Waste

Cash for trash

How the world should cope with its growing piles of rubbish

THE world is producing ever more rubbish. Households and businesses took out 2bn tonnes of trash in 2016, the equivalent of 740g each day for every person on the planet. The World Bank predicts the annual pile could grow by 70% by 2050, as the developing world gets richer.

Such waste is not simply unsightly, it also threatens public health. Diarrhoea, respiratory infections and neurological conditions are more common in areas where waste is not regularly collected. And even where it is, it can cause environmental problems (see our special report this week). Greenhouse gases from the waste industry, principally in the form of methane from older landfill sites, could account for as much as a tenth of the global total by 2025. The case for taking action is clear. But what kind of action depends on where you are.

Poorer countries often lack good waste infrastructure. Rubbish piles up on open dumps, if not in the street. In July, for example, India's Supreme Court warned that Delhi is buried under "mountain-loads of garbage". Such places must invest enough to get the basics right. One study found that burning, dumping or discharging rubbish into waterways costs south Asian economies $375 per tonne in pollution and disease. Basic disposal systems would cost only $50-100 per tonne. Morocco's government reckons the $300m it has recently invested in sanitary landfills has already averted $440m in damage. Such spending makes sense even when budgets are tight.

The rich world has a different problem. It is good at collection. But at the start of 2018, China, until then the destination for many of the world's recyclable material, stopped importing most waste plastic and paper, and severely curtailed imports of cardboard. Rich countries must recycle more, dispose of more waste at home or no longer produce as much.

For environmentalists the preference for recycling is obvious. Some even want economies to become "circular"—ie, to reuse or recycle everything. But anyone arguing that reducing physical waste is a moral imperative needs to reckon with recycling's hidden costs. Somebody must pick out, clean, transport and process junk. When the time and effort obviously pay off, the economy is already naturally circular. Three-quarters of all aluminium ever smelted remains in use, and there is a thriving market for used aluminium cans. But for other materials, recycling just isn't worth it.

Round and round

That is partly because chucking stuff out is artificially cheap. Were landfill and incineration priced to reflect their environmental and social costs, people would throw their rubbish in the river or dump it by the road instead. Rules to discourage waste should therefore focus on producers rather than households. The principle of taxing pollution should be extended to cover makers of things that will need disposing of. A good example is the requirement, pioneered in Europe, for firms to finance the collection and recycling of electronic waste.

Transparent subsidies for the recycling industry would also help. It is better to pay the industry to absorb trash, and let the market take care of the rest, than to craft crude rules with unknowable costs, such as San Francisco's ambition to send zero waste to landfill. If recycling is sufficiently profitable, more waste will become a valuable commodity. Some of it might even be dug back out of the ground.

Thankfully, rubbish is one environmental issue where there is little need to worry about political incentives. Voters everywhere want rubbish to be taken away—and they do not want to live near landfill sites and incinerators. The trick is to get the economics right, too. ■

Citizenship for sale

What price a passport?

Selling citizenship and residence is fine, as long as ne'er-do-wells are weeded out

WHEN Roman Abramovich had problems renewing his British visa, he turned to Switzerland. It rejected his residence application, however, after Swiss police said he posed a "reputation risk". (He denies wrongdoing.) The colourful Russian billionaire and owner of Chelsea football club now has an Israeli passport, allowing him visa-free travel to Britain, and is converting a former hotel into his Tel Aviv pad.

Israel offers nationality to any Jew who asks for it. Other oligarchs have to pay for the privilege, but they are spoilt for choice. Citizenship- and residence-for-sale schemes, typically charging between $100,000 and $2m, are booming (see International section). More than a dozen countries sell passports and around 100 sell residence. An industry of lawyers, bankers, accountants, consultants and estate agents has sprouted up to serve well-heeled "investment migrants".

The idea of selling passports repels some people. Citizenship is a sacred bond, they argue, and should be granted only to foreigners who prove themselves worthy. Why should the rich be allowed to jump the queue? Especially since some of the queue-jumpers are crooks or tax-dodgers, who want a new home in which to hide or launder their loot.

There are legitimate reasons for wanting a second passport. ▸▸

Travelling businessfolk from poor or Muslim countries face endless visa hassles unless they have one. Others seek an extra passport as insurance against instability or persecution. More than a third of rich Chinese would like a foreign bolthole (which may mean flouting China's ban on dual citizenship). Countries meeting this demand gain a straightforward benefit: easy money to spend on public services. For hurricane-hit Caribbean states, passport-flogging has been a lifeline.

Regardless of who gains, a principle is at stake. Countries have every right to reserve citizenship for people who try to become like the native-born population, for instance by learning the language. But they also have the right to sell it, if voters agree. Citizenship is a basic matter of national competence.

Citizens of somewhere, and somewhere else

Its sale should not be unconstrained, however. Member states of the European Union need to agree on common principles governing whom to admit, since a passport from one gives access to live and work in all. Tiny states that sell lots of passports face another risk. If they overdo it, native voters could eventually be outnumbered by citizens of convenience. Some states may therefore wish to restrict voting rights to those who forge a deeper connection with the place, for instance by residing there for a minimum period each year.

All citizenship-sellers, large and small, should do more to weed out undesirables. Too often, their programmes open a back door to dirty money; think of the ill-gotten Russian gains that have been laundered through Cyprus, one of the EU's most enthusiastic hawkers of passports. The industry talks a good game, emphasising recent improvements in client-vetting. But it has moved too slowly.

The time has come for stricter "know-your-customer" rules and the blacklisting of countries that offer havens for migrants with dirty money. Stiffer rules are also needed to thwart passport-buyers whose aim is to evade tax on money that was lawfully earned. In the United Arab Emirates, for instance, foreigners are buying residence and using it to secure tax residence too, which allows them to block the flow of data to tax authorities elsewhere. Banks should be required to establish where clients' personal and economic links are strongest, and to snitch on those whose tax residence looks like a sham.

There are many sound reasons to grant residence or citizenship to foreigners who are prepared to pay for it. Abetting criminals is not one of them. ■

LIBOR

Tick tock

The hunt for a new benchmark interest rate poses risks to financial stability

IT HAS been called the world's most important number. LIBOR, which stands for the London Interbank Offered Rate, is a benchmark interest rate, representing the amount that banks pay to borrow unsecured from each other. Globally, it underpins $260trn of loans and derivatives, from variable-rate mortgages to interest-rate swaps. But LIBOR's days are numbered. It is due to be phased out in three years. Broadly speaking, LIBOR's planned demise is a good thing. But that does not mean it will go smoothly.

The case for moving away from LIBOR as a reference rate is powerful. The rate is based on a panel of banks submitting estimates of their own borrowing costs. The rigging scandals that made LIBOR notorious in 2012 showed how this process could be manipulated. They have also made many banks nervous of being involved. The interbank market has become less important since the financial crisis, because new rules encourage banks to use other forms of borrowing. That means there are fewer transactions to base the rate on. Anyway, it is unclear why a measure depending in part on banks' credit risk should be part of an interest-rate swap, say, between two companies.

Hence the decision by British financial regulators to cease requiring banks to submit rates after 2021. Hence, too, the race by central banks, regulators and the industry to cook up replacements (see Finance section). An alphabet soup of new reference rates, from SOFR and SARON to SONIA and TONAR, is already simmering away.

Welcome though it is, the end of LIBOR poses two risks. One is of market instability, as trillions of dollars-worth of financial contracts that are based on LIBOR are forced, after its discontinuation, to anchor themselves to a new benchmark rate. That shift could have big effects, such as a sudden jump to higher interest rates for borrowers. This is not just a theoretical concern. The Bank of England pointed out in June that in the previous 12 months the stock of LIBOR-linked sterling derivatives stretching beyond 2021 had grown. The answer to this is for contracts to have proper "fallback" clauses which specify what happens when LIBOR disappears. Regulators are applying pressure to get these included, but efforts to amend existing contracts before 2021 could easily end up in the courts.

The devil you know

The other risk concerns the post-LIBOR world, where the new reference rates may cause banks' assets and liabilities to become disconnected. Flawed though it is, the use of LIBOR offers banks a hedge against sudden moves in their own borrowing costs. The interest rates they charge and the interest rates they pay, whether for one day or one year, are linked by LIBOR.

The alternatives may not move in sync. They refer to the cost of borrowing overnight, not for a range of maturities. The rate being promoted by the Federal Reserve is for borrowing secured against American government securities. In a crisis, it is easy to imagine that demand for such high-quality collateral would go up even as willingness to lend to banks goes down. That would mean banks' income from loans would fall just as their own borrowing costs rose.

Neither of these dangers can be wished away. Finding a rate that is both immune to manipulation and an accurate reflection of banks' borrowing costs is hard. And replacing a number that has become embedded in the financial system risks instability. LIBOR deserves to be buried. It may still be mourned. ■