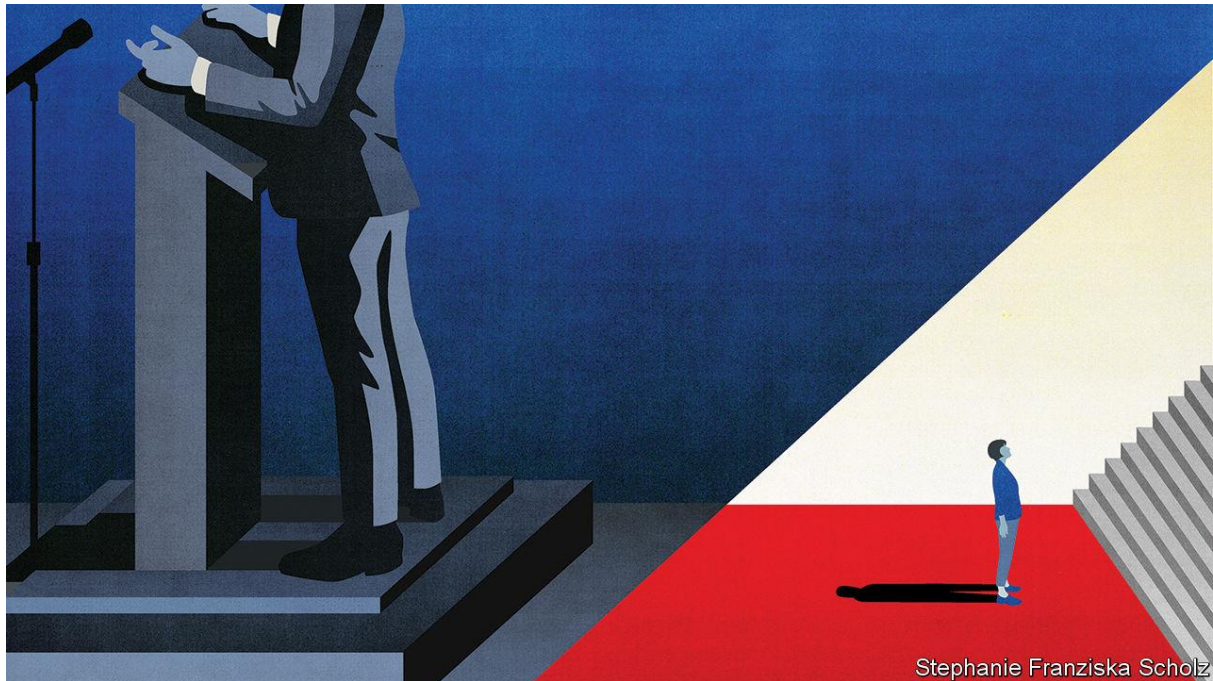


Liberalism

## The Economist at 175



Print edition | Essay  
Sep 13th 2018

# I

### Reinventing liberalism for the 21st century

IN SEPTEMBER 1843 James Wilson, a hatmaker from Scotland, founded this newspaper. His purpose was simple: to champion free trade, free markets and limited government. They were the central principles of a new political philosophy to which Wilson adhered and to which *The Economist* has been committed ever since. That cause was liberalism.

Today liberalism is a broad faith—far broader than it was to Wilson. It has economic, political and moral components on which different proponents put different weights. With this breadth comes confusion. Many Americans associate the term with a left-wing belief in big government; in France it is seen as akin to free-market fundamentalism. But whatever version you choose, liberalism is under attack.

The attack is in response to the ascendancy of people identified by their detractors, not unreasonably, as a liberal elite. The globalisation of world trade; historically high levels of migration; and a liberal world order premised on America's willingness to project hard power: they are all things that the elite has sought to bring about and sustain. They are things the elite has done well out of, congratulating itself all the while on its adaptability and openness to change. Sometimes it has merely benefited more visibly than a broad swathe of lesser souls; sometimes it has done so at their expense.

Populist politicians and movements have won victories by defining themselves in opposition to that elite: Donald Trump over Hillary Clinton; Nigel Farage over David Cameron; the Five Star Movement over the Brussels bureaucracy; Viktor Orbán over George Soros, who was not actually running in the Hungarian elections last April but personifies that which Mr Orbán despises, and is Jewish to boot. The populists deride the leaders of the past as obsessed with bossy political correctness and out of touch with what matters to ordinary people; they promise their voters the chance to "take back control". Meanwhile rising powers—as well as Russia, which though in decline is still dangerous—seek to challenge, or at least amend, the liberal world order. And in the near future the biggest economy in the world will be China, a one-party dictatorship. In all these ways the once-barely-questioned link between economic progress and liberal democracy is being severely put to the test. *The Economist* marks its 175th anniversary championing a creed on the defensive.

So be it. Liberalism has succeeded by serially reinventing itself while staying true to what Edmund Fawcett, a former journalist at this newspaper, identifies in his excellent history of the subject as four key elements. The first is that society is a place of conflict and that it will and should remain so; in the right political environment, this conflict produces competition and fruitful argument. The second is that society is thus dynamic; it can get better, and liberals should work to bring such improvement about. The third is a distrust of power, particularly concentrated power. The fourth is an insistence, in the face of all power, on equal civic respect for the individual and thus the importance of personal, political and property rights.

Unlike Marxists, liberals do not see progress in terms of some Utopian telos: their respect for individuals, with their inevitable conflicts, forbids it. But unlike conservatives, whose emphasis is on stability and tradition, they

strive for progress, both in material terms and in terms of character and ethics. Thus liberals have typically been reformers, agitating for social change. Today liberalism needs to escape its identification with elites and the status quo and rekindle that reforming spirit.

### **Epic stale males**

The specific liberal philosophy Wilson sought to promulgate was born amid the tumult of industrialisation and in the wake of the French and American revolutions. It drew from the intellectual inheritance of Enlightenment thinkers such as John Locke and Adam Smith. That tradition was further shaped by a series of Victorian intellectuals, most notable among them John Stuart Mill, which included this newspaper's second editor, Walter Bagehot.

There were at the time liberal movements and thinkers throughout continental Europe as well as the Americas. The first politicians to claim the name, Spain's *liberales*, did so in a short-lived era of parliamentary rule after 1812. The creed was embraced by many of the 19th century's newly independent Latin American countries. But the movement's centre was Britain, the world's predominant economic and political power.

That liberalism was not today's. Take foreign affairs. Victorian liberals were often pacifists who welcomed the ties of trade but eschewed military alliances. Later, a tradition of "liberal imperialism" justified colonialism on the basis that it brought progress—in the form of laws, property rights and so forth—to peoples that lacked them. Few make either argument today. *The Economist* was sceptical of imperialism, arguing in 1862 that colonies "would be just as valuable to us...if they were independent". But "uncivilised races" were owed "guidance, guardianship and teaching".

Liberalism was not born with the umbilical link to political democracy that it now enjoys. Liberals were white men who considered themselves superior to the run of humanity in both those particulars; though Bagehot, like Mill, supported votes for women, for most of its early years this newspaper did not. And both Mill and Bagehot feared that extending the franchise to all men regardless of property would lead to "the tyranny of the majority".

Or consider the relationship between the state and the market. Liberals like Wilson had a near-religious faith in free enterprise and saw scant role for the state. Early *Economist* editorials inveigh against paying for state

education through general taxation and greater public spending on relief efforts during the Irish famine. But in the early 20th century many European liberals, and their progressive cousins in America, changed tack, seeing progressive taxation and basic social-welfare systems as necessary interventions to limit the market's failures.

This led to schism. Liberal followers of John Maynard Keynes embraced a state role in boosting demand to fight recession and providing social insurance. As this newspaper noted on its centenary in 1943, "The greatest difference...between the 20th century liberal and his forefathers is the place that he finds for the organising powers of the state." Followers of Friedrich Hayek thought those organising powers always overreached in dangerous ways; hence the emergence of a "neoliberalism" interested in radically curtailing the state.



*The Economist* has, at times, embraced elements of both, driven by pragmatism and a sense of the present's shortcomings as much or more than by ideology. When we supported graduated income taxes in the early 20th century, a position Wilson would have scorned, it was in part because those taxes, a Liberal policy, were more to our liking than the protectionist tariffs the Conservatives were touting. After the Depression and the second world war we hewed to Keynesian views that both allowed for significant state involvement in the economy and saw value in liberal nations working together to create a world in which their values could thrive. When we rebelled against the subsequent state overreach to champion the deregulation and privatisation that Margaret Thatcher and Ronald Reagan would later bring in, we were moved as much by the failures of the status quo as by libertarian zeal.

*The Economist* of recent years has been a supporter of stable prices and fiscal responsibility at home, of open trade and investment internationally, and of the market-friendly cocktail of policy prescriptions dubbed the “Washington consensus”. Amid today’s distrust of liberalism—and liberal self-doubt—it is worth remembering just how fruitful those positions have been. The core liberal causes of individual freedom, free trade and free markets have been the most powerful engine for creating prosperity in all history. Liberalism’s respect for diverse opinions and ways of life has whittled away much prejudice: against religious and ethnic minorities, against the proposition that girls and boys should have an equal opportunity to attend school, against same-sex sex, against single parents. The post-war liberal world order has contained conflict better than any previous system of alliances. Liberalism’s principles, pragmatism and adaptability have generated policies that solve practical problems while advancing its core tenets.

### **Many liberals have become conservative**

There is, in short, much to be proud of. But the liberal ascendancy that came with the end of the cold war has been troubled. The misguided invasion of Iraq (which this newspaper supported at the time), and other failed interventions in the Middle East have exposed the hubris and difficulty of military action in the pursuit of universal values. The global financial crisis laid bare the dangers of under-regulated finance. Liberal economists paid too little attention to the people and places harmed by trade and automation. The liberal world order failed to confront the epic challenge of climate change or to adapt its institutions to the growing importance of emerging economies. Liberal thinkers paid too little heed to those things people value beyond self-determination and economic betterment, such as their religious and ethnic identities.

These failures mean that liberalism needs another reinvention. Those in favour of open markets and societies need to see off the threat posed by those who value neither. They also need to do a lot more to honour their promise of progress for all. That means being willing to apply their principles afresh to the existing and emerging problems of the ever-changing, ever-conflicted world.

It is a tall order. And it is made taller by the fact that this has, indeed, been a period of liberal ascendancy. Liberals like Wilson saw themselves, by and large, in opposition to entrenched elites. Today that is hard for liberals



to do with a straight face. They have been the shapers of the globalised world. If it is a smallish number of the rich, and a large number of the very poor, who have done best out of that ascendancy, rather than liberals *per se*, liberals have still done pretty well; it is not too wide of the mark to caricature their views on migration as more influenced by the ease of employing a cleaner than by a fear of losing out. The wars, financial crisis, techified economy, migrant flows and chronic insecurity that have unsettled so many all happened on their watch, and in part because of policies they promoted. This undermines their credibility as agents of change.

Worse, it can also, shamefully, undermine their willingness to be such agents. Many liberals have, in truth, become conservative, fearful of advocating bold reform lest it upset a system from which they do better than most.

They must overcome that fear—or, if they cannot, they must be attacked by true liberals who have managed to do so. As Milton Friedman once put it, “The 19th-century liberal was a radical, both in the etymological sense of going to the root of the matter, and in the political sense of favouring major changes in social institutions. So too must be his modern heir.” On the occasion of our 175th birthday, we offer some ideas to meet Friedman’s challenge.

## II

### Free markets and more

“JESUS CHRIST is free trade and free trade is Jesus Christ.” Even by the standards of the 1840s, Sir John Bowring, a British politician, made bold claims for the rock on which *The Economist* was founded. But his zeal was of the times.

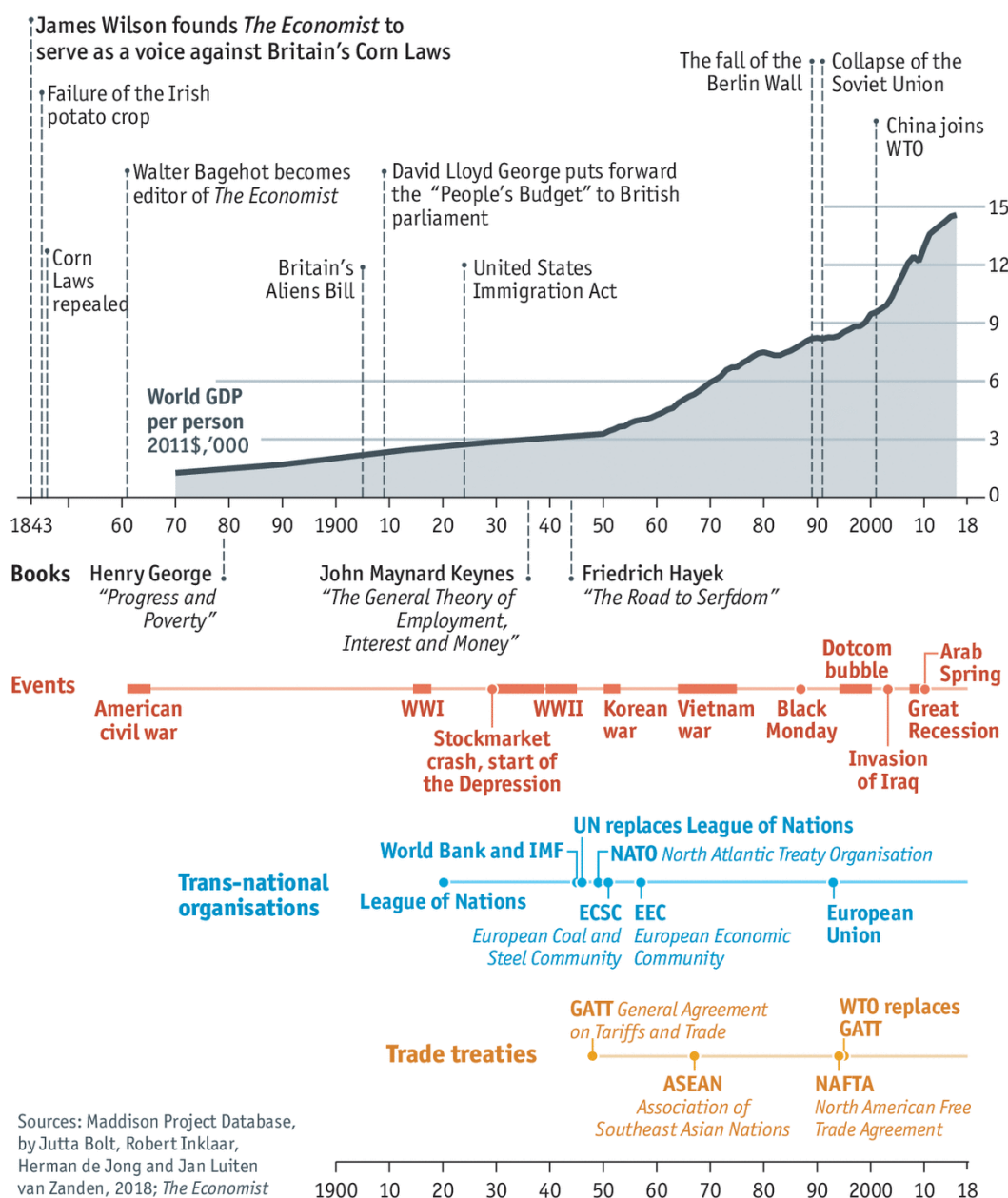
The case for getting rid of British tariffs on imported grain was not a dry argument about economic efficiency. It was a mass movement, one in which well-to-do liberal thinkers and progressive businessmen fought alongside the poor against the landowners who, by supporting tariffs on imports, kept up the price of grain. As Ebenezer Elliott, a radical and factory owner, put it in one of the poems that led him to be known as the “Corn Law rhymer”:

*Give, give, they cry—and take!  
For wilful men are they  
Who tax'd our cake, and took our cake,  
To throw our cake away.*

When liberals set up the Anti-Corn Law League to organise protests, petitions and public lectures they did so in the spirit of the Anti-Slavery League, and in the same noble name: freedom. The barriers the league sought to remove did not merely keep people from their cake—bad though such barriers were, and strongly though they were resented. They were barriers that held them back, and which set people against each other. Tearing them down would not just increase the wealth of all. It would bring to an end, James Wilson believed, the “jealousies, animosities and heartburnings between individuals and classes...and...between this country and all others.”

The age of global trade ushered in by the free trade that followed the repeal created a remarkable amount of wealth. Given that it ended in the first world war, though, its record on reducing animosity was, at best, mixed. The next great age of global trade, which began after the second world war and grew into fullness with the end of the cold war, did even better, bringing with it the greatest reduction in poverty ever. Unfortunately there is still significant cause for jealousy, animosity and heartburning among those who live in places that lost out—enough of it that, amplified by unscrupulous leaders with protectionist politics, it is putting the remarkable gains of past decades at risk.

## 175 not out



The Economist

The modern era of multilateral trade negotiation was ushered in by the General Agreement on Tariffs and Trade (GATT) in 1947. It was based on the insight that unilateral tariff reductions, such as the repeal of the Corn Laws, are unstable. The concentrated displeasure of producers exposed to foreign competition is more powerful than the diffuse gratitude of the mass of consumers, and so tariffs get reimposed. If reductions are taken in concert with foreign powers, some producers gain new foreign markets, thus becoming supporters, and the international nature of the obligations makes backsliding harder.



In 1995 the GATT became the WTO, and almost every country on Earth now belongs to it. Tariffs are cut by negotiation and agreed rates applied to all trade partners; a dispute-settlement system authorises retaliation against miscreants. There are still high levies on some goods, and many emerging economies, such as Egypt's or India's, would benefit a lot if tariffs were cut further. But tariffs on goods are in general no longer a big barrier to global commerce. The best estimate is that getting rid of those which remain would add only about 1% to global GDP.

Freeing trade in services, such as those of lawyers, architects or airlines, would yield gains six times larger, maybe more. But the WTO, for which nothing is settled until everything is settled, has spent decades failing to reach big deals on services. Nor has it succeeded in stopping China, which joined in 2001, from flouting the spirit, if not always the letter, of its rules by shaking down foreign investors for technologies it fancies and giving under-the-table assistance to its own industries.

The trade system would benefit hugely from a grand agreement forged between America, China and Europe that put multilateral trade on terms appropriate for the 21st-century economy, and for a world in which the biggest trader is not a free market. Terms attractive enough that the rest of the world could be brought into them would both require and allow substantial reform of the WTO. Multilateral agreements in which groups of like-minded countries forge ahead should lead the way. Working towards such a goal should be at the forefront of trade policy.

Alas, the more urgent necessity is to ensure the survival of the current system which, having been undermined by China, is now under determined attack by America, once its greatest support. Fighting to forestall losses is not as inspiring as fighting for new progress. But it is yet more vital; backsliding is a threat to the livelihoods of hundreds of millions of people.

### **By George he had it**

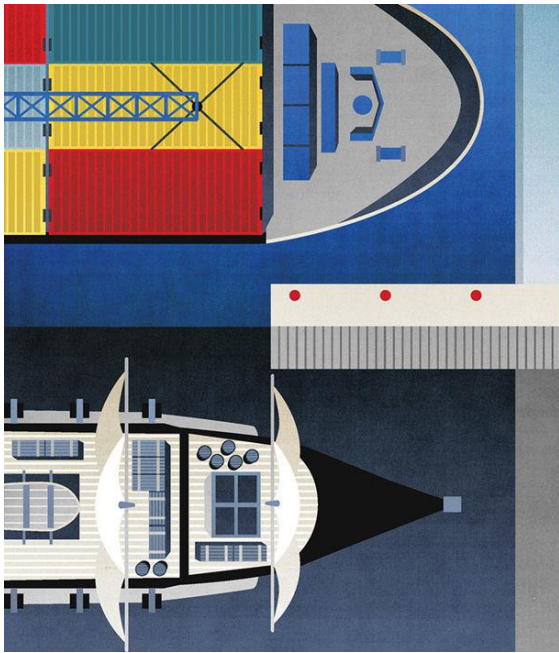
Defending the existing trade system is thus a paramount goal. And the gains it may yet offer, in services and elsewhere, are substantial. But no one could claim that free trade has the capacity to stir the spirit today in the way that the fight against the Corn Laws did, nor that it offers as much scope for progress in an already globalised world as in the mercantilist 19th century. Modern liberals must look for new reforms where dismantling barriers and increasing freedom will once again produce transformative gains for individuals and society.

They are spoilt for choice: there is much to do, from rewriting campaign-finance laws that give lobbyists disproportionate power in politics to removing the implicit subsidies still enjoyed in parts of the financial system. In both those cases, and many more, concentrations of power allow the rigged markets and rent-seeking that liberals abhor. But the cause of free trade was powerful in its simplicity, and in that respect two new targets stand out.

One is the market in urban land; the other, the anti-competitive economics of the modern economy, and particularly of the digital-technology businesses that increasingly dominate it. In both cases monopoly power distorts markets in ways that are economically significant, politically potent and ethically unjustifiable.

Start with land. Most 21st-century productivity growth and wealth creation will take place in highly productive cities. The world's 50 largest conurbations house 7% of the population but account for 40% of gross product. The productivity gap between such cities and poorer places has widened by 60%, on average, in the past two decades, according to the OECD, and is still growing. Property prices in leading cities have soared. In Paris, Hong Kong, New York and London the median household spends on average 41% of its income on rent, as opposed to 28% 30 years ago.

This is a huge windfall gain for a relatively small number of property owners. It reduces the chances of prosperity for a much larger number who are prevented from moving to high-productivity cities offering better wages, and in doing so holds back the economy. One study suggests America's GDP would be 9% higher if the less restrictive zoning laws of the median American city were to be applied to the priciest, fanciest ones.



The best solution to this is not new: it was well known, and pursued by liberals, in the 19th century. Tax landowners according to the underlying market value of the land that they own. Such a tax would capture for society part of the windfall that accrues to a landowner when his local area thrives. Land taxes capable of replacing all existing property taxes (which are raised on the value of what sits on the land, rather than just the land itself) and then some would greatly sharpen the incentive to develop. Because the amount of land is fixed, a land tax, unlike most other taxes, does not distort supply. At the same time, ease planning restrictions. It is no good raising the incentive to develop if regulation then stands in the way. But development rights have been so far collectivised in many cities as to come close to undermining the very notion of property. The curtailment of development rights enriches even owners of vacant plots; if the windfall gains from soaring property values are heavily taxed, NIMBYism will not be such a profitable strategy. The problem is getting those owners to give up the windfall and submit to a land tax in the first place.

The concentration of corporate power is a trickier problem. Returns to scale and strong network effects—the more users you have, the more you have to offer the next user—have encouraged concentration in various industries built around digital technology, and this encouragement has gone largely unchecked. One or two giant firms dominate each segment: Google in search, Facebook in social on one side of the Great Firewall, Alibaba and Tencent on the other. In addition, by collecting ever more data

on ever more users' habits, and armed with ever better algorithms, the incumbents can tweak their products to make them yet more attractive in various ways.

This risks reinforcing, perhaps supercharging, a wider trend for industries to be dominated by a few companies. In 2016 research by this newspaper showed that two-thirds of America's 900 industrial sectors had become more concentrated from 1997 to 2012. In 2018, in a similar analysis for Britain, we found the same trend. It may help explain both higher profits and the squeeze on labour that has seen the wages of the less-skilled lowered.

If there is an economic problem in need of radical new intellectual approaches, this is it. The existing antitrust framework, created in the progressive era and refined in the 1980s, cannot deal with the nature of market concentration in the 21st century. The pace of mergers has risen. Large asset managers hold sizeable stakes in today's big incumbent firms, and may encourage them to hoard profits and adopt safety-first strategies. Tech-platform firms enjoy network effects and are continually bundling more services together. The spread of artificial intelligence will give even more power to firms with access to lots of data.

Part of the answer is a tougher attitude to policing deals and to ensuring that new firms are not unfairly squashed. But when it comes to tech, something fresher and rooted in individual action and competitive markets would be best. One approach is to consider the data that users generate as a good they own or a service they provide for fees.

As with land taxes, there will be intense resistance to newly vigorous antitrust and competition law, or changes in the power structures building up around data, however popular they may be. Henry George's call for a land tax, "Poverty or Progress", sold more copies in America in the 1890s than any other book save the Bible. But the immense political power of landowners saw off the threat, there and elsewhere. David Lloyd George, a Liberal chancellor of the exchequer, put forward a land tax (with this newspaper's support) in his 1909 "People's Budget". It did not pass.

Still, more affordable housing, more choice, lower prices and better jobs remain causes that people can get behind. And the ability of popular movements to grow as never before with the help of both social and mass media is one of the striking aspects of the modern age. This has allowed

dissatisfaction with today's liberal elite to mushroom; it might allow a liberalism of new reforms, new ideas and new alliances to do so, too.

This makes keeping the digital sector open and competitive all the more vital. Barriers to wealth-creation there are bad enough. Dominant companies which might limit, or skew, free expression, open deliberation and self-determination—encouraging “jealousies and animosities” in the realm of ideas—are worse.

# III

## Immigration in open societies

THE bill in front of the House was a wretched thing, as the opposition politician explained. It would “appeal to insular prejudice against foreigners, to racial prejudice against Jews, and to Labour prejudice against competition”. But he could see why the majority party might like it. It would “no doubt supply a variety of rhetorical phrases for the approaching election.”

Substitute the word “Mexicans” for “Jews”, and this might have been a Democrat on the floor of the House of Representatives denouncing this year's Securing America's Future Act, a hardline Republican immigration bill. In fact they are the words of Winston Churchill, in 1904, speaking from the Liberal benches in opposition to the Aliens Bill that the Conservatives had brought before the House of Commons. The bill was the first attempt to legislate a limit to migration into Britain.

Immigration was as politically potent in the early 20th century as it is in the early 21st. Previous decades had seen a surge of people on the move across Europe. Millions had moved farther, heading across the Atlantic to America: hundreds of thousands of Chinese crossed the Pacific to the same destination. Xenophobic backlashes followed. Congress passed a law prohibiting Chinese migrants in 1882. By the time of the Immigration Act of 1924 it had, in effect, banned non-white immigration. It also curtailed the rights of non-whites already there in the same ways as it did the rights of its black population, with laws against miscegenation and the like. The flow of migrants across Europe produced a similar reaction. In “The Crisis

of Liberalism” (1902) Célestin Bouglé, a French sociologist, marvelled at how a modern society could spawn bigotry and nativism. When Churchill mocked the idea of a “swarming invasion” in 1904, Britain was the only European country without immigration curbs; the following year it brought in its first.

Today some 13% of Americans are foreign-born; that proportion is approximately what it was in 1900, but much higher than it was in the intervening years. In 1965 it was just 5%: older Americans grew up in a pretty homogeneous society that was hardly a nation of immigrants. In many European countries the foreign-born share of the population has surged. In Sweden it is 19%, twice what it was a generation ago; in Germany, 11%; in Italy, 8.5%.

### **Open borders are rarely if ever politically feasible**

The reactions have not been as harsh as they were a century ago. Indeed, in America the appetite for more immigration has grown even as the immigrants have arrived. In 1965 only 7% thought the country needed more immigrants; 28% do today. But any liberals feeling complacent are clearly not paying attention. Anger over immigration has fuelled the rise of illiberal regimes in central Europe; it is the main reason why right-wing populist parties are now in power in six of the European Union’s 28 countries; it explains much of the popularity of Brexit, and of Donald Trump. Concerns are growing in emerging economies, too—from Latin America, where the exodus of Venezuelans is roiling the region’s politics, to Bangladesh, which is struggling with the arrival of 750,000 Rohingya fleeing genocide in Myanmar.

There are four reasons to expect the issue to get yet more divisive. First, migrant flows are likely to rise. People in the global south are still poor compared with those in the north; modern communications make them very aware of this; modern transport networks mean that, poor as they are, many can afford to try to live the life they see from afar. According to Gallup, 14% of the world’s adults would like to migrate permanently to another country, and most of those would-be migrants would like to go to western Europe or the United States. Over the coming decades the consequences of climate change are likely to force large numbers of people, particularly in sub-Saharan Africa and south Asia, to move, and though most will probably not move all that far, some will try to go all the way. Some will be welcome; ageing populations in developed countries



will need more working-age people to look after them and pay tax. It is very unlikely that all will.

Second, the world lacks good systems for managing migration. The 1951 UN Convention on Refugees set up a liberal and eventually near-universal regime for people fleeing oppression and other state malfeasance. It is ambitious and (theoretically) generous. There are no other mechanisms that give people general rights to seek their fortunes abroad. The result is that refugees' treatment frequently falls far short of the legal rights to which they are entitled. Meanwhile low-skilled people without family members in rich countries with whom they might seek to be reunited have no way in. So some seek refugee status on dubious grounds.

### **The wrong kind of liberalism**

Third, the modern welfare state complicates the issues around migration in a way that it did not a century ago. Illegal immigrants are not entitled to such benefits. But refugees often qualify, as do the children of people who have arrived illegally. The absolute level of spending may be small; the perception of inequity, though, can be beyond all proportion to the cost. People resent paying taxes to fund benefits that they perceive as going to outsiders.

Fourth, liberal attitudes to immigration have changed. Liberalism came of age in a Europe of nation states steeped in barely questioned racism. Nineteenth-century liberals were quite capable of believing that nations had no duties towards people beyond their borders. *The Economist*, although it did not support the Aliens Bill in 1904, made clear that it did "not want to see the already overgrown population swollen by 'undesirable aliens'".

Much modern liberalism has a more universalist view, along the lines of that enshrined in the Universal Declaration of Human Rights. To some, this means that no controls on immigration are justified: that a person born in Mali has the same right to choose where to live as one born in Germany. Totally open borders are rarely if ever politically feasible. But increased migration tends to be seen as good in itself by today's liberals. It removes barriers that keep people from the lives they want, it produces more diverse societies and it offers economic betterment to all. People who move to places where they can be more productive realise almost instant gains; higher shares of immigrants are correlated with higher rates of entrepreneurship and dynamism. Economists estimate that, were the world

able to accommodate the wishes of all those who wanted to migrate, global GDP would double.

A positive attitude to immigration pits liberals against many of their fellow citizens—for all liberals, despite what anyone may say, are citizens of somewhere—more than any of their other beliefs do. The conflict is made worse by the fact that today's left, including many identified in America as liberals, has moved sharply towards an emphasis on group identity, whether based on race, gender or sexual preference, over civic identity. This leaves them leery of imposing cultural norms, let alone a sense of patriotism.

The 19th-century assumption that immigrants would assimilate and learn their new country's language seems, to such sensibilities, oppressive. Several American universities have declared the phrase "America is a melting pot" to be a "microaggression" (a term in pervasive use and taken by the majority to be innocuous but which communicates a hostile message to minorities). It is hard, given such views, for left-liberals to articulate a position on immigration much more sophisticated than opposition to whatever restrictions on it currently seem most egregious. The more opposition you show, the better your credentials.

### **Trust, but E-verify**

This is not a way to win. Liberals need to temper the most ambitious demands for immigration while finding ways to increase popular support for more moderate flows. They have to recognise that others place greater weight on ethnic and cultural homogeneity than they do, and that this source of conflict cannot be wished away. They must also find ways for the arrival of new migrants to offer tangible benefits to the people worried about their advent.

People often dislike immigration because it exacerbates a sense that they have lost control over their lives—a sense that has grown stronger as globalisation has failed to spread its prosperity as fully as it should have. Removing other barriers that get in the way of self-determination for people already living in their countries is thus both a good in itself and a way to lessen antipathy to migration. But restoring a sense of control also means migration has to be governed by clear laws that are enforced fairly but firmly.

Wary though liberals rightly are of state snooping, technology can help with this in various ways. Fully 75% of Americans support E-verify, a system that allows employers to check a worker's immigration status online. If the system is administered in a just, efficient way and with proper procedures for appeal, liberals should feel happy to join them.

One aspect of setting clear rules is reforming the international system for refugees. In "Refuge" (2017) Alexander Betts and Paul Collier, two British academics, argue for a complete overhaul. This would include a broader definition of refugee status while encouraging people who claim that status to stay closer to their former homes. For this to work the refugees need to be integrated into local labour markets; investment needed to further that end should come from richer countries. At the same time, new avenues need to be found to give people who do not qualify as refugees some real hope of a legitimate route to wherever they want to go.

Then there is the question of distributing the benefits. Today most of the financial gains from migration accrue to the migrants themselves. Lant Pritchett of Harvard University reckons the annual income of the average low-skilled migrant to the United States increases by between \$15,000 and \$20,000. How could some of those gains be shared with the hosts? The late Gary Becker, an economist from the University of Chicago, argued for auctioning migrant visas, with the proceeds going to the host state. In their book "Radical Markets" Eric Posner and Glen Weyl argue that individual citizens should be able to sponsor a migrant, taking a cut of their earnings in exchange for responsibility for their actions. There is a bevy of less extreme reform ideas, such as "inclusion funds" paid for by a modest tax on the migrants themselves, which would spend their money in the places where migrants make up a disproportionate share of the population.

As well as taking a little more from immigrants, there will be circumstances when the state should give them a little less. Systems that offer migrants no path to citizenship, such as those of the Gulf states, are hard for liberals to stomach, and that is as it should be. But that does not mean all distinctions between migrants and established citizens should cease the moment they leave the airport. In America entitlement to retirement benefits kicks in only after ten years of contributions; in France, we hear, no one gets free baguettes until they can quote Racine. This is all entirely reasonable, and not illiberal. All who have arrived legally, or have had no choice in the matter, should have access to education and health care. Other benefits may for a time be diluted or deferred.

Liberal idealists may object to some or all of this. But if history is a guide, the backlashes that often follow periods of fast migration hurt would-be migrants, the migrants who have already arrived and liberal ideals more generally. Liberals must not make the perfect into the enemy of the good. In the long run, pluralist societies will accept more pluralism. In the short run, liberals risk undermining the cause of free movement if they push beyond the bounds of pragmatism.

## IV

### The new social contract

OTTO VON BISMARCK—no one's idea of a liberal—started Germany down the road to a welfare state in the 19th century. Trade unionists across the world fought for them in the 20th. Benito Mussolini built a fascist one. And James Wilson would have hated the idea. But from Lloyd George's People's Budget of 1909 to FDR's New Deal in the 1930s to Ludwig Erhard's *soziale Marktwirtschaft* in post-war West Germany, there was a distinctive liberal cast to the creation of modern welfare states. William Beveridge, the architect of the post-war British welfare state, was a liberal and Liberal politician. (He was also a trustee of *The Economist*.)

Some liberals, as well as most conservatives, grudgingly accepted these reforms as the lesser of two evils. By sharing the benefits of free enterprise more evenly welfare states could stave off the more radical, and damaging, redistributive promises of fascism and, for rather longer, socialism. But their creation was more than just a way to maintain the conditions in which liberalism could flourish. At their best and most liberal, welfare states cushion people from the rougher edges of capitalism while still putting a distinctive liberal stress on individual responsibility. They enhance freedom, enable free enterprise and bring about a broader embrace of progress. Or at least that is what their liberal creators believed—and what today's liberals need to make sure of.

Giving governments responsibility for the education of the young, pensions for the old, financial support for the indigent, disabled and jobless, and health care for at least some, and occasionally all, required massive reforms, the details and ambition of which varied in different places. Since

their creation, though, welfare states have changed rather little. Some countries have added benefits. America, even before Obamacare, was incrementally expanding the government's role in health. Others, especially in Europe, have trimmed them: less generous assistance for the unemployed, extra conditions for welfare. But Beveridge would recognise today's NHS, and FDR would recognise America's unemployment insurance.

This is not because everyone is satisfied with the status quo. Conservatives contend that it dulls the edge of capitalism and the urge for self-betterment. Those on the left see it as a flimsy and patchy safety-net that needs expanding. Indeed, those countervailing stances go a long way towards explaining why social protection has changed remarkably little since the 1970s. The problem is that while welfare states have stood still, societies have not. And interventions originally intended to help people help themselves have not always done so.

### **Welfare systems and tax regimes have lagged behind a changing world**

Far more women take paid work now than in the middle of the 20th century. Far more households are headed by a single parent. Jobs are much less likely to last for life, to start at nine or to end at five. People are more likely to have more than one at a time. Some of them like this, especially when one is a passion that the other subsidises. Others resent working at unpredictable hours for little money at the beck and call of more than one master. An OECD study suggests only 60% of the rich world's workforce has stable employment. Most important, in terms of expense, health care is getting costlier and people are living much longer.

The system has tried to cope, especially with the bits that most drain the public purse. But the coping has been neither sufficient (increases in retirement age have not kept up with increases in life expectancy) nor popular (people, especially people likely to rely on state pensions, do not like having the retirement age raised). As for helping people to adapt to changes in the world of work, much too little has been done. The greatly increased need for parental leave and for some forms of child care has been scarcely addressed. Workers desperate for new skills see public investment in education overwhelmingly directed at the not-yet-employed. Meanwhile the interaction of tax policy and welfare system often makes jobs

unreasonably unattractive. Nearly 40% of the jobless in the OECD see a marginal tax rate of more than 80% when they start work.

The failure of welfare systems to cushion the huge changes brought about largely by liberal policies—on destigmatising single parenthood as much as on trade—is one of the reasons people are a lot less likely than they once were to trust liberals offering to fix things. But things must be fixed. According to the OECD, the ratio of working-age to retired people across rich countries is set to fall from 4:1 in 2015 to 2:1 in 2050. Add on higher health-care costs and spending on the old will soar as the number of workers to sustain that spending plunges. If the failure to raise the retirement age significantly is expensive today, it will be ruinous tomorrow. And if workers are not made more productive, even the less-than-ruinous expenses will be hard to pay.

### **UBI enchaîné**

The erosive effects of robotisation and artificial intelligence on the world of work are debatable and frequently exaggerated. But though optimists think clever and more dexterous machines will make most of their human colleagues more productive, rather than redundant, they hardly see a return to the 20th-century world of copious lifelong jobs. The coming decades will further strain people's ability to predict what skills they will need and how their careers will evolve.

This means that a liberal rethink of the welfare state starts with education. Thanks to earlier liberal reformers, who sought universal schooling in the 19th century and welcomed greatly expanded universities in the 20th, today's states make their educational investments mostly in people from five or six to 20 or 21. This no longer makes much sense. Pre-school interventions, including many not specifically aimed at the classroom, do a lot more for the life chances of poor children than spending on universities does. And people can need training and further education a long time after their years of university and apprenticeship. There is a case for a big change in priorities here.

New approaches should lay less stress on existing institutions and more on helping people take down the barriers that stand in their way. The periodic “lifetime learning” credit that Singapore gives to all adults to pay for training is one way forward, but things need to go further, perhaps with lifetime vocational education taking the place of a year or so's support at university.



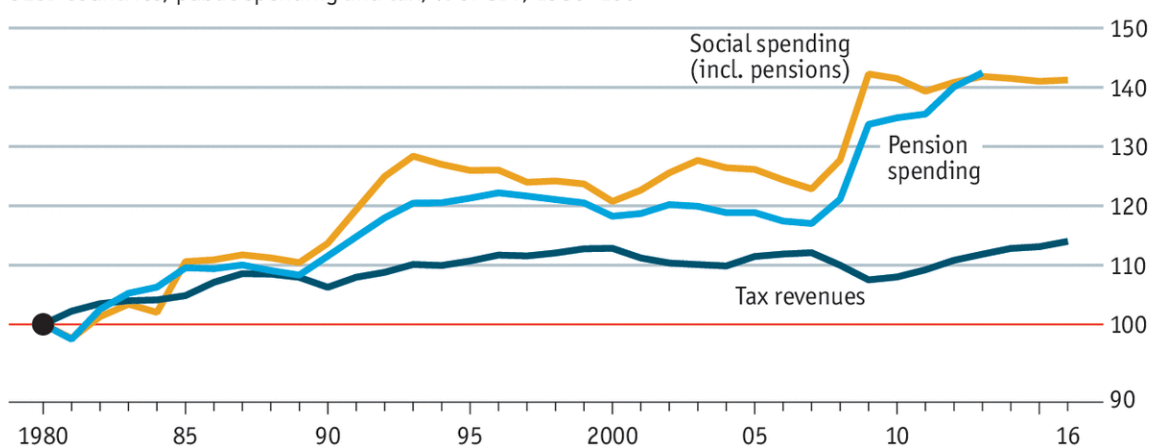
Then there is the challenge of curbing the continuous rise in pension payments by focusing their benefits on the people who need them most. Better educated, more skilled people are working and living longer; the less affluent and skilled stop work earlier and tend to live less long. (In America they are seeing their life expectancy fall.) Pension policy should reflect this. It makes no sense for rich workers to begin drawing a state pension in their 60s. They do not need the support and their long lives mean that the state will end up paying out for years. There are people with better claims on that money.

The greatest potential for reform, however, lies in consolidating and reducing the distortions in the mass of other social-protection schemes—unemployment insurance, food stamps, welfare and so forth. In the past few years the idea of a “universal basic income” (UBI) that would be paid to all, with no strings attached, has generated a lot of debate, and significant support, both on the left and the right.

Right-wing UBI supporters like it because an unconditional payment does not affect people’s incentives to work; an extra job, or an extra hour at work, does not reduce benefits. They also see it as removing various distortions in today’s welfare states, slashing bureaucracy and government snooping. Supporters on the left are keen because they see UBIs as redistributive, egalitarian, welfare enhancing and liberating. Enthusiasm for UBIs has spawned pressure groups, public campaigns and randomised trials.

### A change is gonna come

OECD countries, public spending and tax, % of GDP, 1980=100



Source: OECD

The Economist

Many of the idea's attributes appeal to liberals too. A UBI would reduce the state's interference in people's lives. But from the liberal point of view such gains must be set against two big disadvantages, one a matter of principle, one of practicality. The principle is that the 20th-century social contract from which the welfare state was born was that the state would help people help themselves, rather than just give them stuff: it should provide a safety-net, not a platform scattered with silk divans. Liberals tend to believe that people will be happiest if they can achieve self-reliance. And, in practical terms, UBIs would mean either eye-popping increases in tax or cuts in support for the genuinely needy, particularly in countries where welfare spending is already relatively targeted on the poor. In America a UBI of \$10,000 a year would require a tax take of at least 33% of GDP—less than the level in many countries, but some \$1.5trn more than the current 26%.

A more modest, but still radical, alternative is to replace today's welfare schemes with an expanded commitment to guaranteeing minimum income through negative income taxes. First championed by Milton Friedman, such taxes mean that the state tops up the income of anyone earning less than a guaranteed minimum. Both Britain and America have tax credits to top up wages along these lines.

Because they avoid transfers to the rich, such schemes are inherently cheaper than UBIs. A great deal could be achieved by simultaneously overhauling payroll taxes (the form of tax that has the greatest impact on low-income earners) so that the path from receiving a top-up to paying taxes is much smoother, and perhaps by broadening the eligibility criteria for the negative tax. There are various forms of currently unpaid labour, most notably in caring, that some societies might wish to support in such a way.

This, though, is only the beginning of the reform needed. Like welfare systems, tax regimes have lagged behind a changing world. Indeed, reform has often gone the wrong way. Over the past 40-odd years taxes on capital have fallen, as have income taxes on high earners. That made sense, considering the heights which the top rates of those taxes reached. The benefits that accrue to society as a whole from investment and well-rewarded work required that taxes be reduced.

At the same time wealth taxes, particularly on property and inheritance, have been reduced or eliminated in many developed countries. As a result

the share of tax revenue from property has stayed the same and that from capital has fallen, even as the value of property and the share of national incomes going to capital have soared. Outside America, value-added taxes have been imposed on consumption, producing a welcome increase in the tax system's efficiency but also making it more regressive.

In the 21st-century economy these shifts should be reversed. Labour, particularly low-skilled labour, should be taxed less. Folding payroll and other employment taxes into the income-tax system would ease the squeeze for low-skilled workers. Shrinking the gap between taxes on capital and taxes on labour would counter the skew towards capital; and if capital investment were written off against corporation tax, this would not need to deter investment. Moderate inheritance taxes—a liberal invention, stemming in part from a healthy distrust of the concentration of wealth and power—should be maintained or reinstated, not least because they are fairly efficient. Loopholes used to avoid them should be tightened up. Property taxes should be reformed into land taxes. Taxes on carbon and other negative externalities, though not a universal panacea for the problems of climate change, would be a reform in the right direction, too.

This adds up to an agenda for reform much bigger than the tax-and-welfare tinkering seen over recent decades. In some ways these changes are likely to be politically harder than the reforms which built up the welfare state and the taxation systems which support it in the first place. It is easier to build from scratch than to attempt to change a huge and complex edifice on which millions rely, which millions resent, and which all have opinions on. And all this needs to happen in a world where the threat of socialism no longer scares conservatives into taking the liberal side.

But if liberal democracies are to continue to provide progress for their citizens they need a new form of welfare. And if they are to afford that welfare reform, they need a tax system that is both more efficient and better fitted to encouraging what society wants more of and discouraging what does it harm.

Similar arguments apply to the other great innovation of the post-second-world-war world: the international liberal order. It is necessary to preserve it; it is perhaps harder to preserve than to build; and there is no longer a socialist, or indeed communist, bogeyman that can serve to unite liberals with all others committed to private property and economic well-being.

Indeed, there is what some might see as a state-led post-communist siren instead. It is to that challenge that we now turn.

# V

## A liberal world order to fight for

WERE a single document to mark the high-point of liberal-world-order hubris, it would surely be “The End of History?”, an essay written by Francis Fukuyama, an American academic, in 1989. Mr Fukuyama’s question, posed a couple of months before the fall of the Berlin Wall, was whether the world was seeing the “universalisation of Western liberal democracy as the final form of human government”. His answer was yes.

How extraordinary that seems in 2018. China, the world’s most successful economy over the past 30 years and likely to be its largest over the coming 30, is growing less liberal, not more, and its state-led, quasi-capitalist illiberalism is attracting admirers across the emerging world. In the Muslim world, and elsewhere, ties of sect and community, often reinforced by war and the fear of war, bind far tighter than those of liberal aspiration. On a measure of democracy made by the Economist Intelligence Unit, our sister organisation, more than half of the 167 countries surveyed in 2017 were slipping backwards. The backsliders include America, where the president seems to prefer dictators to democrats.

That is particularly worrying. America did more than any other nation to create and sustain the order Mr Fukuyama celebrated. In the 1940s it underwrote the Marshall plan and championed the creation of the IMF, the World Bank, the GATT and NATO. It cheered on the first moves towards European unity. Its armed forces contained liberalism’s greatest enemy, the Soviet Union. Its dollar underpinned the global economy. And because America was founded on liberal values, this Pax Americana espoused liberal values, even if it did not always live up to them.

Mr Fukuyama thought the end of the cold war would let the liberal internationalist project move beyond its reliance on American power. The prosperous examples of America, Europe, East Asia’s tiger economies and a Latin America abandoning military rule, along with a lack of alternatives,

would bring the rest of the world on board. So it did, to some extent, for a while. But it was far from universal. And America has become an unhappy Atlas.

President Donald Trump's rejection of the values underlying NATO and the WTO has been remarkable, his spurning of America's role in maintaining them even more so. Yet his approach is not without precedent, or support. In 2002, the outrages of September 11th 2001 still fresh in their minds and hearts, only 30% of Americans agreed that "America should deal with its own problems and let other countries deal with theirs". But long, painful wars in Afghanistan and Iraq have reinforced American scepticism about interventions abroad that cannot be pulled off quickly and do not seem vital to the national interest. By 2016, the idea of America dealing with its own problems and leaving the rest of the world to deal with theirs appealed to 57%. Younger people are astonishingly insouciant about revanchist Russia and ascendant China. Only one in two millennials think it is important for America to maintain its military superiority.

### **Liberal ideals are worthless unless backed by military power**

It is possible that the next president could swing in the opposite direction, recognising the vital role its alliances play in American security, seeking to reform rather than vilify international institutions like the WTO and reinvigorating international co-operation on climate change—a grave threat to the world order which has been far less doughtily faced than that of communism. But it is unlikely. So is any notion of Europe and other democracies taking on the challenge. And even if either were to come about, China would still represent a daunting challenge. Xi Jinping's determination to centralise power and to hold on to it indefinitely is a large part of that. But Mr Xi may represent a deeper shift: one made possible by the addition of digital technology to the apparatus of centralised authoritarianism.

Liberals have long believed that state control eventually collapses under its inefficiencies and the damage that the abuse of power does to systems that lend themselves to it. But the enthusiasm with which China has embraced digital living has given the Communist Party new tools for political control and responsive tyranny. Cyber-China may not have solved for all time the challenge of identifying and quashing opposition without stirring up more of it. But its efforts in that direction could last longer than hitherto

imagined. It would be a foolish mistake to base an international order on the assumption that China will become more liberal any time soon.

Liberals also used to believe that autocracies might be capable of one-off bursts of innovation, like *Sputnik*, but could not produce technical progress reliably, year in year out. Yet in the past five years, Chinese tech firms have generated hundreds of billions of dollars of wealth. The protection afforded them by the Great Firewall and government policy is part of that success, but not all of it. China's government is investing huge resources in tomorrow's technologies while its new digital giants make full use of the vast amounts of data they have on Chinese needs, habits and desires.

Mr Xi sometimes stresses China's commitment to peaceful, harmonious development. But he then speaks more ominously about "great-power diplomacy with Chinese characteristics". On climate change, or indeed trade, China talks warmly of the rules-based global system. Yet it ignores international-court rulings against its militarised island-building in the South China Sea and blocks UN criticism of its abysmal record on human rights.

A reasonable forecast is that China will embrace international collaboration where it sees advantage in doing so and act unilaterally where its interests dictate. It will also devote some of its burgeoning technological capabilities to new ways of making war. If America continues on its current path it will do much the same. This will not make the two equivalent. Though China's military capabilities will grow quickly, they will not match America's. And it will always be easier and wiser for liberals to trust America to do the right thing in the end.

But if there is no clear international order, just big powers doing what they want, the world will get more of the same as Brazil, Indonesia, India, Nigeria and others increase in strength. Regional powers rubbing up against each other unconstrained; nuclear weapons; the destabilising effects of climate change: it might all work out for the best. But that is not the way to bet.

### **Getting a League of Nations right**

Faced with this uncomfortable reality, 21st-century liberals must remember two lessons from the 20th. The failure of the League of Nations between the world wars showed that liberal ideals are worthless unless backed by



the military power of determined nation states. The defeat of communism showed the strength of committed alliances.

Liberals should thus ensure that the states which protect their way of life are able to defend themselves decisively and, when necessary, to blunt the ambitions of others. America's European and Asian allies should spend both more, and more wisely, on their arsenals and training their troops. Healthier existing alliances will ease the creation of new ones with countries that have reason to worry about China's ambitions.



Military capabilities are crucial. Only with them firmly in hand can the most be made of the world's many mechanisms for peace. In the cold war, the West and the Soviet Union had few economic links. The big economies of the 21st century are highly integrated. The gains to be reaped from working together to repair, reform and sustain the rules-based trade and economic system are huge.

In this spirit China's ambitions to make the yuan an international currency should, in general, be welcomed—they will only serve to hasten its economic liberalisation. The new Asian infrastructure bank it supports is likely to prove a useful addition to international finance. Some of the "One Belt One Road" infrastructure with which it is forging links to the rest of Eurasia will be useful—though the West needs to keep an eye out for

cryptic militarisation. A strong West can welcome China's more forthright voice and increased influence, while limiting the threats that it poses.

The strength which serves that end cannot be purely military, or indeed purely economic. It must be a strength of values, too. At the moment, the West is in disarray on this front. Mr Trump has no values worth the name. European politicians are hard put to maintain liberal values at home, let alone stand up for them abroad. Nor do the leaders of India, South Africa, Brazil and the other big democracies of the developing world go out of their way to support abroad the values they espouse at home.

A decade ago the late John McCain proposed the idea of a "league of democracies". Such a league's members might champion liberal, democratic values and at the same time hold each other to account in such matters. It is an idea worth revisiting as a credible and useful alternative forum to the UN. The more clearly the people of liberal democracies can show that their countries work well, and work well together, the more secure they will feel, the more secure they will be and the more others will wish to join them. The world needs a vision of international relations which shores up, promulgates and defends liberal ideals. If liberal nations look only inward and give up either the power or the will to act, they will lose the moment, and perhaps their future.

## VI

### A call to arms

OVER the past couple of years there has been a boom in gloomy books with titles such as "The Retreat of Western Liberalism" or "Has the West Lost It?". Magazine articles routinely ask "Is Democracy Dying?" (*Foreign Affairs* and more recently the *Atlantic*) or "What's killing liberalism?" (the *Atlantic* again). The cock-of-the-walk confidence with which liberals strode into the 21st century has given way to trembling self-doubt.

Good. A complacent liberal is a failing liberal. The crucial liberal reinventions at the turn of the 20th century, during the Depression, and in the stagnation and inflation of the 1970s were all accompanied by books in

which liberals (and sometimes a few others) declared the creed to be in crisis, betrayed or dead. Such restless self-doubt spurred the adaptability that has proved liberalism's greatest strength.



This essay has argued that liberalism needs an equally ambitious reinvention today. The social contract and geopolitical norms that underpin liberal democracies and the world order that sustains them were not built for this century. Geography and technology have produced new concentrations of economic power to tackle. The developed and the developing world alike need fresh ideas for the design of better welfare states and tax systems. The rights of people to move from one country to another need to be redefined. American apathy and China's rise require a rethinking of the world order—not least because the huge gains that free trade has provided must be preserved.

The need for new thinking does not mean ignoring the lessons of history. The 21st century brings some challenges not seen before, most obviously and most worryingly climate change, but also the prospects of intrusive new technologies of the mind. But inequality of opportunity and the discontent it drives are not new. Nor is the unhealthy concentration of

wealth and power. That is why it is worth dusting off 19th-century ideas, from vigorous competition policy to the taxation of land and inheritance.

Whether it was the Anti-Corn Law League, America's Progressive movement, the architects of the Bretton Woods system or the free-marketeers who urged the taming of inflation and the rolling back of the state in the 1970s, liberal reformers at their best have shared a dissatisfaction with the status quo and a determination to attack established interests. That sense of urgency and boldness is missing now. Liberal reformers have become liberal insiders, satisfied beneficiaries of the world they have helped to build. Their setbacks provoke despondency and panic more than determination. They lack a motivator on a par with the fear (of socialism, fascism or communism) or the trauma of failure (the Depression, the world wars) that drove past reinventions. The threats of nationalism and authoritarianism, though grave and pressing, seem less acute. The success with which policymakers prevented the 2008 financial crisis from spiralling into a global depression added to the complacency and dulled the hunger for more radical reform—even though the mishandling of the crisis in Europe led to many of that continent's current political problems.

Liberals need to shake themselves out of this torpor. And they need to persuade others of their ideas. All too often, in recent years, liberal reforms have been imposed by judges, by central banks and by unaccountable supranational organisations. Perhaps the best-founded part of today's reaction against liberalism is the outrage people feel when its nostrums are imposed on them with condescending promises that they will be the better for it.

Liberals also need to look at the degree to which self-interest blunts their reforming zeal. The people who produce and promulgate liberal policy are pretty well enmeshed with the increasingly concentrated corporate elite. Its well-heeled baby-boomer bloc is happy to get pensions that economic logic says it should forgo. If there is a greater liberal stronghold than the international institutions which liberals need to reform, it is the universities that they need to reappraise, given the urgent need to support lifetime learning. Liberals have gained the most when they have taken on entrenched power. Now that means attacking both their current allies and their own prerogatives.

How do you kick-start a liberal reinvention? It may be necessary to up-end traditional party structures, much as Emmanuel Macron has already done in France. It may demand a new generation of politicians who cannot be blamed for the way things are and articulate better than today's crop how things should be. But whoever leads, they and their followers need to be willing to test their ideas against others' as forthrightly as possible.

That means free speech—a lot of it. And speech that is well informed and in good faith, too. But as autocrats gain clout, the room for free speech is shrinking. Only 13% of the world's people live in a country with a truly free press, according to Freedom House. In America, Donald Trump's pathological lying and constant attacks on the media as "enemies of the people" and "fake news" are taking their toll. But the fact-free world of paranoid fantasy that right-wing media provide for his followers is a bigger problem.

So is the echo chamber afforded by social media—even when they are not being manipulated by foreign powers. By reinforcing people's biases, they cut off the competition ideas need if they are to improve. At the same time they discredit the compromise that democracy needs. They relentlessly encourage a focus on the identity politics that increasingly consume left-liberals, particularly in America, drawing attention away from the broad canvas of economic and political reform to the fine brush strokes of comparative victimology. Online as elsewhere, identity politics have obstructed robust debate and promoted soft censorship.

*The Economist* thus marks its 175th anniversary with wariness, with optimism and with purpose. Wariness because not enough people have grasped the scale and urgency of the reforms needed if the values and insights that underpin our founding creed are to flourish as they should. Optimism because those values are as relevant as ever.

Purpose because nothing serves liberalism better than "a severe contest between intelligence, which presses forward, and an unworthy, timid ignorance obstructing our progress". James Wilson's words are reprinted on the first page of his newspaper this week and every week. We start our second 175 years with a renewed determination to live up to them.