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# How long will Amer



By Fared Zakaria

*The United States is still the dominant force in technology, innovation, productivity and profits. But Americans don't quite realise how fast the rest of the world is catching up*

**Q**UEEN Victoria's diamond Jubilee, held in London on June 22, 1897, was one of the grandest fetes the world has ever seen. 46,000 troops and 11 colonial prime ministers arrived from the four corners of the earth to pay homage to their sovereign. The event was as much a celebration of Victoria's 60 years on the throne as it was of Britain's superpower status. In 1897, Queen Victoria ruled over a quarter of the world's population and a fifth of its territory, all connected by the latest marvel of British technology, the telegraph, and patrolled by The Royal Navy, which was larger than the next two navies put together. "The world took note," says the historian Karl Meyer. *The New York Times* gushed: "We are a part . . . of the Greater Britain which seems so plainly destined to dominate this planet."

An 8-year-old boy, Arnold Toynbee, who became a great historian, watched the parade while sitting on his uncle's shoulders. "I remember the atmosphere," he later wrote. "It was: well, here we are on the top of the world, and we have arrived at this peak to stay there — forever! There is, of course, a thing called history, but history is something unpleasant that happens to other people."

Well, Americans have replaced Britons atop the world, and we are now worried that history is happening to us. History has arrived in the form of "Three Billion New Capitalists", as Clyde Prestowitz's recent book puts it, people from countries like China, India and the former Soviet Union, which all once scorned the global market economy but are now enthusiastic and increasingly sophisticated participants in it. They are poorer, hungrier and in some cases well trained, and will inevitably compete with Americans and America for a slice of the pie. A Goldman Sachs study concludes that by 2045, China will be the largest economy in the world, replacing the United States.

It is not just writers like Prestowitz who are sounding alarms. Jeffrey Immelt, CEO of GE, reflects on the growing competence and cost advantage of countries like China and even Mexico and says, "It's unclear how many man-

ufacturers will choose to keep their businesses in the United States." Intel's Andy Grove is more blunt. "America . . . [is going] down the tubes," he says, "and the worst part is nobody knows it. They're all in denial, patting themselves on the back, as the Titanic heads for the iceberg full speed ahead."

Much of the concern centres on the erosion of science and technology in the US, particularly in education. Eight months ago, the national academies of sciences, engineering and medicine came together to put out a report that argued that the "scientific and technical building blocks of our economic leadership are eroding at a time when many nations are gathering strength". President Bush has also jumped onto the competitiveness issue and recently proposed increases in funding certain science programmes. (He has not, however, reversed a steady decline in funding for biomedical sciences.) Some speak of these new challenges with an air of fatalism. The national academies' report points out that China and India combined graduate 950,000 engineers every year, compared with 70,000 in America; that for the cost of one chemist or engineer in the US a company could hire five chemists in China or 11 engineers in India; that

nomics, has been over 2.5 percent for a decade now, again a full percentage point higher than the European average. In 1980, the United States made up 22 percent of world output; today that has risen to 29 percent. The US is currently ranked the second most competitive economy in the world (by the World Economic Forum), and is first in technology and innovation, first in technological readiness, first in company spending for research and technology and first in the quality of its research institutions. China does not come within 30 countries of the US on any of these points, and India breaks the top 10 on only one count: the availability of scientists and engineers. In virtually every sector that advanced industrial countries participate in, US firms lead the world in productivity and profits.

The situation with regard to higher education is even more dramatic. A new report, "The Future of European Universities", from the London-based Centre for European Reform, points out that of the world's 20 top universities, 18 are American. The US invests 2.6 percent of its GDP on higher education, compared with 1.2 percent in Europe and 1.1 percent in Japan. The situation in the sciences is particularly striking. A list of where the world's 1,000 best computer

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of the 120 \$1 billion-plus chemical plants being built around the world one is in the United States and 50 are in China.

There are some who see the decline of science and technology as part of a larger cultural decay. A country that once adhered to a Puritan ethic of delayed gratification has become one that revels in instant pleasures. We're losing interest in the basics — math, manufacturing, hard work, savings — and becoming a post-industrial society that specialises in consumption and leisure. "More people will graduate in the United States in 2006 with sports-exercise degrees than electrical-engineering degrees," says Immelt. "So, if we want to be the massage capital of the world, we're well on our way."

There is a puzzle in all this, however, which is that these trends and features have been around for a while, and they do not seem to have had an impact — so far at least — on the bottom line, which is GDP growth. Over the past 20 years, America's growth rate has averaged just over 3 percent, a full percentage point higher than that of Germany and France. (Japan averaged 2.3 percent over the same period.) Productivity growth, the elixir of modern eco-

scientists were educated shows that the top 10 schools were all American. Our spending on R&D remains higher than Europe's, and our collaborations between business and educational institutions are unmatched anywhere in the world. America remains by far the most attractive destination for students, taking 30 percent of the total number of foreign students globally. These advantages will not be erased easily because the structure of European and Japanese universities — mostly state-run bureaucracies — is unlikely to change. And while China and India are creating new institutions, it is not that easy to create a world-class university out of whole cloth in a few decades.

The American economy is also particularly good at taking technology and turning it into a product that people will buy. An unusual combination of an entrepreneurial culture, a permissive legal system and flexible capital markets all contribute to a business culture that rewards risk. This means that technology is quickly converted into some profitable application. All the advanced industrial countries had access to the Web, but Google and the iPod were invented in America. It is this skill, as much as raw techno-

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# America lead the world?

logical brainpower, that has distinguished the American economy from its competitors'.

And then there are the demographics. The United States is the only industrialised country that will not experience a work-force or population loss in the coming decades, thanks to immigration. Germany and Japan are expected to see their populations drop by 5 and 12 percent, respectively, between now and 2050. China will also face a demographic crunch. By 2040, it will have a larger percentage of elderly people than the United States. The one-child policy has led to something that China's demographers call the "4-2-1 problem" — four grandparents and two parents will have to be supported by one worker.

The United States' share of the global economy has been remarkably steady through wars, depressions and a slew of rising powers. It was 32 percent in 1913, 26 percent in 1960, 22 percent in 1980 and 27 percent in 2000. With the brief exception of the late 1940s and 1950s — when the rest of the industrialised world had been destroyed — the United States has taken up about a quarter of world output for about 120 years and is likely to stay in roughly the same position for the next few decades if it can adapt to the current challenges it faces as well as it adapted to those in the past.

Don't get me wrong. Today's challenges are real and daunting. The world economy is more open to competitors than it has ever been. Countries around the globe are taking advantage of this new access, or to put it another way, the natives are getting good at capitalism. Technologies like broadband Internet, fibre-optic cable (which means cheap phone calls) and deregulated air travel have made it possible for people from Costa Rica, South Africa and Thailand to compete with Americans for their jobs. And China and India are different from all previous competition because their sheer size — 2.3 billion people! — means that they have an almost limitless supply of low-skilled labour on the one hand and a fairly large group of highly skilled workers on the other, both extremely cheap by Western standards. No worker from a rich country will ever be able to equal the energy and ambition of people making \$5 a day and trying desperately to move out of poverty.

So what should the United States do? What has it done in the past? First, be scared, be very scared. The United States has a history of worrying that it is losing its edge. This is at least the fourth wave of such concerns since 1945. The first was in the late 1950s, produced by the Soviet Union's launch of the Sputnik satellite. The second was during the early 1970s, when high oil prices and slow growth in the US convinced Americans that Western Europe and Saudi Arabia were the powers of the future and President Nixon heralded the advent of a multipolar world. The most recent one was in the mid-1980s, when most experts believed

that Japan would be the technologically and economically dominant superpower of the future. The concerns in each one these cases was well founded, the projections intelligent. But the reason that none of these scenarios came to pass is that the American system — flexible, resourceful and resilient — moved quickly to correct its mistakes and refocus its attention. Concerns about American decline ended up preventing it. As Andy Grove puts it, "Only the paranoid survive."

America's problem right now is that it is not really that scared. There is an intelligent debate about these issues among corporate executives, writers and the thin sliver of the public than is informed on these issues. But mainstream America is still unconcerned. Partly this is because these trends are operating at an early stage and somewhat under the surface. Americans do not really know how fast the rest of the world is catching up. We don't quite believe that most of the industrialised world — and a good part of the non-industrialized world as well — has better cell-phone systems than we do. We would be horrified to learn that many have better and cheaper broadband — even France. We are told by our politicians that we have the best

rowing 80 percent of the world's savings and our national bill for litigation is now larger than for research and development. None of these problems is a deep-seated cultural mark of decay. They are products of government policy. Different policies could easily correct them. But taking such steps means doing something that is hard and unpopular.

The genius of America's success is that the United States is a rich country with many of the attributes of a scrappy, developing society. It is open, flexible and adventurous, often unmindful of history and tradition. Its people work hard, putting in longer hours than those in other rich countries. Much of this has to do with the history and culture of the society. A huge amount of it has to do with immigration, which keeps America constantly renewed by streams of hard-working people, desperate to succeed. Science laboratories in America are more than half filled with foreign students and immigrants. Without them, America's leadership position in the sciences would collapse. That is why America, alone among industrial nations, has been able to do the nearly impossible: renew its power and stay at the top of the game for a century now. We can expand our science programmes — and we

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health-care system in the world, despite strong evidence to the contrary. We ignore the fact that a third of our public schools are totally dysfunctional because it doesn't affect our children. We boast that our capital markets are the world's finest even though of the 25 largest stock offerings (IPOs) made last year, only one was held in America. It is not an exaggeration to say that over the past five years, because of bad American policies, London is replacing New York as the world's financial capital.

The best evidence of this lack of fear is that no one is willing to talk about any kind of serious solutions that impose any pain on society. Politicians talk a great deal about competitiveness and propose new programmes and initiatives. But the proposals are small potatoes compared with, say, farm subsidies, and no one would ever suggest trimming the latter to dramatically increase spending on the sciences. The great competitive problems that the American economy faces would require strong and sometimes unpleasant medicine. Our entitlement programmes are set to bankrupt the country, the health-care system is an expensive time bomb, our savings rate is zero, we are bor-

should — but we will never be able to compete with India and China in the production of engineers. No matter what we do, they will have more, and cheaper, labour. What we can do is take the best features of the American system — openness, innovation, immigration and flexibility — and enhance them, so that they can respond to new challenges by creating new industries, new technologies and new jobs, as we have in the past.

Our greatest danger is that when the American public does begin to get scared, they will try to shut down the very features of the country that have made it so successful. They will want to shut out foreign companies, be less welcoming to immigrants and close themselves off from competition and collaboration. Over the past year there have already been growing paranoia on all these fronts. If we go down this path, we will remain a rich country and a stable one. We will be less troubled by the jarring changes that the new world is pushing forward. But like Britain after Queen Victoria's reign, it will be a future of slow, steady national decline. History will happen to us after all. **COURTESY NEWSWEEK**