



Transcript

Is America in Decline?

Professor Joseph Nye, University Distinguished Service Professor,
John F Kennedy School of Government, Harvard University

Chair: Sir Paul Judge, Senior Adviser, Chatham House

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Professor Joseph Nye:

Thank you very much. It's a pleasure to be back in London as always. Or Britain, as I'm also spending a little time in Oxford. It is also a particular pleasure to be back at Chatham House. Long ago I was a visiting research fellow, at Chatham House, so I have fond memories of this place.

What I am going to talk about, is this issue of *Is the United States in decline?* grows from the book which I have been working on for the past year. The book is about the future of power in the twenty-first century, how is it changing, and how is it likely to evolve? And so this piece about the American role is a subset of a larger argument, in questions and answers if you want we can expand to that larger question.

Certainly in the current period there is a conventional wisdom that the United States is in decline and that this is China's century. Any of you who happened to have looked at *The Financial Times* this morning, I noticed an op-ed that I wrote saying that I have tipped my hand, that I do not think it is China's century, but the conventional wisdom of American decline is quite prevalent.

Before we analyse it, it's worth noticing that it's not all that new as a theory. What's most impressive about theories of American decline, is that they come and go, it's like waiting for a coach at a coach stop. I mean, you wait and sooner or later one comes.

For example, in the 1950s, when the Soviet Union put up Sputnik, this led to a belief that this was the end of the United States. Khrushchev came to the United States and said we're going to bury you, a lot of people believed it, that America was in decline. Later in the 70s, when you have the oil crisis, when President Nixon closed the gold window, there were similar voices echoing the theory that "this is the end of American power".

This reoccurs again in the 1980s, during the Reagan administration, when you have the transition from an industrial economy to an information-based economy. You have all these rust-belt cities in the Mid-West closing because Japan is burying us, there was a cycle of decline then.

My friend Paul Kennedy, a great British expert to the United States, wrote a book called *The Rise and Fall of the Great Powers* and said that the United States was heading the way of Philip II's Spain.

I wrote a book in 1990 called *Bound to lead*, which argued that the United States is likely to be the leading country of the twenty-first century. I still think I got the answer right, but Paul got all the royalties.

The wisdom was that decline was there and so forth. What's striking about this though is, with these cyclical worries about American decline, is that they can often lead to bad policy. If you

look at 1990, the conventional wisdom that the US was in decline led to the view that Japan was winning. Senator Tsongas ran for President in 1992 on the slogan 'The Cold War is over and Japan has won', which led in the '92 election to a feeling that Japan is the enemy, or the threat, which led to bad policy.

Low and behold, within a decade, we make the absolute opposite mistake and by 2001 it's a unipolar world, the United States controls the world. The columnist Charles Krauthammer wrote a column in 2001. It says that the United States is so strong that it can do whatever it wants and no one else can choose anything but to follow. Well that led to some pretty disastrous policy too.

Now we're back in 2010, after the financial crisis, with the pendulum swinging back again. The financial crisis started in the US, it was the Americans' fault. This dethrones the image of the American financial system and the Wall Street model as being [inaudible] Now we have China, with the Beijing consensus as an alternative, another cycle of decline.

The point of reciting all this is to tell you that don't believe anything you hear that is based on extrapolation from short run trends. There's a great tendency to take recent things in the news and try to assume that this is the beginning of something long-term.

For example, during the financial crisis in 2008, President Medvedev said that this is the beginning of the end of US power. *The Far Eastern Economic Review* wrote an article that said we've just heard the first shifting of the tectonic plates of the transition of power in world politics.

But if you think hard about it, by reciting this history of decline, you'll see that there is much more psychology than reality in this. I mean, it's odd that we have these extremes of anxiety, or hubris, and that tells you something about how we see ourselves. But it doesn't really tell you about how the world is changing around us. So what I'm trying to do in this book that I'm writing is go below that psychology and ask what's happening in reality.

I think it's true that in the short term the financial crisis did have a negative effect on the United States. This damaged America's soft power, its reputation for knowing what it was doing and being competent in international financial markets. It has also saddled us in terms of the stimulus package that we had to use to get back on a growth path. And it's left us with a large debt that we're going to have to accommodate at some point. There are other British exports to the United States, such as Niall Ferguson, who said you will never be able to do it, that America's a new Greece.

So there are problems that have grown out of the financial crisis but before we accept all that, it's worth looking at the real economy that underlies the American political system and economic system.

If you look at the *World Competitiveness Report*, which is produced by the World Economic Forum at Davos every year. It's worth noticing that yes, the American's lost a place from 2008

to 2009 in the Davos ranking of World economies. It went from number one to number two. Number one was Switzerland. China incidentally was number twenty-nine.

And why would this be? Well really because it still remains an economy with very flexible labour markets, with a high investment in research and development, and high investment in higher education. The US spends twice as much per capita on higher education as Europe does. It also is at the forefront of many new technologies like Web 2.0 or nanotechnology or biotechnology.

There is this idea that the US is sort of falling behind. I'm sorry but in the areas that are the most important for the economy of the future, it's simply not the case. And I think the World Economic Forum ranking gives you a good sense of that.

In addition to that there is a question of demography. If you look at much of the developed world - Europe, Russia, Japan - you can see that most demographers project a significant decline in share of population, in some cases an absolute decline in population, by 2050. The one large exception to that rule, is the United States. Where, demographers project that in 2050 the United States will retain its same share of world population that it has today. That's of some significance. The argument that demography is running in your favour is important, and that is because it rests on being a nation of immigrants. The Americans are able to beg, borrow and steal the brains of the world. That is extremely important in terms of the future of the United States.

So in a sense, I think that if one looks at economics, demography - the things below the headlines that have come out of the financial crisis - one can have a degree of optimism. Which the World Economic Forum ranking represents.

Now I don't mean to say that all goes well, or that there are no problems. There are clear problems. These include the American educational system being below the higher education level. The top part of the system is quite good. The bottom part of the system is quite bad.

There are problems relating to the debt question I've put. It does have to be paid. We have to draw down this debt at some point. Some people think that primary balance might be restored by 2014 or 2015. But then you'll have the longer term question of how do you pay for social security, which is old age pensions and health care. And there is a commission to look at that now but we don't know if it'll be able to find an agreed solution.

That's led some critics, and sceptics, to say that it's not that the American's are in decline economically, it's that they are politically deadlocked. That's the source of decline. So for example, if you take the journalist James Fallows, a very intelligent journalist who wrote an article in *The Atlantic* last year. He had just spent two years or more in China. And he tried to assess the balance of the US and China. He said that he had no worry, after having lived in China and seeing the American economy, that China would surpass the United States

economically. His worry was that the American political system was in deadlock. And so he said, you know if we are declining it's because of political deadlock.

But again one has to be careful. The American political system was invented in the eighteenth century, to make sure that King George couldn't rule us and nobody else could either. It is deliberately a way of fragmenting the power, so it is a very inefficient system but nonetheless it works to a point.

The Economist had an interesting series on the problems of the American political system, and I think the most important thing to say about it is that sometimes you look at a problem and you say there's no solution. Other times you'd look at a problem and say, in principle I can think of a solution. So you can imagine things that would make the American political system work better. Whether it'll actually happen or not I don't know. No one knows. But it's not hopeless in the sense that Fallows and others have tried to portray it.

Now when the National Intelligence Council, which I once chaired some time ago, did its estimate of the world in 2025, it reported that it saw a world in which the US was much diminished.

There are those that say we're living in what Fareed Zakaria called in the title of his book, *The Post-American World*. But I think that the problem with this is that it doesn't really capture what the nature is of the transitions of power that are going on today. It tends to lead us to focus on the wrong thing.

I've used a metaphor to explain this. What I call a three-dimensional chess game. If in which you think on the top board, the military power among states. The United States is the world's only superpower with ability to project power globally. And I suspect that it will stay that way for another twenty to thirty years. I don't see China or anybody else overtaking it.

But you go to the middle board of economic relations of other states and the world is already multipolar. It has been for decades. Europe is able to act as an economic entity at this level. And Europe when it acts as an economic entity is on the same scale as the United States. You have China growing in this role and Japan still playing a significant role. So the middle board of this game is multipolar.

You go to the bottom board of transnational relations things that cross borders outside the control of governments: whether it's transnational terrorism, climate change or pandemics. It makes no sense at all to call this multipolar or unipolar. It's chaotically organised, and the only way you can deal with it essentially, is with cooperation.

This problem of dealing with some of the newest threats we face from this bottom board of this three-dimensional game are not solved by what's happening on the top or middle board. So the great danger, I think, is that if people in analysing power and what's happening to American power, look only on the top board, they may feel too complacent that the American

military will remain on top. But if you look at all three levels you realise that it's going to be quite a complex and difficult thing, that is going to take a very interesting strategy.

Let me go into this a step more. One of the chapters in my new book is called *Cyber Power*, and it rests on a very new dimension of what is happening. Which is that you can now attack another country without being a state and without crossing a border, except through electrons. That's quite a new dimension of power. And that's not a question of American decline, every country is overruled by that sense. It's a function of what's happened in information technology over the last, let's say thirty or forty years.

The way to dramatise this for you is to think that from 1970 to the year 2000, over that thirty year period, the costs of computing and communication went down a thousand fold. That's a very big abstract number. If you make it concrete, think of the following: If the price of an automobile had declined as much as the price of computing power, you could buy a car today for £5. That is dramatic.

When the price of something goes down that dramatically, it means that barriers to entry go down. All sorts of players who were previously priced out of the market can now play in the game.

So that if for example, in 1970, you wanted to have instantaneous communication between London, Johannesburg and Beijing - and add another couple of capitals as well - you could do it. This isn't new, but it was very, very expensive. You needed to be a government, a multi-national corporation. It took a lot of money.

Today anyone can go into an internet café and for a pound an hour or two pounds an hour can have the capacity that only governments and large multinationals had forty years ago.

Or another example is that when I was in the Carter administration we had - the United States had - the capacity to take a picture of any place on earth with one metre resolution. That was very secretive. If I told you that, even under Chatham House rules, in 1970 I would have been put in jail. And that cost billions of dollars.

But today, what's interesting is that anybody can go to Google Earth, or any one of these mapping places, and can get a better resolution photo for free. That means again that the barriers for entry are down. With the barriers for entry down there are more players in the game.

And so when we think about how we are going to deal with the world that we are facing, we have to realise that the traditional ways of thinking about power are not sufficient. You have to think about power shifts in the twenty first century in two different ways.

One is power transition between countries. I'm going to come to that in more detail in a minute, but that's not terribly new. We've known about that since the Peloponnesian War. I mean that's old.

But what is new, is the power of diffusion, the other kind of shift in the twenty-first century. That's the diffusion of power away from states and non-state actors, and that is something we haven't wrapped our minds around. That's what I said when I talked about being able to attack another state without crossing the border. Just sending electrons not troops, and do damage that might be equivalent to that done by a bombing. And not knowing whether it was done by another state or if it was done by somebody in the back room of his, or her, flat. That we haven't fully come to terms with this.

There's now a great deal of interest in Washington on the question of both cyber power and cyber security. I have noticed that this has caught the attention of President Obama, who gave a major speech on it and who appointed a special coordinator for cyber security. The United States has just set up a new command in the Pentagon, called 'Cyber Command'. So people are beginning to wrap their minds around the nature of this problem, but it's only just beginning.

We are, in terms of thinking about cyber community, cyber warfare and cyber power about where we were in thinking about nuclear weapons in the early 1950s. We really hadn't worked through what deterrence means, when you don't know where the attack came from.

If you see the trajectory of a missile from Russia to the United States - the Soviet Union to the United States - you've got a pretty good idea of where it came from. Whether you retaliate or not is another question. But what happens when you're in Chicago, in February, and all of a sudden all of the generators go off, all the SCADA systems (supervising control and data systems, which are computerised), and all the electrical plants stop. They stop and the pipes freeze, and everything comes to a halt. Well if you've been to Chicago in February, this is a lot worse than being in London in February.

The point is that you can do enormous damage, by somebody essentially sending electrons to have this effect. We then have to think through what does it mean to have defence against this when we don't know? You can trace back which router this came from, and which computer behind that. But it might have been some clever hacker who, let's say, wanted to create trouble between the United States and Russia, or the United States and China. By sending it through a server in Beijing, to make it look like it originated in China.

We're only beginning to think what deterrence means in a world in which you can't have solid attribution. Indeed, it may be that the attacks or insecurity suffering are from non-states, not from states (or a combination of the two).

So these are the real questions that we need to think about as we think about the future of power in the twenty-first century. And some of the anxieties about American decline that follow the pattern of the psychological cycles, that I described for you, which are basically diversions. They take our attention away from the more serious things that we should be thinking about.

Now with that said about power diffusion, there still is a question about power transition, which is the question of relations amongst states. In other words, if you go back to three dimensions, you have to think of new things coming from this bottom transnational relations board..

You can't forget the top board, military relations, or the middle board of economics. We're going to have to learn to think in three dimensions and have policies that work in all three dimensions at the same time.

The great question there is what's going to be the role of China. There is a view that China is going to surpass the United States. For example, Goldman Sachs has projected that the Chinese economy will be larger than the American economy by 2027. That may or may not be true. Always be wary of linear projections. There can be surprises, and mysteries, and bumps in the road. China has not overcome some of the political bumps that it may face.

But let's just assume for arguments' sake that everything goes smoothly and Chinese growth rates remain as they are. Even if China has an aggregate economy the size of the United States by 2030, let's say. That's not the same as being an equivalent economy, because it will still have a vast problem of underdevelopment in parts of China. And in per capita income, China will not be equivalent to the United States until some time after 2050.

Per capita income is probably a better measure, not just of welfare, but more importantly, for my purposes tonight, a better measure of the sophistication of the economy.

So the Goldman Sachs type projections which always make very great headlines, don't tell you all you need to know. And in that sense I think, that with the rise of China - which I think it will do - the great danger (this is the argument I made in my editorial in *The Financial Times*) is becoming too fearful or too anxious.

There is a view of some people now who say China is to the twenty-first century as the Kaiser's Germany was to the twentieth century. It's the rising state which will create the disruptions which will lead to a great cataclysm like World War I. That is very dangerous. It recalls the wisdom of Thucydides, that the cause of Peloponnesian War was not only the rise in the power of Athens, but the fear it created in Sparta. Thucydides goes on to say that that belief in the probability of a forthcoming war becomes a cause in, and of, itself.

So some of these anxieties about 'Is China passing the United States?' First of all are not very well based factually. Kaiser's Germany had surpassed Britain in industrial strength in 1900. As I just demonstrated China is not going to be the equivalent of the American economy until well passed when Goldman Sachs says.

But more to the point, the anxiety that goes with this can lead to very bad policy. Just like the psychology thinking that the Americans were in decline in 1990, and on top of the world in 2001, led to some very bad policies. Trying to get an accurate assessment of what power

realities will look like is particularly important. It's in that sense that I think that this current fad about American decline, the current turn of the cycle, is dangerous.

First of all it takes our eye off the ball of power diffusion - which we really have to be thinking about - and many of these transnational issues where we will have to cooperate with China, Europe and others. And secondly it may create exaggerated fears about China which they can feed on themselves.

So in that sense we have to remember something that Franklin Roosevelt said in a different context - but it's still good wisdom - which is 'we have nothing to fear but fear itself.'

The dangers of over dramatising these power transition fears is that they can lead to self destructive policies. And divert our attention from a set of challenges from this bottom transnational chess board, which is where we really should be focussing our attention.

So that's what I wanted to say about *Is America In Decline?* The short answer to the question of my topic tonight is no. But that's not a sufficient answer. You have to go on and ask 'but what is the problem?' And there are lots of them.

So let me stop there and throw it open to your comments and questions.