

## The US in the early 21st century: decline or renewal?

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### Theme

The core challenge for the US in the first quarter of the 21st century is the capacity of its political system to fashion and implement public policies to respond effectively to today's and tomorrow's concerns.

### Summary

The bitter impasse finally, if temporarily, resolved in Washington last week made it absolutely evident to all that the US faces serious problems. These problems did not suddenly arise, nor are they limited to the showdown regarding the shutdown of government activities and services and raising the national debt limit. The difficulties are not only political, but also economic and social; they have developed over many years, and they are by no means resolved. Nevertheless, the core challenge for the US in the first quarter of the 21<sup>st</sup> century is not the prowess or potential of its economy nor its relative external power and influence. The central question is, rather, the capacity of the US political system to fashion and implement public policies to respond effectively to today's and tomorrow's concerns. Whether the US political system can regain its former capacity, evident in past times of war and other crises, to mobilise the country's resources and energies is the central question for the US in coming years.

### Analysis

The bitter impasse finally, if temporarily, resolved in Washington last week made it absolutely evident to all that the US faces serious problems. These problems did not suddenly arise, nor are they limited to the showdown regarding the shutdown of government activities and services and raising the national debt limit. **The difficulties are not only political, but also economic and social;** they have developed over many years, and they are by no means resolved.

GDP growth in the US was more than 4% in the early 1960s, fell below 3% in the late 1970s, regained some strength in the late 1980s and early 1990s, but then dropped to its current level of less than 2%, with most forecasts suggesting that it will remain in that range for some considerable time. The US has had prolonged high unemployment, sharply reduced consumer confidence and the spectre of likely eventual inflation. With tax revenues down and high deficits but staunch political resistance to tax increases, public services had been sharply cut back even before the 2013 'sequestration' (across-the-board budget cuts throughout the federal government), caused by another

Congressional impasse.

America's once-vaunted infrastructure is beginning to crumble, undercutting competitiveness. Roads and bridges are in disrepair, and some are collapsing. The air traffic control system is dangerously antiquated, and the railroad system is creaking. The energy grid sometimes malfunctions. Cellular and broadband systems are slow compared with those in many other advanced nations; the US ranks 20<sup>th</sup> in broadband penetration and 33<sup>rd</sup> in broadband speed.

The quality of education, especially at the primary and secondary levels, has been declining in comparison with other nations. The US ranks 28<sup>th</sup> in the world in the overall quality of the educational system and 38<sup>th</sup> in the quality of primary education.

Even higher education, long the forte of the US, is now declining, at least by some measures, in relative terms. The US ranks 14<sup>th</sup> among 32 countries in the percentage of college graduates, for example. Public universities across the nation are being severely weakened by budget cuts, and many private colleges and universities are similarly challenged.

Poverty in the US has worsened, especially for African Americans and Hispanic Americans. More than 46 million people today live in poverty, the highest number in more than 50 years. Income inequality has worsened significantly; the percentage of national income earned by the top 1% of Americans has risen from about 9% in 1980 to 23.5% in 2007 and more today. The percentage of wealth owned by the top 1% is even higher, more than 34%. One family, six descendants of Sam Walton of Walmart, owns more than the combined wealth of the bottom 30% of the entire US population.

This has been in many respects a Lost Decade for the US economy. Median household disposable real income is 4% lower today than it was in 2000, though it has risen in most OECD countries. Unemployment is more than double what it was 10 years ago. The percentage of Americans relying on food stamps to afford basic necessities has doubled. The middle-class dream of the single-family home has become problematic for millions of Americans.

Meanwhile, the federal government's debt climbed from 36% of the GNP in 1970 to 59% in 2000, 64% in 2007, and now exceeds 100%. Structural deficits at federal, state and municipal levels will likely be hard to reduce significantly for years to come. The political parties, branches of government and diverse interest groups clash fiercely over the relative priority of deficit reduction and spending needs, with the Republican Party ever more identified with balanced budgets and reduced taxes as firm if not necessarily compatible commitments.

**Economic downturn, worsening inequity and unravelling social cohesion have contributed to political deterioration.** Political institutions of all kinds are increasingly in disrepute: parties, Congress, the presidency, even the courts. Special

interest groups and single-issue constituencies press their views unrelentingly. Campaign finance considerations have become an ever-more powerful and pervasive aspect of the US political system, especially since the Supreme Court's 2010 decision in the Citizens United case that removed limits on what wealthy individuals, labour unions and corporations can spend to support political causes and candidates.

**Both media consolidation and the fragmentation of media markets have contributed to intense political polarisation.** Millions of Americans are exposed almost entirely to one partisan extreme or another. The bounds of public policy debate, historically mostly limited to broadly centrist alternatives and long pushed toward consensus by the nature of US political institutions, have been widening.

Americans have been moving geographically to live with other like-minded people, forming homogeneous communities of lifestyles, values, beliefs and ultimately politics. In 1976 fewer than 25% of Americans lived in 'landslide' counties, those where the margin of victory in presidential election results is 20% or higher; now almost half do.

Economic and political divisions have been exacerbated by cleavages between the coasts and the heartland, rural and urban residents, immigrants and anti-immigrants, homosexual and homophobic Americans, religious and secular, and among the well to do, the middle class and the poor. Civic discourse has descended to the level of confrontational rhetoric and competing bumper stickers.

The once admired political system of the US, with its powerful concepts and institutions designed to provide checks and balances, is increasingly dysfunctional. The core problem today is not, as it was for the country's founders, limiting the concentration of too much power in the hands of one individual, faction, party or branch of government. Rather it is the inability of the governance system to consistently fashion and implement coherent and effective public policies to confront the country's major challenges. The spectacle of government shutdown was the most dramatic instance of this gridlock, but the problem has been evident on many other issues, large and small. It has been impossible for President Barack Obama to fill important executive and judicial appointments, for instance, due to historically unprecedented obstructionist manoeuvres in Congress.

All these trends feed a sense of stalemate, breeding public disillusion that is expressed by some as apathy and by others as anger. Nearly 80% of the American public in recent polls have said they are not satisfied with the country's direction. An even greater share has said that they disapprove of the performance of Congress. The courts, exempt from serious political attack in most previous generations, are now rebuked by vociferous politicians who threaten wholesale impeachment of judges. Increasingly, issues that are eminently political and legislative –such as the provisions of the national health care insurance reforms, voter registration requirements and immigration laws– are challenged in the courts, which are in turn often subject to street demonstrations and counter-demonstrations.

### *US Decline in Perspective*

Even if this summary of American decline is accurate in its specific details, is this perhaps just a snapshot in time, a temporary situation accounted for by the financial crash of 2008 and its immediate consequences? Or is the US experiencing longer term deterioration, likely to endure and perhaps even to accelerate?

Concerns about the supposed decline of the US are by no means new. Samuel P. Huntington published an essay in *Foreign Affairs* in 1988, pointing out that then-current popular and policy-oriented writings, analysing the loss of American economic hegemony and its consequences, marked the fifth wave of 'declinism' since the 1950s, and there have been others since. Each of these waves has been based on some observable data, but each has failed to take into account or to foresee contrary tendencies or potential that have reversed many of the identified negative trends.

The view that the US is in rapid decline and that its international influence is fast waning, fashionable in some international intellectual circles, is tinged by some understandable local triumphalism in China, Brazil and elsewhere, and maybe by a bit of *schadenfreude*. In part, the perception of American deterioration may derive from some time lag in fully recognising that US dominance in the mid-20<sup>th</sup> century had already decades ago begun to give way to a more normal position of important regional and global power, without omnipotence or anything close to that.

The stature of the US in the mid-20<sup>th</sup> century was exceptional; it could not possibly last. This overwhelming primacy owed largely to the fact that all the other significant international powers of the 1920s and 1930s, both the eventual victors and the vanquished in World War II, were severely weakened by that war; only the US emerged stronger than it had been. The international power of the US has inevitably receded from that zenith.

Those who suggest that the international influence of the US is rapidly declining highlight its failure to stabilise Iraq and Afghanistan, its inability to secure other high priority objectives in Iran, North Korea, Syria and in the Israel-Palestine conflict, and the serious tainting of its international reputation arising from a variety of incidents, domestic and international, including human rights abuses and the massive surveillance of private communications. They also emphasise the near-collapse of its financial institutions in 2008 and the consequent weakening of the American (and the world) economy and the absence of effective US leadership on global issues ranging from climate change to trade regimes, the law of the seas to international criminal justice.

**These failures do demonstrate serious trouble and perhaps decline, but the idea that they amount to an unprecedented and irreversible deterioration in the global position of the US requires some amnesia.** Compare US problems today with those in the 1960s and 1970s, not to mention those of the 1930s or the 1860s. The US president, a presidential candidate and two prominent civil rights leaders were assassinated in the 1960s, as were several others championing social

change. Two consecutive US presidents left office in disgrace, Lyndon Johnson hounded out by popular opposition to the Vietnam War and Richard Nixon in the face of impeachment for the Watergate scandal and cover-up. The US was forced to retreat ignominiously from Vietnam and suffered the humiliation of the Iran hostage episode. OPEC enforced a successful petroleum embargo that temporarily disrupted the US economy. The US suffered recurrent economic recessions, sometimes combined with high inflation, which reached 13.5% in 1980.

Throughout these challenging years, the US faced domestic and international problems that were arguably as difficult as today's, and was also locked in a potentially deadly world-wide rivalry with the Soviet Union, then a major thermonuclear power. Even so, the US still accounted into the 1970s and 1980s and beyond for more than a quarter of the world's economic production and had overwhelming military superiority over the USSR and any other nation. And during this time of troubles, the US actually began once again to improve its economic productivity and competitiveness, leading to a new period of prosperity in the late 1980s and 1990s.

The US has been more dominant or less so at various points. Emerging countries such as China, India, Brazil and others have begun to increase their shares of world production and power in recent years. It is true that the US is not as overwhelming as it was in 1950, or as it seemed to be in the brief unipolar moment after the collapse of the Soviet Union in the early 1990s, but it is still the world's most influential nation.

**The US does face serious problems, to be sure, but so do other countries.** The nations of the EU are trying to stanch the financial losses and relieve high unemployment in Greece, Italy and Spain, to maintain economic integration in the face of increasing national disparities and to preserve social welfare programs that are no longer affordable. Many face rising frictions about the growing presence of non-European immigrants and the return of populist, exclusionary and racist movements. The European nations account for 7% of the world's population, 25% of global economic production and 50% of social spending, an evidently unsustainable mix.

Russia is regressing toward authoritarian politics, beset by gross corruption and pockets of grotesque affluence, and weakened by low birth rates and population decline. Japan has a long-stagnant economy and a rapidly aging population. China and India are each trying to incorporate hundreds of millions of people mired in rural poverty, and to respond to growing unrest about crime and corruption without losing their system's political legitimacy.

Brazil, Mexico and other Latin American countries must improve the quality of their primary and secondary education sufficiently to train the many thousands of scientists and engineers as well as skilled workers who will be needed to compete effectively in the global knowledge economy. Latin American countries must also increase significantly their historically low savings and investment rates and develop adequate infrastructures for the 21<sup>st</sup> century.

Some global redistribution of economic and political power has certainly been occurring over the past 50 years, and especially in the last 20. During these years, the economies and influence of several 'emerging economies' have grown remarkably. Global economic dynamism has shifted to a significant extent from the Atlantic to the Pacific. Most of the measurable evidence of this shift, however, shows that it has occurred largely at the expense of Europe, Russia and Japan, not of the US. The US share of global GDP fell slightly from 27.2% in 1970 to 26.3% in 2010, but Europe's, Russia's and Japan's fell more. Compared with these powers, the US share of world production has actually improved.

### *The US Capacity for renewal*

Looking toward the future, the US will maintain major demographic advantages over the EU countries, Russia and Japan. All these countries will likely experience population declines, some of them dramatic, aging of their populations and worsening dependency ratios that call into question the viability of social safety nets. The US, meanwhile, continues to experience population growth primarily due to international immigration, high birth rates among recent immigrants and a national fertility rate greater than that of all other major countries except India. US senior citizens do face a looming crisis of inadequate savings, but modest changes in the Social Security system, mainly by raising the cap on contributions and slightly modifying the age of eligibility, could largely resolve this potentially major problem.

As compared with Russia, China, India, Brazil, Mexico and other emerging countries, the US is likely to rank for the next several decades far ahead on numerous indicators of economic competitiveness and entrepreneurship, as well as on most indices of human development, mass education, participation in social media and on many comparative indicators of good governance.

It is certainly high time for Americans to abandon illusions of omnipotence and arrogant projections of 'American exceptionalism'. But it is equally important to reject the incipient tendency in some quarters to write off the US as trapped in an accelerating decline. **The US still has very considerable assets as well as a frequently demonstrated capacity for adaptation that should not be underestimated.**

The financial and economic crisis detonated in 2008 was a major inflection point, the effects of which may still be felt for years, perhaps decades. It was mainly caused by years of reckless practices in the financial services sector, based on a combination of ideology, hubris and technological shortcuts, fuelled by greed, unchecked by adequate regulation and exacerbated by short-term political considerations. But the financial meltdown was not a sign of underlying economic weakness or a fundamental lack of competitiveness of the US economy in the world.

The US remains a nation of continental scope, with vast natural resources and remarkable agricultural productivity. It has a very large domestic market and a huge

consuming public. The US has ethnic diversity, and still has considerable intergenerational social mobility, in fact and especially in prevailing popular belief. It has successfully integrated the talents of some 50 million immigrants since 1965, with much less tension and conflict than has been sparked by immigration in Europe. Although its financial institutions were severely compromised by the practices of the 1990s and the early years of this century, their integrity and strength have been largely restored, and the US dollar remains by far the world's most relied upon reserve currency.

The US has the world's most impressive institutions of higher learning, boasting eight of the top 10 and 53 of the top 100 best universities worldwide, according to a widely-cited international ranking. At these universities and in rich and abundant industry-university collaborations, the US produces much of the world's most advanced scientific and technological research that, in turn, stimulates constant innovation. The public-private partnerships of governmental, university, and private sector research institutions facilitate the rapid commercial exploitation of new knowledge. The US will remain a creative, productive and competitive as long as it keeps investing strongly in education and basic research.

The data on international students in the US highlight this competitive advantage. There were nearly 765,000 international students in the US in academic year 2011-12: almost 200,000 from China, more than 100,000 from India, 72,295 from Korea and nearly 50,000 from Latin America and the Caribbean (with the likelihood of many more to come from Brazil in future years under the new Science Without Borders programme). The US retains enormous capacity in computer sciences, communications technologies, biogenetic enterprises, nanotechnologies, clean energy and other areas of innovation.

China and India, Brazil and Mexico are today highly dynamic countries, but the US is far from static. It has moved from an economy dominated by manufacturing to one most prominent and competitive in services, and is now experiencing some resurgence in manufacturing, especially in advanced electronics. Much of its population has moved from the north-east and the Midwest to the south and far west, changing the country's political constellations and dynamics in the process.

The US has become in many ways a more diverse, creative and efficient nation. Its recent economic restructuring has been impressive. The housing sector is reviving, and various sectors of manufacturing have regained a competitive edge. Vested economic interests have not blocked the emergence of new technologies, new forms of production and marketing and new social media. The recovery of the US automotive industry has been remarkable. Innovative technologies for the exploitation of shale to produce natural gas amount to an energy revolution, with positive implications for the economy and security of the US, although with potentially adverse environmental consequences. The US is expected to reduce its petroleum imports by more than half by 2035, and sooner than that to become a net exporter of natural gas. It is also

expected to export more petroleum by 2017 than Saudi Arabia.

*The central challenge: fixing the US political system*

The core challenge for the US in the first quarter of the 21<sup>st</sup> century is not the prowess or potential of its economy nor its relative external power and influence. **The central question is, rather, the capacity of the US political system to fashion and implement public policies to respond effectively to today's and tomorrow's concerns.**

During the 1992 presidential election, Governor Bill Clinton had a famous sign in his campaign headquarters: 'It's the economy, stupid'; ie, the issue that really mattered to voters was the unsatisfactory state of the economy, and he needed, therefore, to keep a laser focus on that question.

Now it is the political system, not the economy, that requires prime attention. US political institutions –presidentialism, separation of powers and a two-party system with majority-rule electoral procedures– have long worked well together to produce consensual policies by facilitating the compromises necessary to fashion effective measures over time. For the past 35 years, however, a number of changes have undermined effective governance.

One change is the polarisation of US politics and its legislative expression. Voter migration within the US has produced regional polarisation of attitudes. Beliefs in the south contrast sharply with those prevalent in the north-east, the west coast, the Midwest and to a significant degree the mountain states on a variety of social, cultural and political issues ranging from family values to science and the role of government. Gerrymandering –altering boundaries of electoral districts for political advantage– exacerbates the impact of this phenomenon, producing legislators who play to their bases and highlighting primary elections that enhance the national power of local extremists. These trends have been reinforced by changes in communications media, including Internet news sources and blogs, that expose voters systematically to those with similar ideological bents and that greatly reduce fact-checking and the moderating editorial influences that used to be performed by major newspapers and national television networks. All these factors have contributed to the rightward radicalisation of the centre of gravity within the Republican Party, with its political base in the deep south. The most conservative Democratic member of Congress is to the left of the most liberal Republican, an unprecedented situation that makes coalition-building and compromise very difficult, as has been vividly illustrated this month.

A second change, gradual over the last decades but accelerating during the past 20 years, stems from major changes in campaign finance and the much expanded use of political action committees (PACs) on a national basis. Campaign contributions for presidential and congressional elections trebled from 1976 through 2000 (US\$2.8 billion to US\$6 billion) and then by another 214% in the first 12 years of the 21<sup>st</sup> century. Contributions from PACs jumped six-fold from 1980 to 2006 (US\$55 million in



1980 to US\$363 million in 2006) and under 15% by 2012. Special interests consequently have many more resources to support candidates, and they have correspondingly increased influence.

Third, powerful lobbying firms with high budgets and cadres of high-profile former government officials have become central actors in the policy-making process. Companies recruit and pay immense sums to former governmental officials to lobby and on behalf of special interests. Their cases advanced by these well-connected allies, special interests drown out the deliberation and compromise needed to make progress in Congress on such issues as health care and tax reforms, education and immigration policy.

A fourth problem with the US governance system today is precisely that few members of Congress today undertake the kind of interactive deliberation that marked the US legislative system for many decades; they spend their time in perpetual campaign mode rather than in building the basis for cooperative legislation.

None of these problems will be easily resolved. They have not emerged suddenly or very recently, but rather gradually over many years; some were hidden from view for many years by the discipline imposed by the Cold War. They cannot be attributed to just one party or faction, but result from decisions, actions or failures to act by both political parties and by many different interest groups, all operating within the rules of American constitutional practice that were designed for a different era, with far fewer actors, far less money and far less media coverage intruding on policymaking processes.

An underlying problem may derive from deeper aspects of contemporary US culture, particularly the relentless reinforcement of consumerism and immediate gratification. As Nathan Gardels and Nicolas Berggruen have recently observed that 'All the feedback signals in a consumer democracy – politics, the media and the market – steer behavior toward immediate gratification. In this Diet Coke culture, all too many... have come to expect consumption without savings or education, infrastructure and social security without taxes, just as they expect sweetness without calories in a soft drink'. This pithy summary captures a mix of entrenched attitudes that will not quickly be reversed.

### *Can the US rise to the challenge?*

A number of proposals are being discussed in the US today for dealing with the country's governance problems, though the path from discussion to adoption and implementation is far from assured. Various electoral reforms, for example, could contribute to diminishing ideological polarisation by expanding the electorate. Modest procedural reforms in Congress could help restore deliberation to Congress. Innovative use of interactive communications technologies could help restore a sense of participation and responsiveness to US politics. Blatant efforts, to the contrary, to constrict participation and hamstring effective policymaking could produce a backlash that finally opens the way for such reforms. It is possible that the Tea Party overreach in

October 2013 could ultimately have that effect.

**Constructive and potentially consensual approaches are now beginning to be discussed to confront many of the country's major public policy challenges,** though more often and prominently in think tanks and independent policy forums than in Congress, and more effectively in some states, especially California, than at the federal level. Pragmatic centrist approaches are being developed on health care delivery and insurance, equitable and phased reductions in entitlement programmes, comprehensive immigration reform, strategic investment in education, research, development and infrastructure, reshaped military and national security budgets to reallocate some of the vast resources long devoted to these sectors, energy policies that mitigate climate change while providing greater efficiencies and ultimately lower costs, and income and corporate tax reforms to make them more efficient and progressive, better able to generate needed revenues and well-aligned with key policy goals.

Public opinion polls show that considerable public support already exists for practical and centrist approaches on all these issues, ready to be mobilised if and when national political and legislative leaders turn back decisively from hyper-partisan competition towards constructive national policy-making. Whether and when this turn will occur is impossible to know, but opinion shapers in different segments of American society are more frequently and forcefully appealing for such a shift, and broad public opinion is increasingly critical of the destructive extremes and perpetual finger-pointing and are looking for centrist solutions. That tendency has been highlighted by the most recent Congressional showdown.

## Conclusion

Whether the US political system can regain its former capacity, evident in past times of war and other crises, to mobilise the country's resources and energies is the central question for the US in coming years. How it is answered will matter around the world, for this will help determine whether the US can be a reliable partner on important issues ranging from war and peace to trade, finance and investment, from climate change, public health, resource management to international crime, narcotics traffic, terrorism and citizen security. How the US relates with and affects the rest of the world in future years will depend in large measure on whether it can restore strength and effectiveness to its domestic political institutions. This will not be easy, but it should not be impossible.