COMMENT

In a galaxy not so far far away lies our future economy

Izabella Kaminska

Imagine a time when all undesirable work is done by automated systems or robots. What would it mean? Would there be a financial crisis? What would happen to labour and capital?

These are some of the deeper questions economists are asking when not preoccupied by short-term worries about the fiscal cliff, a Chinese slowdown or the eurozone.

At the heart of their inquiry lies an assumption: that technology will improve no matter what. Ever since Gordon Moore predicted in 1965 that the number of transistors on a microchip would double every two years, it has been a hard presumption to ignore. The theory, which was dubbed Moore's law on account of its accuracy, is still to be disproved.

Yet some believe it won't be long before it – and the technological rate of progress it stands for – fails.

Robert Gordon of Northwestern University argues that the technological progress of the past 250 years could be a unique historical episode. He cites falling productivity levels and rising inequality as evidence that living standards are no longer improving as quickly. My colleague Martin Wolf shares some of these concerns, asking in an October column whether unlimited growth may be a thing of the past.

A novel interpretation of this trend is starting to gain credibility among some economists: it is not that technology is stagnating but that monopoly interests are suppressing innovation. And the incentives for them to do so are increasing.

Put a different way, companies have an interest in sabotaging progress and efficiency because not doing so could lead to the sort of abundance that might make it impossible to monetise anything. After all, how can you mark up manna that falls from heaven?

As Harvard's Kenneth Rogoff noted recently: "I worry about how overweening monopolies stifle ideas, and how recent changes extending the validity of patents have exacerbated this problem."

Rising incidents of patent battles and a general corporate reluctance to reinvest cashpiles lend some support to this thesis. Take Apple. Its cashpile – now more than $120bn – has been growing at a near parabolic rate since 2008. Until March, when it bowed to shareholder pressure to pay a dividend, the joke had become that Apple shares were as good as gold. And take another of the company's exploits this year: its aggressive pursuit of competitor Samsung through the patent courts.

As economists continue to scratch

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their heads over the implications of such technological trends, it is interesting to note that the world of science fiction may have long anticipated almost all of them.

In *Star Trek*, for example, Captain Kirk lives in what can be described as a "post capital" economy. Money no longer has a role because technological advances such as replicators, artificial intelligence, teleportation and warp speed travel have ensured a consistent level of material abundance that has rendered currency meaningless.

The crew of the Starship Enterprise don't "boldly go where no man has gone before" because they are paid to do so. They go because they are driven by a sense of purpose and adventure.

Contrast Star Trek's universe with the Manichean dystopia of *Star Wars*. Technology is arguably equally advanced but it seems to be accessible only to certain factions. Scarcity, crime and inequality are rife. Money and profit continue to be the primary motivating factors for most galactic citizens. A case in point: Han Solo's financial demands for transporting Luke Skywalker to Alderaan in the first *Star Wars* film.

That the Sith have ended up controlling the patent rights to the ultimate technology in the galaxy, the Death Star, meanwhile, is hardly surprising when you consider their path to power. As *Star Wars* aficionados will tell you, gaining control of the Trade Federation, a galactic cartel that held a monopolistic grip over the galaxy's resources and technology for the longest time, proved to be a critical stepping stone in that journey.

What do these fictional worlds have to do with our reality? It may be a stretch but perhaps they once resembled earth today: a place of abundance faced with a choice. Should technology and resource rights be democratised or should they be held in ever fewer hands?

As Paul Krugman, the economist, argued, too much market power can easily end up raising average rents to capital while reducing the return on investment perceived by corporations.

This notion resonates well with today's crisis because it is consistent with the paradox of rapidly rising profits amid low real interest rates, stagnant real wages and persistent unemployment.

It also explains rising inequality. After all, when human capital is replaced by physical capital, the fruits of innovation have to flow to the owners of the technology that produced it. A new rentier class is born and the economic problem, rather than be resolved, continues.

Yet, as Mr Spock might say, isn't that ultimately illogical?

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The seismic tussles that will shape the Middle East

David Gardner

The past two years have put paid to the notion that the Arab world was secure in the hands of pliable tyrants, a lazy equation of autocracy with stability that ignored the many ways in which Arab despotism was almost a purpose-built assembly line for the manufacture of Islamists. Yet, at the start of year three in the messy unfolding of the Arab awakening, the region approaches four potentially seismic moments.

The Syrian revolution and pending fall of the blood-soaked Assad dynasty; the dangerous stand-off with Iran; the wrenching succession facing the House of Saud; and the imminent death of the two states solution to the Israeli-Palestinian conflict will all test the nerves and ingenuity of policy makers. America may wish to pivot towards Asia and Europe may be turned inward, but the Middle East offers no respite to international or regional actors. It is equally unforgiving of the reckless and the feckless.

It was the Anglo-American invasion of Iraq, a rash roll of the regional dice, that reignited the historic battle between Sunni and Shia Islam. Syria and, potentially, Lebanon are currently the main frontline of this corrosive contest. Bashar al-Assad's Alawite minority, an esoteric offshoot of Shiism that is the backbone and nervous system of his crumbling security state, is the Shia proxy around which Iran and Hizbollah, Lebanon's parastatal Shia Islamist movement, have grouped.

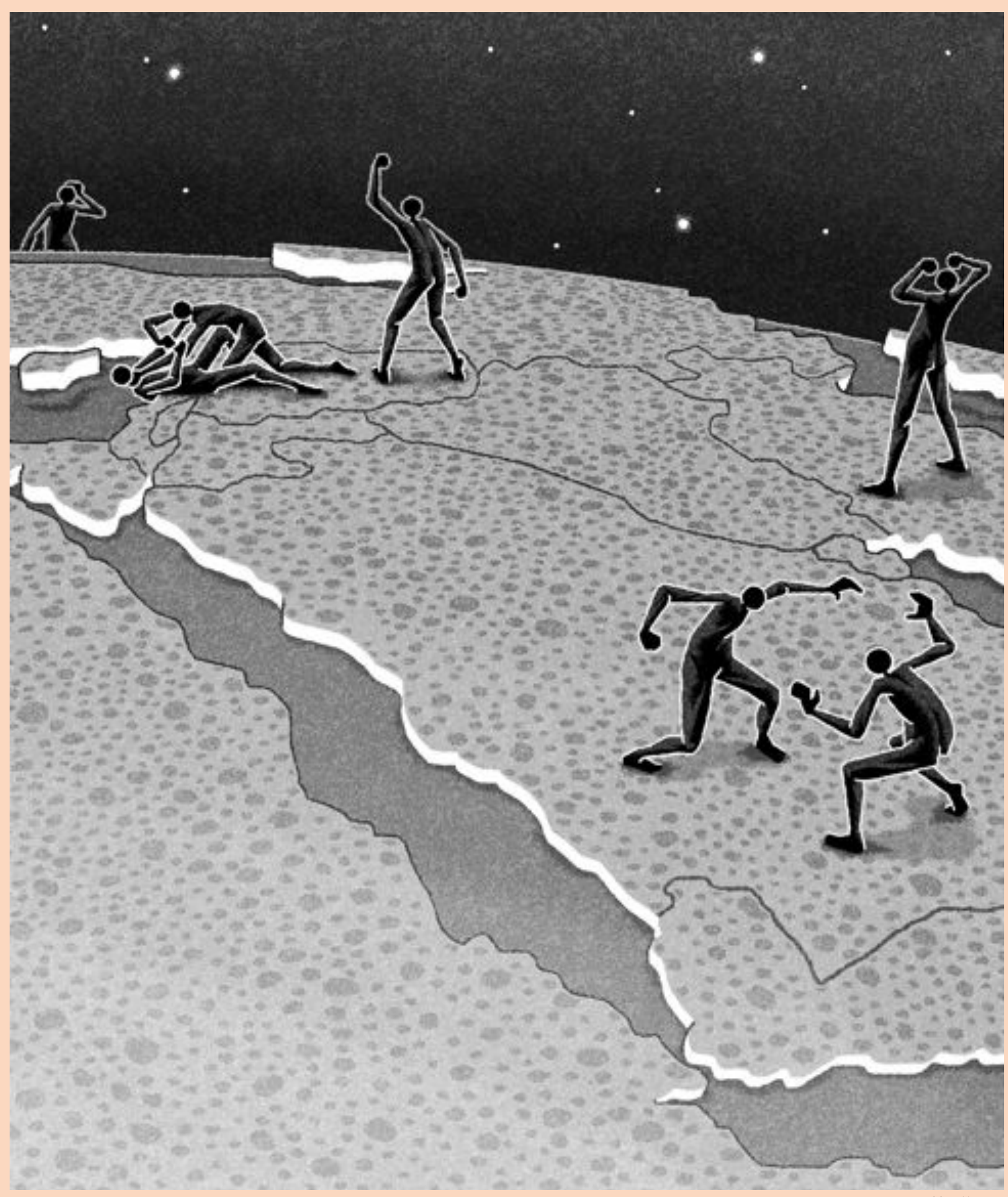
Conversely, the west's decision to stand back from Sunni majority Syria's attempt to break free from the Assad regime in effect leaves the provision of aid and arms to the rebels to the Gulf monarchies, led by Saudi Arabia and Qatar. In Libya, the US chose to "lead from behind". In Syria, America and its European allies have chosen to subcontract to the Sunni supremacists of the Gulf. That has consequences. It has turned Syria into a magnet for jihadi extremists and enhanced the influence of local Islamist radicals beyond what Syria's plural mosaic society would normally engender.

Something similar happened while the west dithered over Bosnia, creating an opening for veterans of the western-backed jihad against the Soviet Union in Afghanistan. The consequences then were limited. The Wahhabis, as the Bosniaks called them, moved on to Chechnya. This time the jihadis are unlikely to give up a strategic position in the Levant, especially after they squandered the opportunity given them by the US-led occupation of Iraq, where they alienated the Sunni tribes and launched a self-defeating campaign of terror against the Shia majority.

The eventual fall of the Assads will strip Iran of its main Arab ally. That may encourage Israel, under an almost inevitably re-elected Benjamin Netanyahu, to attack Iranian nuclear installations. If Barack Obama wishes to avoid being sucked into conflict with Iran, he and his allies must set realistic negotiating goals. Tehran will have to be allowed to enrich uranium to a low level, under strict international monitoring and with the clear understanding that any attempt to develop a nuclear weapon is a red line.

If Israel holds to its red line of no enrichment, war looks inevitable. That would enable Tehran to: further corral its citizens; consolidate its power bases in Iraq and Lebanon; and reassert itself in the Arab arena, where the trend has been towards mainstream political Islam rather than its violent tributaries. Nothing would please the mullahs more than to re-emerge as the vanguard of the resistance to the great and lesser Satans, and champion of the Shia against the Sunni.

Across the Gulf in Saudi Arabia, self-appointed champion of the Sunni, the House of Saud confronts a succession crisis. The cautious reforms of the ageing and infirm King Abdullah, who has been predeceased by two crown princes in just over a year, have evaporated in the face of regional uprisings and Iranian assertiveness. The ruling family is brandishing carrots and sticks: vast subsidies for everything from cheap housing to debt forgiveness, alongside a crackdown on all dissent and a revitalised role for the Wahhabi clerical establishment, which is sectarian and inimical to all reform.



Matt Kenyon

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The al-Saud, so factionalised they revere consensus, amount to an absolute monarchy with no absolute monarch, a symbiosis of temporal and religious power that needs to skip a generation and progress gradually towards a constitutional monarchy, open to the world and under the rule of law, offering opportunity as well as expanding social and political freedoms to its increasingly educated if conservative citizens.

If Syria, Iran and Saudi Arabia are facing their moment of truth, then Israel is fast approaching the point of no return in its relations with the Palestinians.

The dimension of Israeli colonisation of the West Bank and Arab east Jerusalem has long been clear to anyone who can read a map. But the Netanyahu government's latest plans to expand Jewish settlements on occupied land kill the idea of a viable Palestinian state stone dead. Every rampart to enclose east Jerusalem and encircle Bethlehem, and every wall and segregated bypass road to divide the West Bank, will shortly be in place, herding the Palestinians into Bantustans with, perhaps, the eventual possibility of some sort of supra-municipal and superintended government.

That can lead only to an apartheid-style struggle by a (probably reunified) Palestinian movement, demanding equal rights in a binational state, blackening the name of Israel internationally and calling into question the legitimate right of Jews to a state in the eternally disputed Holy Land.

There can be no unerring compass in this kind of minefield. But dithering over Syria, strategic ambiguity over Iran, and the west's almost reflexive pandering to the Saudi and Israeli governments is hardly a way through. Stability requires strategic clarity and an underpinning of universal values, even if they are not uniform.

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The US must understand that other countries have laws too

Ann Lee

The US Securities and Exchange Commission recently moved to sue the Chinese affiliates of the big four accounting firms for not sharing details of their audits of Chinese companies. From the US perspective this was a reasonable response to the perceived opacity of Chinese companies listed on US exchanges. Allegations of fraud at companies such as Sino-Forest have led to a wave of auditor resignations this year.

But the SEC move will strain a bilateral relationship with China that is already on the rocks. The issue is not only one of law or accounting but a wider one of sovereignty. US rules, which require accountants to share audit documents from foreign countries, conflict directly with China's, which bar the practice. If the regulators of both countries continue to assert their own rules, companies and investors caught in between will be hurt in the process.

By creating a situation where Chinese companies will be forced to delist, the SEC risks depriving US citizens of lucrative opportunities to invest in fast-growing companies. The US economy may also suffer in the long term if it earns a reputation for legal hostility to Chinese companies.

This push to exert US sovereignty by insisting that its laws should take precedence over those of other countries is not new. The US Foreign Account Tax Compliant Act of 2010 required Swiss banks to share details of accounts held by Americans, in violation of Switzerland's own bank secrecy laws, which date back to 1934. Many Swiss banks retaliated by closing American customers' accounts or limiting the availability of new products. That made it difficult for Americans to open bank

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accounts or take out mortgages in countries where Swiss banks dominate. While a few bad eggs were certainly caught for tax evasion, many more innocent Americans suffered as a result.

Worse, relations between the two countries took a dive. On a recent trip to Zurich and Bern hosted by the American Swiss Foundation, I found many Swiss still resentful. They accused the US of hypocrisy, arguing that many wealthy Latin Americans use US banks to hide their wealth but that America would resist pressure on its lenders to share confidential information with foreign governments.

Collateral damage on relations is incalculable but we know it must be material. The move by the SEC against Chinese companies might prompt China to retaliate against US companies. We have seen how quickly Japanese car sales in China took a nose dive as tensions flared over the disputed Senkaku, or Diaoyu, islands. Corporate America would not thank its government for risking access to China's growing middle-class market.

Obviously the US must honour its laws and treat everyone equally under them. However, two problems arise. First, laws themselves can be flawed. Some US laws have the effect of reducing competition so that large companies, which may have helped influence their passage, can maintain dominant positions on their turf. The Sarbanes-Oxley act, for example, imposed such onerous requirements that many young companies chose not to access public markets.

Second, regulators often have their own agendas. For instance, regulators may be tempted to punish small companies so that they can achieve quick recognition for being tough, while leaving larger companies alone. It is curious that the SEC is choosing to go after Chinese companies when the regulator so conspicuously failed to prosecute the Wall Street firms, or their auditors, responsible for the financial crisis. Again, the ones who lose out are the entrepreneurs, investors and society at large, while the privileged few benefit.

Rather than pick fights with everyone, US regulators should learn to see the wood from the trees. As the world gets smaller, we must all make a greater effort to get along with each other. Understanding and respecting each other's laws would be a good place to start.

It is inevitable that at times the legal principles of two countries will clash. But in these cases a diplomatic solution ought to be the first course of action, rather than naming and shaming. The action of the SEC, in this case, risks causing unnecessary damage to innocent bystanders in the short and long run.

The writer, a former hedge fund partner, is author of 'What the US can learn from China'

Supper will never taste the same again

A YEAR IN A WORD

Country supper

(Eng. UK) An evening meal eaten by affluent metropolitans only at the weekend, only in their second homes, at least 50 miles from the capital in which they normally live, and for which the food is unimportant

There can be few phrases in English that combine two simple words to produce a meaning so complex. "Country supper" resonates with connotations of elitism, political influence and cloying familiarity.

While the term is well known in the US, denoting a meal enjoyed in a farmyard to the accompaniment of "country" music, it was unknown in Britain until this summer.

After June 14 2012, when David Cameron appeared at the Leveson inquiry, the concept of the "country supper" chimed with the UK's mood of distaste for its ruling classes, which was being fueled daily by the phone hacking tribunal.

The phrase was contained in a text sent by Rebekah Brooks, then editor of The Sun, to Mr Cameron, then leader of the opposition in October 2009, a week after her newspaper had endorsed Mr Cameron as the future leader of the country.

In it, she addressed some offence he had taken at a story in The Times, a title also owned by Rupert Murdoch. Four months earlier, The Sun's editor had married Charlie Brooks, an Old Etonian like the prime minister and a good friend of Alex, Mr Cameron's brother. Both brothers attended the wedding.

The newlyweds lived near the prime minister in Oxfordshire, nestling inside a charmed Cotswold circle, where undulating scenery hosts homes and shops that cater for every need of a post-feudal masterclass.

In her text, Mrs Brooks wrote: "I do understand the issue with The Times. Let's discuss over country supper soon."

In among the rest of a message that gave an excruciatingly intimate view of relations between these powerful figures, the phrase "country supper" could have been lost. But it was not. It received a great deal of attention and entered the lexicon.

The words crystallised an imagery of the private lives of the rich and powerful. It summoned up a scene of big business and high politics tête-à-tête in one of those settings familiar to readers of Joanna Trollope: a carefully casual meal eaten on an expensive distressed oak table just within reach of a kitchen the size of a small parish.

It says much about the class-ridden nature of the UK that those who heard the phrase recognised something ill about it.

Real "country set" people – such as Mr Cameron, a gentry man raised in Berkshire – would never use a term that differentiated rural from urban life. The differentiation is assumed. To make such a distinction betrays a reliance placed upon the meal as an opportunity to exert influence, to exploit familiarity and to enjoy the privacy of the crème de la crème. Supper, especially in the comfortable British countryside, may never taste the same again.

Ben Fenton

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