

## A Nation of Spoiled Brats

Financial Times columnist Ed Luce explains the real reason for American decline.

INTERVIEW BY DAVID ROTHKOPF | APRIL 16, 2012

Financial Times columnist Edward Luce has written a new book called *Time to Start Thinking: America in the Age of Descent* that has received well-deserved acclaim and recognition not only for its superb reporting of the on-ground reality of America's current economic crisis but also because it is an unflinchingly brave book. Luce does not shy away from conclusions that are hard for many Americans to hear, nor does he cop out and offer up the happy ending many in his audience may want to read. Rather, he offers what is most needed now: an objective, profoundly thoughtful look at the underpinnings of America's economic troubles, what makes the current crisis different from those of the past, and where we are likely headed from here. Luce recently sat down with Foreign Policy CEO and Editor-at-Large David Rothkopf. Here are some of the highlights of their conversation.

**Foreign Policy:** The debate about whether the U.S. is declining is raging. In fact, it is likely to be central to the upcoming election. Your book takes a strong stance on the subject. Can you summarize your view?

**Edward Luce:** Well, there are two types of decline. The first is relative economic decline, and I think this should be uncontroversial. Funnily enough, it isn't yet fully uncontroversial, but it should be: namely, that America's share of the global economy is diluting. In 2000, America had about 31 percent of the global economy, so just under a third. And by 2010 it was down to 23.5 percent, just under a quarter. That is a remarkable shift. So relative economic decline shouldn't be something we debate too much because it's happening and it's going to continue to happen. And I think the U.S. share would be likely to fall to a little more than a sixth in the next decade or so, unless there are dramatic changes in the pattern and distribution of global growth.

One of the reasons why I emphasize this is because there's one very accomplished author whom I generally admire, Bob Kagan. His book, *The Myth of American Decline*, makes the point that America's share has been unchanged for 40 years and unchanged between the turn of the century and now. The facts are wrong. And I picked that up because the president picked it up and essentially cited the core pieces of Kagan's argument in the State of the Union [address]. While it's understandable President Obama wants to refute the idea that he's America's declinist-in-chief -- and it is a line of attack from Mitt Romney -- I do think it means that we're going to have a 2012 election where on both sides, both candidates will start on a false premise: that relative economic decline is simply to be ignored or dismissed. And I'd describe that as a kind of intellectual ostrich position.

**FP:** But relative economic decline, while a great subject for political conversation, actually shouldn't matter to the American people. Because if the pie is getting bigger, your slice of the pie can get bigger and it can still be relatively smaller than everybody else. In other words, everybody can be doing better in a world in which everybody else is also doing better, right?

**EL:** Absolutely. And, in many ways this should be a cause for celebration. To take the historical context of which you're very aware, the Industrial Revolution around 1750 onward lifted 15 percent

or so of the world's population -- generally the Europeans and the Americans more latterly -- into a different stratosphere of economic growth and of human development and of life expectancy, and left the remaining 85 percent behind, many of whom were under colonial rule as the bit-part raw-materials suppliers to this Industrial Revolution.

The fact that that the 85 percent is now catching up in this Great Convergence is something to be expected -- it's going to happen and it should be celebrated. It reduces poverty and expands markets. The question is at what speed it is happening and how we are responding to it.

FP: OK, so relative decline is not necessarily a problem for people. What is the other type of decline?

EL: The other type is the more important one. It is about how America is responding to these challenges, which includes actions and inactions that have exacerbated some of the trends that we associate with this relative decline. These include the impact of globalization on the American economy and the impact of really exponential changes in technology on how Middle America lives and works. Washington's reaction to date has only deepened America's problems by turning this into a more pronounced relative decline than it needs to be.

FP: There would seem to be several different kinds of flaws with the reaction. One is the one that you referred to in the debate between Obama and Romney, which is denial. Another one is the lack of creativity in the response, not recognizing what has changed and what has not changed. In the last crisis, it seemed like the reaction was to try to make things go back to the way they were. In the context of the book, have you come up with ways to articulate what has changed? Has something fundamentally changed about the way the U.S. economy works and that needs to be understood in order to be able to respond?

EL: Yes, there's been much less revisiting of the assumptions in the preceding two or three decades before the Lehman Brothers collapse than you would have expected in 2008. I do see some stirrings now of questioning whether, in a world where there is a lot of mercantilism -- or at least where there are a lot of often very effective governments integrated with their private sectors to compete with the United States and others -- whether it is sensible for America to continue to ignore those lessons and those examples not just from Asia, but from places like Germany, Brazil, and Canada. The governments in these countries can often play a constructive role in helping their private sectors compete. But by and large, the preponderance of economists and the intellectual elite in America still hews toward the model that led up to the financial crisis. You could say America has lost a paradigm and not yet found a new one.

FP: How is this decline different from all other declines? What are the warning signs that this is not your father's recession?

EL: Let's pick up the current unemployment numbers and start with those, because we have a few months of welcome decline in unemployment -- 200,000 people or so per month. This has been accompanied by declining incomes for the median wage earner. So incomes are lower each year into the recovery than they were in the previous year, the reverse of what you would expect in your grandfather's or your father's recovery, but very much what you would expect if you look at the previous recovery in 2002, just a more pronounced version of it.

So if you look at 2002 to 2007 and you observe the structural forces at play in that business expansion -- mainly that the middle class income dropped, that very, very few jobs were created and that the higher value-added jobs tended for the most part to be replaced by lower paying ones -- those trends became pronounced in the 2009 recovery onwards. That suggests that this is a deep structural problem with the way globalization and technology is impacting the majority of the American workforce. I'm agnostic as to whether this reduces America's overall growth rate. The gains of growth are so deeply skewed to the very highest earners. But there is a lot of evidence in studies of other economies that when you have gross, Latin American-style inequality, growth and competitiveness tend to get advertently hit.

FP: What evidence is there that inequality in the U.S. has gotten worse?

EL: There's a lot of evidence, and there's a shrinking school of people denying this evidence. The most powerful piece is also the most recent, and that is the distribution of growth since 2009. The paper by Saez and Piketty from Berkeley University that came out in early March is particularly instructive. It shows not only that 93 percent of the gains in the 3 percent growth America got that year went to the top 1 percent, but also that the top 0.01 percent, namely the top 15,600 families, took 37 percent of the growth. That's the top one in 10,000 people. Even in 2002-2007 inequality was getting much worse. But in this recovery it is an order of magnitude worse.

FP: Hasn't social mobility also declined?

EL: It's a triple cocktail. As America's inequality is growing to Latin American levels, social mobility has fallen to sub-European levels. And of course, median wage stagnation and the whole skills globalization problem is deeply entrenched. Far more important than whatever this month's consumer sentiment number is or last month's was -- these are the numbers we should be looking at.

FP: So historically we are declining relative to other powers. Clearly something big is changing the global economy. Domestically inequality is growing, social mobility is declining, median wages are falling, and core industries like manufacturing are shrinking. And yet, when you listen to politicians, the response is first, in the wake of crisis, we need a stimulus that'll make things go back to the way they were. Then politicians argue that we should go back to manufacturing as it was in the past and somehow wave a magic wand that will make it 1955 again with Cadillacs with big fins rolling out of factories. In the course of your reporting, did you find anybody who's coming up with a new approach? Or is the reason for your pessimism due to the fact that we are oblivious and inclined to apply old formulas to address new problems?

EL: I think it is inevitable in life that the No. 1 country, having been number one for so long, will be the most complacent. In addition, America has so many examples to draw upon of being in a tough spot and pulling out of it, so it's understandable that it has been the slowest to adapt intellectually to the challenges posed by the changing global economy. America is adapting even slower than Britain, in some respects, which might be doing the wrong thing but is at least in a panic and knows it's got to find new answers.

FP: Why do you think David Cameron has been more open to new ideas and more inclined to embrace new approaches than many of his American counterparts?

EL: Generally speaking, while agreeing with the premise of your question, I would say that Britain's prognosis is actually bleaker than the United States. But Cameron has been casting around for competitiveness policies. Take for example the immigration skills -- the points-based system -- in which Britain is looking at how to attract people who generate patents. You can tell there's some degree of thinking about what means it to be competitive, and how do we need to adapt. I'm not sure how impactful any of these measures have been, and I'm not sure how good the UK coalition is at governing. I most certainly think all this is outweighed by the UK's disastrously premature embrace of austerity. One reviewer said my book should be renamed *Time to Start Drinking*. If I was asked to write one on Britain I might call it *Time to Start Sniffing Glue*.

FP: So in the U.S., what has the political situation gotten us?

EL: People tend to make a fetish out of Washington and blame Washington on itself, as if somehow it is just in suspension from the society that elected it. But some of the reasons for my skepticism about how easy it will be for America to rejuvenate itself stem from that fact that polarization in Washington is deeply rooted in trends beyond the Beltway, in the real America. This is the case with the gradual hollowing out of the middle class and the decline in income or benefits and all the social problems that come with that.

The American system is designed to work best when there's cooperation between factions and parties and when there's some degree of working together. It's no surprise, therefore, that when you get the wrong kind of parliamentary politics, namely discipline and ideological divisions, cooperation becomes impossible, gridlock becomes the norm, and it becomes almost inconceivable to imagine the kinds of reforms that in a parliamentary system a majority government can very easily push through.

FP: What's the most broken in our system? Is it fiscal fecklessness? Is it gerrymandering? Is it the way the Senate works? Is it filibustering? Is it campaign finance?

EL: Those are all symptoms. As a foreigner, I do sometimes see campaign finance as the root of all evil, but I also understand that the First Amendment makes it very hard for people to envision a scenario where it's going to be properly controlled. And I think the Supreme Court's going in the wrong direction. But when you ask 'What's the most broken?' there's a richness of embarrassments to select from. Take the Supreme Court, for example. I don't know how they're going to rule on "Obamacare" in June, but I do know that eight of them are pretty much spoken for and there's one swing vote.

You could also look at the polarization of the Senate, which can't be explained by gerrymandering since state boundaries are fixed. [It] now has an essential tool of paralysis -- the filibuster -- that the minority use as a matter of routine, as they do in California. I do think in this respect California is very much America's future, in positive technological ways, but also in the political sense. Sacramento is barely capable of functioning. I think Washington is taking on those features and that makes governing really difficult. If you believe that America is a story of essentially the government being out of the way and then the nation flourished, then this might all look fine. But if you have a proper understanding of American history and you know what role government played in American development and in American capitalism, then this isn't fine at all.

FP: Among the things that makes your book great is that you went out and you reported on America. You saw people, spoke to them -- followed in Tocqueville's footsteps, as some have suggested. Something's broken; you don't want to blame it all on Washington. What's wrong with the American people?

EL: That's a very good question. And I attempt to answer that in different ways, partly through politics. Americans don't participate in politics, or those who don't particularly want to do the rest don't seem to give a damn. And there's a kind of self-fulfillingness to that. And they do give a damn, and I can understand why they're alienated. But their very alienation reinforces what it is that alienates them.

So you've got this kind of weird tandem of apathy versus fanaticism that reinforce each other. But what I found most interesting, and continue to find most interesting, is the education problem -- the problem of K through 12 and the lack of early childhood learning for those at less advantaged levels, the problems with student loans and with community colleges. I think it's a portal onto America's competitiveness problem. But it's also a cultural problem.

The approach of parents to their children's education is a case in point. If we're talking about American values, the first- or second-generation immigrant spirit that might be conjured up in a Tiger Mom or in some Italian family in Brooklyn in which parents force kids to study at night is a truly American value. I have no nostalgia for what I didn't experience, but I do feel that the swing towards celebrating the child, elevating the child, over-praising the child, boosting constantly at every opportunity the self-esteem of the child, assuming the child is a fragile little eggshell that can be broken at any moment, is something quite un-immigrant and therefore quite un-American, and also a great disservice to the child.

I think that tells more about the neediness of their overworked parents' desire for the love of their child than it does for their upbringing skills, which would be to inoculate the children for the world they expect, to show them you can fail, that C grades happen, that reprimands are sometimes deserved. This is a sort of amateur psychological point I'm making, but there are a lot of educationists that I've talked to and a lot of scholars of education as well as teachers in this book who made me realize this is a cultural problem at the ground level with how kids' minds are prepared for the future. And if the future is about minds, it's not a trivial alarm to raise. I'm not the first to raise it, but it struck me that education is perhaps the most fertile way of answering your question about what is wrong with Americans.

I should add that exactly the same problems are visible and talked about in Britain. And it's exactly the same level of concern about how easy or how quickly education can be turned around given just how much of a societal problem it is. This isn't simply a question of whether teachers are paid enough or children tested enough. I quote John Hennessey, head of Stanford, a very admirable man who really knows what he's talking about, a very good scientist, but also a brilliant university administrator. He said, "Look, it took decades for us to get into this problem in education, and it's going to take decades to get out."

FP: You went through Gary, Indiana, and you talked to people in Gary. They were at a casino. They were in a town that was devastated. I had this sense of hopelessness for these people. There is no future. There is not going to be a manufacturing resurgence that they're going to take advantage of. Casinos are kind of strange machines that seem to prosper by sucking the last bits of economic vitality out of a community, because the poor and the old go there and give up their money. And so for a moment, it looks like something is prospering, but at the end of the day it's accelerating decay. I mean, is that your view? It seems like another component of your point about spoiled children. What is your feeling in terms of the problems of the grown-ups?

EL: Part of the reason I to talk about these casinos is to use them as a metaphor for the bankruptcy of public policy, particularly urban public policy. Casinos, sports arenas, and convention centers don't generate income for those who've lost their jobs. The casino is a particularly apt metaphor for the intellectual bankruptcy of thinking, because, if done well, you can generate short-term income and tax revenues. But the costs are pushed back a little bit further, so the balance sheet doesn't show what it's really doing to your community, which is drastically raising all sorts of social bills that you're going to have to pay, whether it be about policing or by prison services or a penal system or indeed the further decay of the community.

FP: Because casinos, particularly lotteries, are sort of last-stage predators, junkyard dogs or vultures. They're preying on economic carrion. Do we have a cultural problem?

EL: It's very difficult to answer that question. If there were a real modern-day, contemporary Tocqueville around with that spirit and that sensibility, touring America with no other purpose other than to take the temperature of the American character and of what is it, what would he say that would be different from what the Tocqueville of the 1830s said? And what was it that Tocqueville of the 1830s most highlighted? I think it was America's sense of egalitarianism. It really impressed him. The sense that people essentially treat each other as equals outside of their jobs, that there is this instinctive social egalitarianism in those days...

FP: Has that been turned around on its head?

EL: Yeah. Britain, which is the least socially mobile portion of Europe, has the same level of social mobility as the United States. Some countries like Germany have more than twice America's social mobility.

Tocqueville would have looked at statistics -- and how accepted this reality is now becoming among America's elites. Among economists, it's all about returns and skills. And apparently, if you make X million on Wall Street, this is because you're worth it. This is how valuable you are. Now I can understand it with Steve Jobs. I can understand it with plenty of entrepreneurs. But it's hard though in the financial sector to extend that logic.

Having said that, I think if you took a poll you would find great approval of Steve Jobs and great disapproval of the Wall Street bonuses. Public sensibility does make a very clear division on that. I do understand that distinction, because Steve Jobs was a genuine innovator. And I agree with Paul Volcker that the ATM is about the only innovation you can cite from Wall Street. It was a good innovation, but let's not classify derivatives and various pieces of financial engineering as innovations.

FP: The other point is pragmatism. Do the Americans today have the spirit necessary to tackle these problems?

EL: I think there's demand for it. Americans might be ignorant about the Middle East or Europe, but they're certainly aware of their own situation. They are certainly aware of the problems here. And I think, as [GE CEO] Jeff Immelt said, if globalization were put to a referendum in America, it would lose -- which is troubling, and it's one measure of the degree of alarm and distemper felt out there, which I come across the whole time whenever I'm outside of the Beltway.

The question of whether that pragmatic instinct that Tocqueville best described is now missing is more a question about whether the market signals are working in American politics anymore. Because the consumers want some kind of change; they want some kind of recognition of the degree of pain and strain they feel nowadays in their lives, to which they are not accustomed. The system seems unable to respond. Democracy is a market as well, and it doesn't seem to be working.

So the question is what stops democracy from being a market in America? To answer that we go back to the world of money in politics; we go back to the world of Latin Americanization of American society; we go back to some of the institutional factors like gerrymandering. But we also go back again to the American people, to the consumers.

FP: Final question is what does all this mean for the rest of the world? If you're in China; if you're in India; if you're in Singapore looking at the U.S. as a stabilizer, when you see this descent, what do you think the impressions ought to be? Should there be looking for new leadership, finding new structures, giving up on American leadership, expecting a period of fumbling on the part of the United States? What are the geopolitical consequences of the conclusions of your book?

EL: I think you could get a paradoxical one in the short term, and you might already be seeing it in Asia, which is that the more America's punch declines, and the more China's reach extends, the more popular America's going to get in that neighborhood. We're all going to remember that America is a country of immigrants that welcomed people from all over; that America is a country that has universal values, however annoying and selectively they might sometimes have been applied. This could never possibly apply to China. And that's without mentioning China's political system, which is obviously not democratic.

So I think the paradoxical short-term response might actually shore up American power in parts of the world where it is in greater demand than there was before. But that's the short term. If you look at that asymmetry, and when America says it seeks to sustain its global footprint, it's not talking about closing down bases. Indeed, it's setting up new bases in places like Australia. It's going to find it hard to afford this indefinitely. It's very expensive.

In contrast, all China seeks to do is to challenge American supremacy in its own backyard. They have asymmetric goals here. The Chinese increased their defense budget this year by 11 percent. America's allegedly cut its defense by 8 percent. Actually, it's probably a bit of smoke and mirrors there. It's a high and inflated baseline. So maybe America left its defense budget essentially flat. But if you have that for a few years all of a sudden the talking point that's always on the tip of our tongues -- namely, that America spends more on its military than the next 10 countries combined --

isn't going to be true any longer. It doesn't take too many years like these for that to cease to be true.

I hope that in the near future America will be able to remind itself that strength comes from its domestic economic muscularity and the degree to which America can again be a beacon to the world, a model worth emulating, rather than by the range and deployment of its weaponry, or by the spending power of those at the top. But I'm not optimistic -- given the trajectory of the debate today and in recent years -- that things will necessarily shake out that way. I wish I could see more cause for hope.