price discrimination



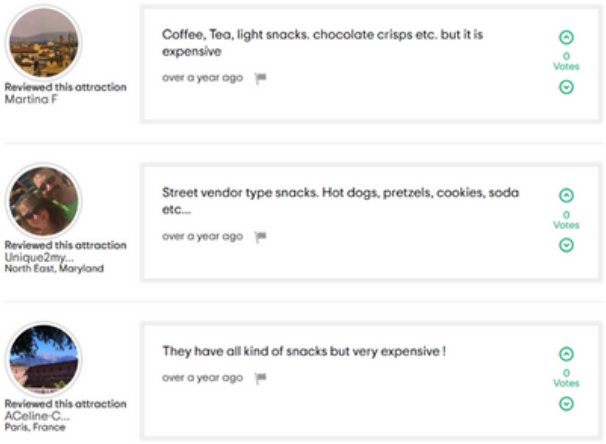
Additionally, Statue City Cruises exercised second-degree price discrimination. With one ticket being charged at $25, the rest were charged at $16. The firm discriminates according to the quantity consumed. This allows the firm to gain supernormal profit, but consumers also benefit through an additional consumer surplus for the other 24 tickets. This can be seen in Figure 10.

Figure 10: Second-degree price discrimination



After having spent over an hour and a half in the queue to get through security checks, suggesting some organisational slack and the presence of X-inefficiency, the captive audience eager to get that key snap of the Statue of Liberty will clearly need refreshment, as we know, monopolies aim to drive up prices compared to a competitive equilibrium and Figure 11 shows the comments left by travellers who have had their consumer surplus appropriated.

Figure 11: Tripadvisor reviews on the Statue of Liberty ferry refreshment prices



The same can be said of the islands at the different cafés. The All-American Cheeseburger at the Crown Café on Liberty Island is a quarter-pounder with cheese, lettuce, tomatoes, onions and pickle priced at $10.10. If we compare this to Five Guys' own cheeseburger that we experienced on the first evening, they were charging $13.91 for double the meat, double the cheese and unlimited toppings. The combination of a single ferry service and modest refreshment options seemed ironic on a trip to islands which are meant to celebrate liberty!

THE HIGH LINE

In 1924, the West Side Improvement project removed street-level rail crossings and instigated the creation of an elevated rail line. This was later called the West Side Elevated Line, and trains operated from 1934 to 1980 when services were discontinued due to the rise in trucking for the distribution of goods. In the decades that followed, the High Line became overgrown and considered an "ugly eyesore" (Friends of the High Line, 2024) by local residents. Joshua David and Robert Hammond, however, saw a thriving garden of wild plants and co-founded Friends of the High Line.

This non-profit organisation, in partnership with the New York City Department of Parks and Recreation, maintains and operates this public space. The park offers a space for people to go for a Sunday morning run, quiet spaces to read, contemplate, and watch the busy city go by; a space for contemporary artists to display their new works. All of this may give rise to greater well-being of the population in this part of town,

Miss Moxon admiring the modern art on the High Line

suggesting the High Line meets the criteria for a merit good. A merit good is one with positive externalities of consumption, where the social benefits of consumption are greater than the private benefits. This is illustrated in Figure 2 below.

Additionally, Statue City Cruises exercised second-degree price discrimination. With one ticket being charged at $25, the rest were charged at $16. The firm discriminates according to the quantity consumed. This allows the firm to gain supernormal profit, but consumers also benefit through an additional consumer surplus for the other 24 tickets. This can be seen in Figure 10.

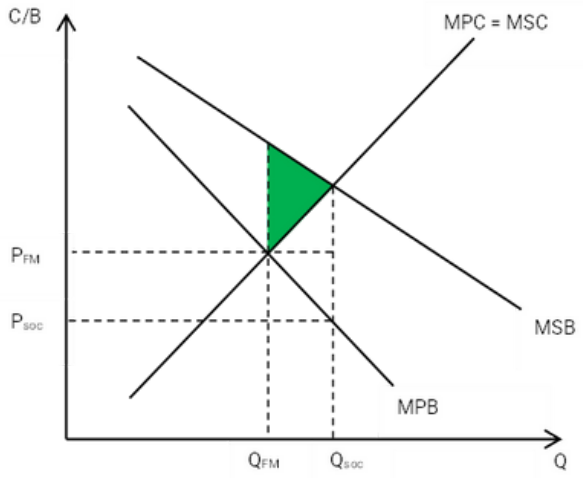


Figure 2: Positive externalities of consumption

The use of the High Line can create positive third-party spillover effects, such as a healthier lifestyle leading to increased productivity among workers. Local businesses can also benefit; according to a New York Times article (Collins, 2021), beekeeping was legalised in New York City in 2010, and by 2023, there were 421 registered hives (Feldman, 2023).

The development of the wildflower population can bring more diverse pollen, which provides greater depth of flavour and quality to the honey produced by rooftop hives.

The High Line

Whilst the benefits may be clear, if we look a little deeper, we can also find some drawbacks. The High Line has become a symbol for "green gentrification". This is when environmental improvement projects exclusively benefit affluent populations, accelerating the displacement of working-class communities. In the neighbourhoods close to the High Line, property prices have soared. According to Jo Black and Richards (2020), "homes within 80 metres of the High Line experience a 35.3% higher sales price compared to those between 80 and 800 metres". "Homes in those areas saw a 68% increase in median rent between 2009-2013, 2014-2018 time periods". This is great for real estate developers and building contractors looking for higher supernormal profits, not to mention the wealthy who own property in the nearby neighbourhoods. Whilst the value of their financial assets increases, the original residents from the meatpacking district have suffered, forced to move due to higher rents and increased costs of living, exacerbating the wealth inequality within the city. ■

THE VALUE OF MODERN ART

The Museum of Modern Art (MoMA) is home to an extraordinary collection of works. An interesting economic concept to consider here is the theory of value. Is the value of a painting determined by the effort embodied in the production? Is it determined by its usefulness? Or is its value derived from the satisfaction it provides to an individual?

If Vincent van Gogh had taken the same time as Jackson Pollock, he might not have cut his left ear off! Pollock took considerable time over his works, whereas van Gogh painted The Starry Night over a weekend in June 1889. Adam Smith wrote in his Inquiry into the Nature and Causes of the Wealth of Nations (1776) that "Labour, therefore, is the real measure of the exchangeable value of all commodities. The real price of everything, what everything really costs to the man who wants to acquire it, is the toil and trouble of acquiring it".

The Starry Night, Van Gogh (1889)

Number 1A, Jackson Pollock (1948)

If value were determined by the effort embodied, then Pollock's work would be valued roughly 90 times higher than that of van Gogh. Pollock's Number 17A was bought by billionaire Kenneth Griffin in 2015 for $200 million (over $270 million in 2025), and at the time, it was the most expensive painting sold in the world. This has since been surpassed by da Vinci's Salvator Mundi in 2017 for an eye-watering $450.3 million (almost $590 million in 2025).

Some of these works are priceless and are rarely sold, merely exchanged between galleries for other paintings. It is difficult to obtain a direct comparison for Van Gogh's The Starry Night, as it is priceless. Taking another van Gogh classic; the Portrait of Joseph Roulin sold to MoMA in 1989 for $58 million plus exchange of works ($150 million in 2025) and given that The Starry Night is arguably van Gogh's most famous masterpiece; it would likely command a much higher price if it were ever to be sold. It seems that Jackson Pollock has been sold short somewhat, or perhaps labour embodied is not the way to value items?

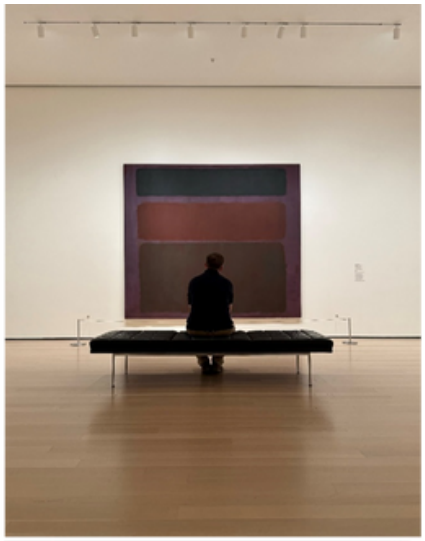
Portrait of Joseph Roulin, van Gogh (1889)

If we valued art by its usefulness, then perhaps the art and artists of the Civil Rights Movement era would be most valued. Displayed in MoMA, Faith Ringgold's American People #20 Die (1968) takes inspiration from Picasso's Guernica to bring attention to the level of police brutality across the US in the summer of 1967. Famous artworks from the second part of our trip in the National Museum of African American History and Culture may also be seen as "useful" works of art. David C. Driskell's Behold thy Son (1956) shows the 'crucifixion of Emmet Till', a 14-year-old boy who was lynched in Mississippi. Many consider this moment to be the one that prepared Black Americans to fight for equal rights.

Charles Henry Alston's Walking (1958) shows Black Americans walking to work or school in protest of the segregated public transportation systems, which had been reaffirmed with the landmark case Plessy v Ferguson (1896).

Behold Thy Son, David Driskell (1956)

Or perhaps beauty is in the eye of the beholder. What gives utility to one individual may not create the same feeling in others. The image of Mr Byfield pondering Rothko's work, besides giving him an excellent WhatsApp profile picture, gave him much enjoyment. This cannot be said for Miss Moxon, who was unimpressed by what looked like colour samples from an interior designer! ■



Contemplation, AJS (2024)

THE BURNING OF THE CAPITOL

The special relationship that exists between the UK and America hasn't always been that special. On 24th August 1814, British troops entered Washington D.C. and under the command of Vice Admiral Sir Alexander Cockburn and Major General Robert Ross set fire to many of the public buildings in the city – The Capitol, The White House, The Supreme Court, to name a few. Contrary to the urban myth, the White House is not painted to cover up the fire damage from this attack. Even as early as 1798, a lime-based whitewash was used to protect the sandstone from which the building is constructed.

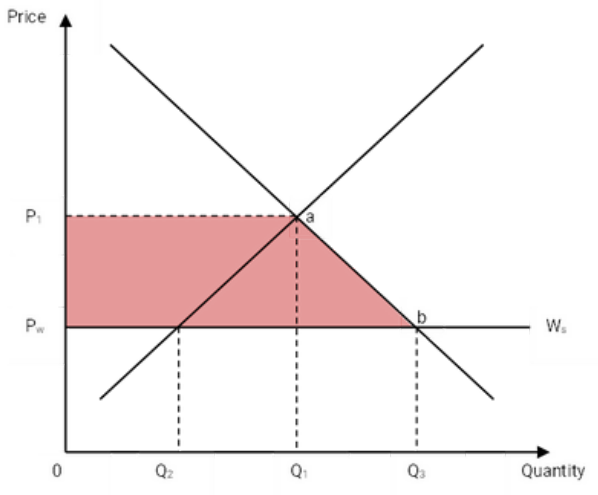
"Capture of the City of Washington" (1815)

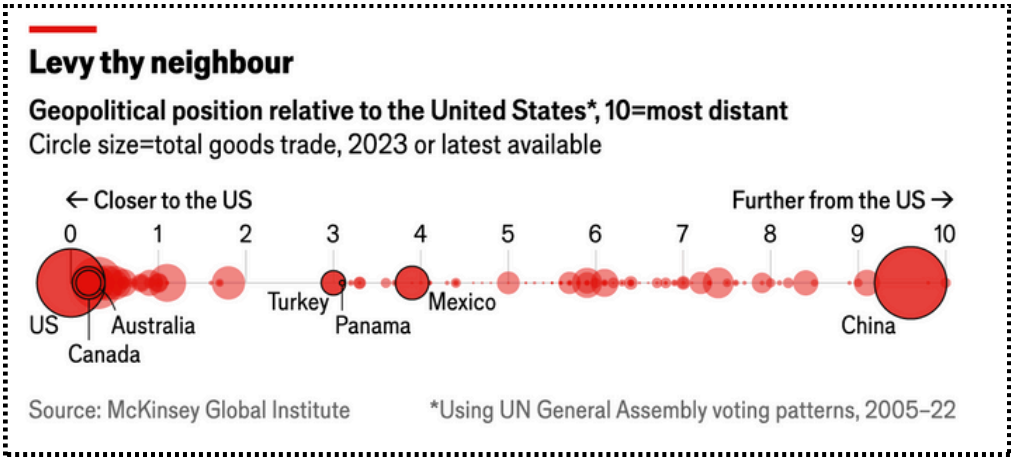
If we look back at the reasons that led up to this attack on Washington, D.C., we can see that protectionism plays a key role. During the Napoleonic wars, Britain and France were engaged in a military struggle. Napoleon decided that to weaken Britain, France needed to control trade in continental Europe. He did this by the Continental System, as outlined in Sloane (1898), which restricted British trade with European markets. The Berlin Decree (1806) prohibited any allies of France or territories under French control from trading with Britain. In response, Britain retaliated by limiting trade between France and neutral countries through control of the shipping lanes. The United States, whilst neutral in the conflict, suffered greatly. The Orders in Council required neutral ships, particularly those from the US, to first stop at British ports, pay taxes in exchange for a shipping license to trade with the rest of Europe. This is an example of administrative barriers to trade. The British did more than this, often seizing US ships and forcibly recruiting their crews into the service of the Royal Navy.

To stop Britain from using these practices, President Thomas Jefferson declared an embargo on all overseas trade in 1807. It backfired, and in 1812, the US declared war on Britain. We can see the impact of an embargo in Figure 12. The complete ban on trade until 1809 meant that instead of buying goods at the world price, the US became a closed economy and reverted to the domestic market equilibrium. This meant higher prices for consumers (P_w to P_1), lower consumer surplus (P_wP_1ab) and restricted choice. It may have been beneficial for some US domestic firms, as higher prices provided an incentive to expand supply. However, if those firms relied on their shipments of exports or imports of raw materials to produce their goods, then the ban on trade was not good news. Douglas Irwin (2001) presents evidence in his paper suggesting that real income in the US fell by 8%. This would result from the loss in exports, as well as the negative multiplier effects from the net leakage.

If only they had known about David Ricardo's Theory of Comparative Advantage (1817)! Everyone can gain if countries specialise in the goods that they are most efficient at producing and then trade freely. What we see here, from history, is protectionism pursued for political gains rather than economic benefits – first by Napoleon, then by Britain, and lastly by the US. Today's protectionist policies from the Trump administration may lead to greater prosperity and strength, but most economists, Wall Street traders, and blue-chip companies will tell you that the opposite is true. Irwin (2017) comments that "History reveals that trade barriers are easy to impose and hard to remove. And it can take decades to repair the damage". ■

Figure 12: The impact of a trade embargo





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2008

THE GLOBAL ECONOMY IN FREE FALL

“FROM FREE-FOR-ALL TO FREE FALL”

KEITH FROGGATT

In the TV drama Freefall, the senior banker Gus is seen experiencing the highs and lows of a major part of his empire – the CDO business. Like most areas of banking, the CDO world comes with its mysteries and jargon, whether it be tranche, rating, AAA ratings, warehouse, pricing, or even the CDO itself. To help make sense of all this, the award-winning team of Freefall sought someone who could explain it. Ten years of arranging CDOs in Europe and the US armed me with the necessary technical and practical knowledge.

A considerable amount has already been written about the causes of the “credit crunch”, with many commentators pointing to CDOs as a leading suspect. They provided the mechanism that helped fuel the US sub-prime mortgage mania, leading to many banks losing billions, which ultimately led to the drying up of credit. Yet despite this serious charge – true, as it happens - CDOs appear to have maintained their air of mystery.

Much of the mystery, however, can be quickly removed with some simple explanations. This article should lend greater meaning to some of the comments made by senior banker Gus and his key colleague, Gary, in Freefall.

So, what is a CDO?

CDO stands for Collateralised Debt Obligation, a term high in syllable count but low in explanation, so not a great start. We shall therefore not dwell on the term. For now, it is essential to know that a CDO is a type of fund. Moreover, it is a fund established as a simple company, whose sole purpose is to own a collection of similar assets. A separate company is created for each new CDO – usually with a punchy name, for ease of reference, e.g., Tyndall in Freefall.

The company borrows money to purchase all these assets by issuing debt and equity. The plan is simple, rather than cunning; the company expects to receive enough cash from the assets to: (a) pay fees to all those groups needed to set up and run the company, (b) pay interest and return the money on the debt, and (c) pay an acceptable dividend and return the money on the equity.

Below is an illustration of how such a CDO would look.

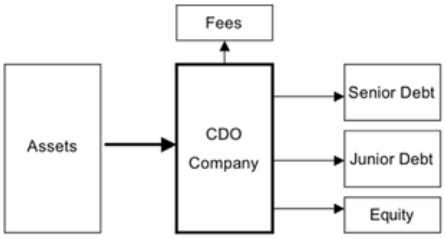


Diagram 1: Building blocks of a CDO company

The skeleton of a CDO is therefore straightforward - now to put some meat on the bones.

Assets: By 2007, the assets of choice in a CDO were either corporate loans or mortgage bonds. This article, however, focuses on the higher-profile mortgage bond-based CDOs — the ones that blew the whistle on the CDO game. In any respect, the principles are the same for both types of CDO.

Fees: Several groups are paid to set up and run the CDO, most notably: (1) a fund manager who selects and manages the assets, (2) a bank that initially puts all the parts together, including finding all the debt and equity-holders, and (3) rating agencies.

Debt: Two important points to note here are: (1) the debt of the company gets sliced up a few times – these slices are grouped into “senior” and “junior” debt in Diagram 1 - and ordered from top to bottom, all to minimise the overall cost of the debt to the company, and (2) rating agencies are paid to provide a “rating” to each of these slices, or tranches, of the debt. Much could be written about the rating agencies, but suffice to say, their ratings were crucial – and they knew it. These ratings are similar to the “star” system used by hotels, with AAA (pronounced triple A) being the highest debt rating available. Debt holders relied heavily on these ratings, as they provided a quick and easy assessment of the CDO company’s debt, which was particularly helpful when the debt was complex and the debt holders were very busy. These ratings determined the rate of interest set for each tranche; therefore, the bank's goal was to secure as much of the debt as possible with the AAA rating and then obtain the best ratings it could for each subsequent tranche. And when these ratings and interest rates were finalised at a point in time, called pricing, the CDO deal was done – the bank could celebrate another hefty fee. This is exactly the case when Gary declares the CDO is “priced”, much to the delight of Gus.

Equity: Equity-holders in a simple CDO company are first to lose their money in bad times but first to benefit from any out-performance in good times, much the same as any other equity-holder.

A CDO is, therefore, quite simple. Another easy way to view a CDO is as a transformer, taking the risk of the assets and splitting up and ordering that risk into senior and junior debt and equity. However, before discussing where and why it all went wrong, one essential feature, not immediately apparent, needs explanation.

The Devil's in the Detail

The CDO does not own the actual mortgages; instead, it owns mortgage-backed securities, also known as mortgage bonds. Mortgage bonds are debt underpinned by mortgages and are relatively simple to understand, as these bonds resemble the debt in a CDO. So, if you refer back to Diagram 1 and assume the assets are a collection of, say, 3,000 actual sub-prime mortgages, then the debt of this type of company would be referred to as mortgage bonds. Just like the debt in a CDO, mortgage bonds are ordered from top to bottom, with junior mortgage bonds towards the back of the queue. Like a CDO, the mortgage company can be viewed as taking on the risk of mortgages and splitting it between mortgage bonds and equity. And again, just like a CDO, crucially, each mortgage bond is given a rating by the rating agencies.

So, the CDOs were not simply buying sub-prime mortgages directly, but rather buying mortgage bonds, and junior mortgage bonds in the majority of cases, which only made matters worse. This had the devastating effect of not only passing through but also magnifying the problems of sub-prime mortgages to the CDO.

This is illustrated in Diagram 2: working across from the left, less than half of each bundle of sub-prime mortgages has stopped making payments, leading to each mortgage company having no cash available for its junior mortgage bonds (and equity). As these bonds are the only assets of the CDO company, the CDO now has no cash available to pay any of its debt or equity. Of course, each mortgage comes with a house as security, but when house prices are plummeting, as they did, and too much is initially lent, as was the case, only a portion of the losses will be recovered.

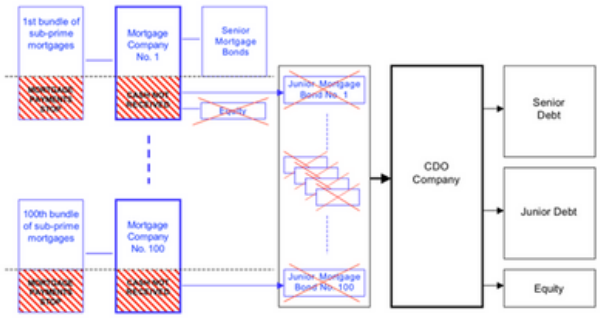


Diagram 2: The magnifying effect of CDOs

Why do CDOs Get So Much of the Blame for Subprime Mortgages?

It was the sheer number of CDOs being arranged that continued to fuel the demand for, and inevitably the supply of, these mortgage bonds. With more mortgage bonds came more cheap and easy money available for sub-prime mortgages.

And the banks were in the thick of it, albeit aided and abetted by rating agencies, fund managers and regulators. Many banks specialising in CDOs sought to maintain the supply of mortgage bonds by buying up, starting, or expanding their own subprime mortgage businesses, thereby generating revenue at each stage: from their subprime mortgage, bond, and CDO businesses.

In this game, speed was of the essence. In the melee, some basic principles were either forgotten or overlooked by all parties involved, including the regulators. Similarly, common sense did not seem to be prevailing. How could a bank take a bundle of mortgages, slice up its risk into mortgage bonds and yet have spare cash to pay fees? And just to show it was not a fluke, consider a bundle of mortgage bonds, slice up the risk into CDO debt and equity, and again have spare cash to pay even higher fees? Was this any different to reassembling an engine only to find a handful of parts left over, shrugging, taking the engine part again, reassembling only to generate more left-over parts? Surely this engine was going to be in trouble.

The Addictive Nature of CDOs

Banks: Banks began amassing CDO debt themselves, especially the least risky AAA-rated debt (Gus highlights that his bank owns $ 50 billion of such debt).

For these banks, it all appeared too good: they owned AAA-rated debt with a significantly better interest rate than other competing AAA debt, such as UK government bonds, and yet buying this debt also helped the bank earn hefty fees from assembling more and more new CDOs.

Fund Managers: There was never a shortage of fund managers willing to help out on a CDO. Why would there be, given a CDO, a very quick and easy way for fund managers to set up a new fund, sometimes over US$1 1billion in size? Many fund managers would regularly return to their "supplier" banks for another "hit", sometimes three to four times per year.

Debt and Equity Holders: The primary attraction of CDO debt and equity was the promise of significantly better interest rates and dividends compared to almost any other competing investment. And for several years, as CDOs delivered on these promises, people were quick to jump on board first, posing the more searching questions at a later date, if at all.

Rating Agencies: It is with little exaggeration to suggest that the CDO world would have been a fraction of its current size without the "help" of the rating agencies. Thank goodness they found the lucrative CDO business so attractive. And what luck they were able to convince themselves to award the top rating of AAA to a decent majority of the debt in a CDO that only had a bundle of junior mortgage bonds as assets. The fact that much of this AAA-rated debt is now rated as "junk" suggests something.

How Did Banks Get So Hurt by CDOs?

For several years, banks had made a conscious decision to own billions and billions of dollars of CDO debt. And as values of these CDOs started to tumble seemingly overnight, particularly the more combustible CDOs with mortgage bond assets, it became almost impossible for banks to contemplate selling them at the then eye-wateringly low prices, as surely things would improve? Certainly, Gus expresses this same view. Few, if any, saw just how low prices would go.

However, significantly, banks were also found to be holding billions of dollars of mortgage bonds and CDO debt and equity that they had not planned to own for any length of time, if at all. Banks would temporarily amass mortgage bonds before selling them to their new CDOs at their original value, a process known as warehousing. Similarly, banks would often purchase any unsold amounts of the debt and equity of a new CDO, expecting to sell it at a later date. When the CDO market came to a shuddering halt, all these deteriorating assets, earmarked for new CDOs or sale, remained with the banks. Gus and Gary are certainly aware of the implications of having no takers for their final CDO and five warehouses on the go when things fell apart. Again, the banks initially found it nonsensical to sell these assets at rock-bottom prices.

It was not long before the first wave of multi-billion-dollar losses struck, as banks were forced to revalue their deteriorating assets. For instance, if a bond's value decreases from $100 to $90, the bank suffers a loss of $10, or 10%. These losses were accompanied by some high-profile and highly remunerated banking executive departures. Gus included.

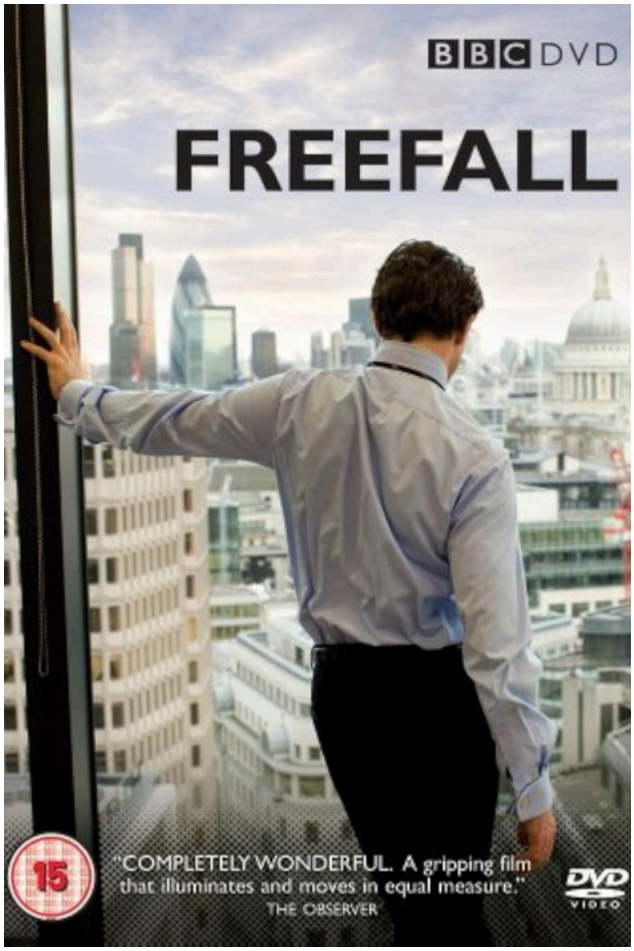
In Conclusion

> "Neither a borrower nor a lender be;
> For loan oft loses both itself and friend,
> And borrowing dulls the edge of husbandry"
> -- Polonius to his son Laertes, Hamlet (Act I, Scene III)

Polonius's famous financial advice had few supporters in the last decade.

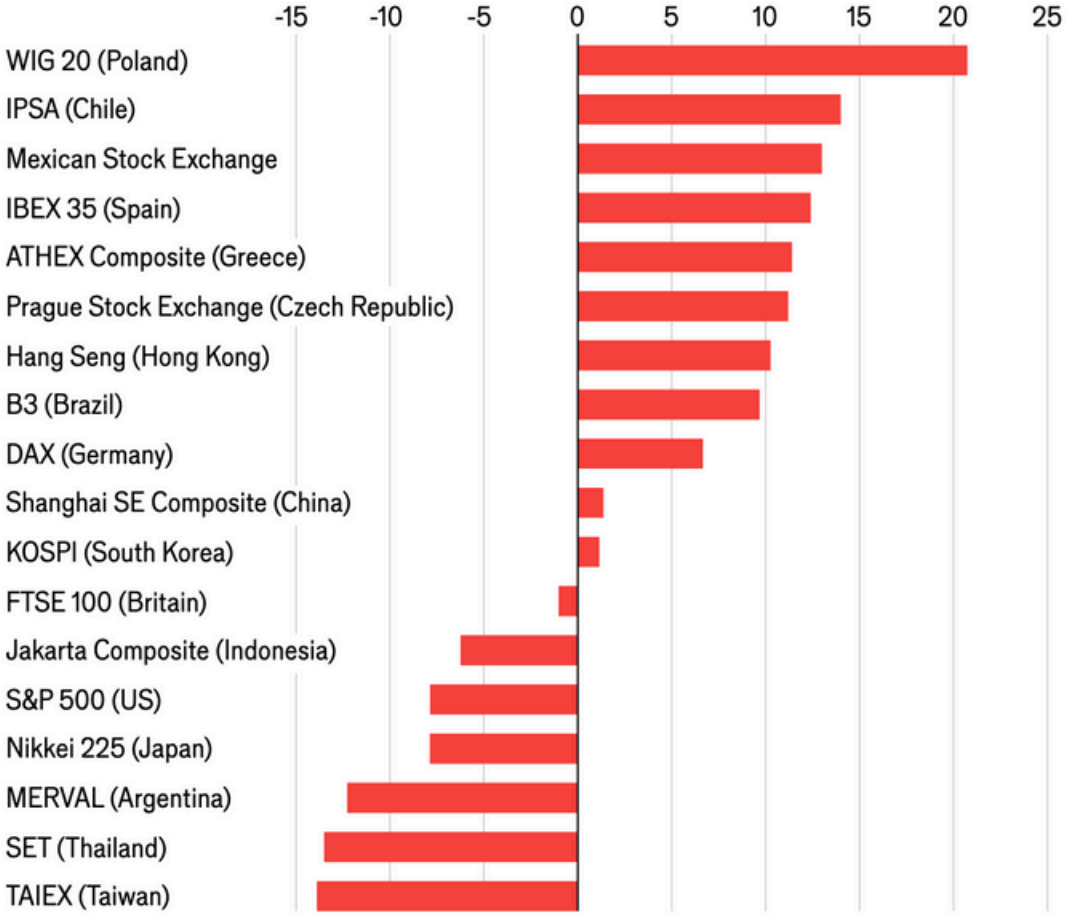
There is little doubt that CDOs allowed risks to be sliced and diced and sent off to a multitude of lenders addicted to their particular fix, making the CDO the mechanism by which all this crazed money was collected and passed on down the chain. Clearly, most people involved in CDOs quickly abandoned what common sense they had as they lined their pockets with easy money. The race was on, driven by greed and competitiveness, and the apparent lack of rules. Of course, greed and competitiveness were also evident among homeowners, although their inherent trust in financial institutions and their lending practices ultimately proved to be their undoing.

But whatever the reasons, Polonius would not have been impressed. ■



Winners and losers

Selected stockmarket indices, % change January 20th-April 25th 2025



Source: Bloomberg

WHAT WAS THE FINANCIAL CRISIS AND WHY DID IT OCCUR?

OLIVER MALTARP

The Global Financial Crisis originated due to lenders issuing mortgages to uncreditworthy borrowers, to generate more revenue, thereby creating a large market in subprime mortgages. Initially, it was the more aggressive and larger banks that bought these subprime mortgages. However, as time went on, more people realised the potential for high returns in the market, and others got involved.

Banks and other firms on Wall Street wanted to securitise the mortgages. To do this, banks bundled them into packages before slicing them up into tranches – the different levels of risk associated with the mortgages defaulting. The banks then sold the rights to the income generated by the loans, which they referred to as Mortgage-Backed Securities (MBSs).

Often, these MBSs were also mixed with debts from consumers, corporations and even the government. This created Collateralised Debt Obligations (CDOs). People also attempted to create synthetic CDOs, which mimic the performance of CDOs but transfer the risk away from the assets and onto investors. Alongside potential income from CDOs and MBSs, investors also inherited the risk of the subprime mortgages. However, this potential income was high as subprime, high-risk borrowers had to pay higher mortgage interest rates than prime borrowers.

Consumers bought these CDOs and MBSs as, despite containing subprime mortgages, they seemed to have enough prime mortgages and other forms of safer debt that, if some of the subprime mortgages defaulted, the other payments would still cover the debts, keeping the investment profitable. Additionally, investors could purchase Credit Default Swaps, which served as a form of insurance if their MBS did not pay off.

MBSs were also given low-risk ratings due to their diversification, which was intended to increase their safety —the large risks of the subprime mortgages were thought to have been mitigated by the presence of relatively safe prime mortgages. Another factor of the high ratings, however, was that it did not seem like the rating agencies, such as Moody's or Standard and Poor's, understood the CDOs and MBSs any more than everyone else, meaning they could not give accurate ratings. These firms were also concerned that if they did not announce these products as having a very low risk of default, banks would go elsewhere to companies that did, and therefore, these agencies would lose clients and profits. Consequently, they had an incentive to overstate the low risk associated with the MBSs and CDOs.

However, due to their lack of understanding of what they were rating, these agencies couldn't foresee the disaster that was about to occur. Even if they were aware of what was happening in the CDOs and MBSs, their strong incentives to rate them as low-risk would have negated any possibility of a higher risk rating.

Finally, like most people, rating agencies assumed that house prices would continue to rise indefinitely. If house prices continued to rise without ever dropping, any defaults in mortgages would be rather insignificant, as mortgage holders could easily resell the houses for a higher price and a profit.

However, if house prices fell, mortgage holders would have to repossess the house and then sell it for less than what it was bought for, meaning MBS and CDO holders would incur a loss. This occurred in a significant amount in 2006, as builders overbuilt houses, and MBS and CDO holders began to realise both the risks of the MBS and CDOs and that even if they generated some income, it would be less than they initially thought. Once house prices fell, mortgages started defaulting in large numbers, meaning MBS and CDO holders began to lose a significant amount of money. In fact, this was so severe that CDS sellers did not have the money to repay their clients. At this point, banks began to realise their mistakes and sold any remaining MBSs and CDOs at incredibly low prices to eliminate any remaining risk. They then allowed rating agencies to reduce the safety ratings of MBSs and CDOs as the market started to crash.

Between 2004 and 2006, the Federal Reserve increased interest rates to prevent a rise in inflation. As interest rates rose, costs of payments on all adjustable-rate mortgages followed. This was a significant issue, as many subprime borrowers had taken out adjustable-rate mortgages.

This meant that many subprime borrowers were unable to pay off their mortgages, meaning more mortgages defaulted and more foreclosures occurred, causing many more houses to appear on the market, which only dropped house prices more, leading to a vicious cycle.

Conclusion:

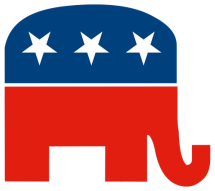
The main reason for the crisis was that financial institutions and services that created MBSs took on significantly more risk than necessary, based on the assumption that house prices would not drop and that their securitisation process would further mitigate risk. Finally, they used a lot more borrowed money than their own finances, meaning only a small depreciation in MBSs, with the rising interest rates, would cause immense financial damage. ■

POPULISM

THE RISE OF POPULISM IN THE WEST – WHY IT HAPPENED AND WHAT IT MEANS FOR OUR FUTURE

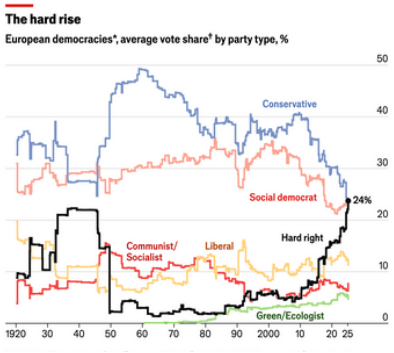
ERNEST LAU AND SEB COX

The year 2024, dubbed 'the election year', saw elections in sixty-four countries take place, with nearly half of the world's population heading to the polls. At first glance, the widespread occurrence of elections across the globe should have been a cause for celebration as, after all, they are the means through which the will of the people is expressed. However, the results of these elections seemed to have confirmed a gradual shift towards support of the populist far-right, especially across 'the West' in Europe and North America. As early as 2011, a Chatham House report concluded that "the trend of rising support for populist extremist parties...has been one of the most striking developments in modern European politics" – a concerning development that has come to fruition across the multitude of elections that took place in 2024. Among the European Parliamentary elections, far-right populist parties have had immense success. In Italy, the incumbent Fratelli D'Italia came first with 28% of the vote in the EU elections, demonstrating that their success in 2022 was not simply a short-lived phenomenon. In France, the National Rally won the first round of the 2024 snap elections with a record third of the vote. In the United States, the Republican Party secured a government trifecta through Trump's use of right-wing populist rhetoric. As such, with the horrors of Nazi Germany serving as a clear warning of what may come, this begs the question of why populism is once again on the rise and what this means for the future of the West.



Definitions

Before diving into the causes and impacts of populism, it is important to clarify what the terms 'far-right' or 'populism' even mean. After all, the true definitions of both terms have become ambiguous and derogatory, through the general stigma surrounding them and their weaponisation by political adversaries of the right. On the other hand, populism can be defined as a movement or ideology that appeals to the common person by favourably contrasting them with established groups, whether along socio-economic or ethnic lines. It often draws on suspicions of the current establishment by pinning most of society's issues onto it, in the process exacerbating division and polarisation within society. As such, populist rhetoric is not unique to the far right; members of the far left and adherents to Marxism often employ similar tactics to garner support for their ideology. However, it is the far right's use of populism that has gained traction today, as it has proven to be an incredibly effective tool for parties to disseminate their ideas to broad groups and make them sound more appealing.



A Brief History of Populism (By Seb Cox)

Populism traces its origins to the United States in 1892, where it was first applied to the Populist Movement of the People's Party. It was a left-wing, reformist party that sought popular initiatives, such as direct democracy and progressive taxation, which were later adopted as laws or even constitutional amendments.

However, in today's day and age, populism is less associated with progressivism and more with authoritarianism. It is now associated with racism, intense nationalism and the spreading of conspiracy theories, or even the scapegoating of the marginalised. Such contrast between populism's reputational origins and current state illustrates how it has no fixed political home.

It is always adapting to the will of the people and the evolution of society, in search of the ideas where perhaps the popularity lies. As such, while there are both left- and right-wing populists who hold the core belief that society is composed of inferiors and superiors, this belief is not the philosophical basis upon which the prominent populist leaders currently operate. The most famous populists are those who are less committed to a fixed ideology and can formulate policies to attract voters from either side of the political spectrum. They are not grounded upon an established ideology but thrive off their commitment to 'truly' representing the public – an ideal that allows such populists to attract voters from either end of the political spectrum. A prime example of this is Trump, where his protectionist policies have allowed him to turn some left-wing voters while maintaining his core right-wing support through his anti-immigration stance. Similarly, despite being classified as a far-right-wing party, Farage and the Reform Party have created policies that appeal to the left just as effectively as to the right. To do so, they have presented national sovereignty as both a cultural and economic issue, encouraging economic protectionism and anti-globalisation in order to preserve a strong national identity. Whilst the former attracts the left-wing, the latter maintains the support of his core right-wing electorate.

To take a step further, one could argue that the populism adopted by these famous politicians is not only no longer ideologically rooted but has merely become a style. This view argues that populism is not an ideology, but rather a stunt, centred around leaders who are merely opinionated personalities. In the words of academic Michael Cox, populism is "merely a rhetorical tactic that demagogues around the world use", and that "it'll continue to gain power and then hold on to it". Cox essentially argues that populism is not an ideology or even a chain of logic, but a strategy that exploits the desires and prejudices of ordinary people and appeals to the coverage of journalists. Populists tap into emotionally charged, complex narratives and inordinately simplify them, and when coupled with the following blaming of unpopular, mainstream scapegoats like illegal immigration, their message becomes compelling and accessible, regardless of their factual inaccuracy. The people feel they are given a reason, and they are being told the truth, rather than being buried beneath the true political complexity of such issues or the half-truths and evasiveness of a politician. As such, this leads to the public appreciation of populist 'transparency' far outweighing the factual accuracy of the information provided, since the people feel represented better by populists than mainstream politicians. The electorate gradually identifies itself more with these radical populists, becomes accustomed to populism, and begins to oppose anything that contradicts these views. Essentially, as the populists' audience strengthens their support, they find themselves gradually moving down the extremes of the political spectrum and their commitment to the leader itself growing. ■

However, why has there been a recent resurgence in far-right populism? (By Ernest)

Immigration

Perhaps the single greatest reason behind the wave of far-right populism is immigration, which is a major aspect of nearly all far-right policies. With immigration to the West experiencing a steady rise, it reached its peak in 2023, when the EU and the United States received 3.7 million and 1.6 million immigrants, respectively.

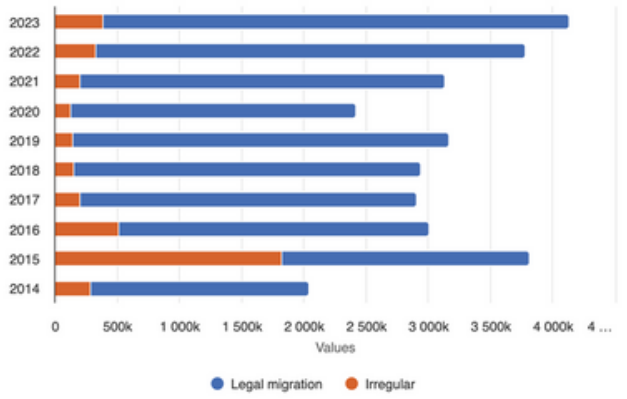


Fig. 1 - The number of people migrating to the EU each year by the European Commission

1.The initial surge of immigration to the EU in 2015 (see Fig. 1), due to the Syrian Civil War, triggered a 'refugee crisis', which most European countries were not equipped to handle administratively or politically.

2.This attracted extensive media coverage, sparking controversy over immigration. For example, in Germany, the highest number of articles on immigration was reached between 2015 and 2016.

3.The increase in media coverage and social media strengthens any latent scepticism or fears towards immigrants amongst certain groups. This was shown by the increased salience of migration in European countries, despite attitudes toward migration remaining virtually unchanged.

4. As a result of rising anti-immigration sentiment, far-right groups capitalised on these fears, reinforcing them even further and creating discontent with the 'ruling elite' (i.e. the government) and the status quo

5. Finally, anti-immigration sentiment has led to a growing restriction of migration policies, which even non-populist parties, such as Labour, have adopted.

The same process applied to the United States, as the media shifted its focus towards immigration post-9/11. However, it is essential to examine why latent scepticism towards immigrants, as outlined in step three, exists in the first place. The answer lies in the fact that humans, as a species, have evolved to grow distrustful of what we perceive as 'other', as well as to focus on the negatives and jump to conclusions, which serve as survival mechanisms. Consequently, news about an immigrant (or a perceived 'outsider') committing a crime is much more salient and likely to reinforce stereotypes than news about a native (or a perceived 'insider') committing an equivalent crime.

This also assumes that both the successes and failures of immigration are portrayed in equal light, which is most certainly not the case. Media platforms, regardless of their political leanings, are highly unlikely to report on immigrants successfully assimilating, as pessimistic news tends to attract more likes and clicks. As such, a combination of the lack of positive news and the salience of negative news creates a powerful force that serves to perpetuate anti-immigration sentiment. This has only worsened in the age of social media, with echo chambers curated by highly effective algorithms reinforcing our mistrusting instincts and pushing more and more negative news onto our feeds. As such, powerful misconceptions like 'immigrants are taking our jobs', 'immigrants commit crimes' and 'immigrants do not assimilate' are the consequence of the actions of a tiny minority of immigrants being blown incredibly out of proportion, through both media portrayal and our general instincts.

These beliefs are then exploited by far-right populist groups, who pin all of society's problems on immigration and subsequently use it as evidence for the incompetence of their more centre-leaning opponents, who are often more reluctant to restrict immigration. Therefore, with the far-right's arguments over the evils of immigration being seemingly intuitive (due to our instinct to mistrust outsiders) and backed with 'evidence', it appeals to a wide range of people and makes it seem as if the far-right has a panacea to all their ills and woes. However, it is important to note that these groups would not have gained nearly as much success if the status quo had been considered 'pretty good'.After all, it is hard to pin all of society's problems on immigrants if society did not have problems to begin with. As such, this leads to the second major reason behind the wave of far-right populism – dissatisfaction with the status quo.

The Economy

General dissatisfaction with the status quo, particularly with the economy, has long been a breeding ground for extremism. The Great Depression saw the rise of the Fascist Party in Italy and the Nazis in Germany. The aftermath of World War II led to a surge in the popularity of the Italian and French Communist parties. As such, it is no coincidence that the rise in support for the far right occurred soon after COVID, when the world experienced its greatest recession since the 2008 financial crisis. In fact, the economy (or inflation) was the greatest priority for voters across the West. For example, 59% of French voters stated that purchasing power was the most important issue for them in the 2024 legislative elections, while 52% of American voters rated the economy as an 'extremely important' influence on their presidential vote in a Gallup poll[6], the highest since October 2008 during the Great Recession. But why does this translate to support for the far-right? This is because far-right groups often frame themselves as anti-establishment, blaming incumbent parties for the state of the economy (even though this is usually beyond their control, as seen in the COVID pandemic or the 2008 financial crisis) and providing alternative, simple solutions to these problems. This often takes the form of extreme nationalism, promising to clamp down on immigration, implement protectionist policies (i.e tariffs), strengthen the military, deregulate environmental laws and introduce welfare chauvinism. As such, since these promises seem to prioritise 'natives' of the country, they appeal to those who have become disillusioned with the 'complicated' policies of the mainstream government and believe that immigrants or foreign countries are the source of their economic woes.

Multiculturalism and Globalisation

However, while the immediate effects of economic downturn have served to accelerate populism, dissatisfaction with the status quo can be argued to have extended far beyond short-term economic woes. This is because for a long time, there has been a simmering discontent amongst communities in the West with what is deemed as 'woke' ideology – a feeling that the 'establishment' and mainstream parties over-prioritise liberal, post-materialist issues like overseas aid, abortion, gay marriage, immigrants and transgender rights while neglecting their own very real, material needs. Similarly, David Goodhart has also recognised growing pushback against multiculturalism and globalisation from the 'somewheres' (people who are more rooted in their communities, socially conservative, and are often less well-educated), as opposed to the 'anywheres' (people who are more mobile, educated, and comfortable with change), who are seen as part of the 'establishment'. This is because while 'anywheres' are more likely to embrace multiculturalism, the 'somwheres' feel that their identity and values are being rapidly undermined by the change globalisation has brought about, and just want a simple, safe and stable life. This is especially since any attempts to voice these frustrations have been met with extreme backlash in the form of cancel culture, with people fiercely attacking those who disagree with tackling post-materialist issues instead of addressing them.

As a result, these feelings of neglect and instability boil over during periods of economic crisis, as people become frustrated with what they perceive as virtue-signalling policies drawing time and resources away from domestic issues. Once again, far-right populist groups capitalise on this, telling dissatisfied 'somewhere' voters that mainstream parties do not care for them.

Instead, they provide an appealing alternative, promising policies of law and order, traditional and religious values, a homogeneous national community and combating modern feminism or LGBTQ rights. All these promises have featured heavily in campaigns by Trump, the AfD, the Fratelli d'Italia, the National Rally and the PPV, where the utilisation of latent frustration has led to great success in politics.

The Future

What does the rise of far-right populism mean for the future? Fortunately, there is good news. While far-right populists are often very good at generating opposition to the status quo, as soon as they are in power, they often lose a lot of traction over the simple fact that their 'solutions' do not actually work. For example, the governing far-right party of the Netherlands, the PVV, is seeing a decline in support as it fails to tackle the Dutch housing crisis as it promised. However, this is perhaps best seen in Trump's first hundred days, where a trade war with the EU, his antagonistic attitude towards Canada, Greenland, and Panama, and a pivot to Moscow have led to a net approval rating of –7% among Americans.

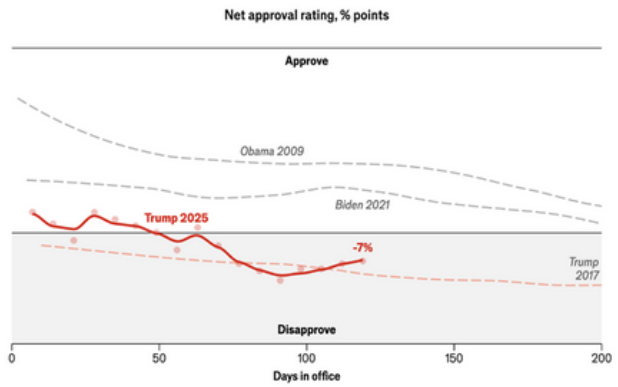


Fig. 2 - The approval rating of each president in correlation to their days in office by the Economist

Furthermore, Trump's actions have triggered a massive spillover effect on far-right parties in Europe, which had previously aligned themselves with Trump and his policies to garner support. With more than half of Europe now considering Trump an enemy, this has significantly damaged the reputation of the far-right across Europe and put them on the defensive.

Already, Trump's highly unpopular policies have cost Pierre Poilievre and the Canadian Conservative Party a landslide general election victory, due to Pierre's reputation as the 'Canadian Trump'. As such, support for the far-right is now declining once again.

However, the dips in far-right support in 2025 may not be indicative of the overall political trajectory of the West. For example, if the UK were to hold general elections now, Reform would be projected to win with 334 seats, with their widespread support being evident in their landslide victory in the Runcorn by-election.

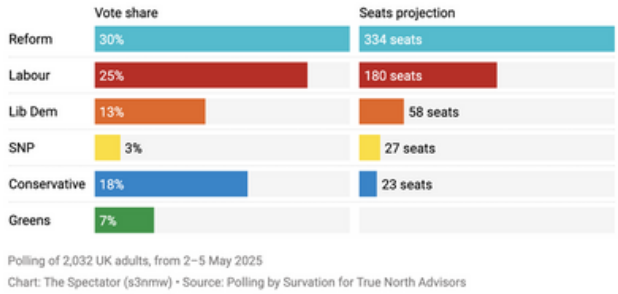


Fig. 3 - Polls of voter intentions from the 2nd to the 5th of May 2025 and seat projections based on that polling, from the Spectator

As such, it has become more important than ever to address the root causes of populism. While it is many people's instinct to criticise populists and assert the moral high ground, this clearly does not work, as seen time and time again. Instead, mainstream parties must re-establish a reputation for honesty and competence and restore voter confidence within them. Only then can they disprove the grandiose promises of far-right populists and ensure they win the battle over the political narrative – a battle which they are currently losing. ■

THE BULL AND THE BOAR

2025