

Still in the Game

There's a new word gaining usage these days: *Declinism*. (In fact, it's so new that it's not in the dictionaries most of us have on our shelves.) On this side of the ocean, declinism refers to the expected deterioration of the economic strength and global geopolitical status of the United States. Elsewhere it's being applied, with more justification, to many European nations and a few others, like Japan.

Certainly, our nation faces serious problems, too many to mention here; and there's no doubt that as major Asian countries develop much bigger, stronger economies, the dominant economic position of America in the world (which has prevailed for 67 years, since the end of World War II) will diminish somewhat. And along with that slippage our global political power will also decline to some degree.

Nevertheless, all the doom and gloom about the U.S. – exacerbated by the discouragement stemming from the recent financial crisis – appears to be overdone. Taking a balanced view of our country, we can find many continuing strengths, and a few new ones. These indicate that America can remain a strong player in the game of global competition for a long time to come. Let's look at the most notable of these advantages.

Financial Resilience

The U.S. can rightly be blamed as the primary progenitor of the irresponsible financial practices that led the world off the cliff in 2008-09. Our greedy, undisciplined financial institutions created many risky forms of loans and new financial instruments, and generated the fervor to use them. And our bad practices quickly spread around the world in the early 2000's – eventually causing the greatest global financial crash in 75 years. But thankfully, “first in, first out”: The U.S. promptly mounted a rescue effort that has been remarkably effective. In contrast, most other nations have dilly-dallied in lethargic confusion so long that they still haven't gotten good recovery programs underway, and their banks and governments remain in deep trouble. But here, led by the Federal Reserve and Treasury, with some help from our fractious Congress, the U.S. has greatly shored up its financial system and gotten it functioning fairly well again.

True, some large banks and mortgage brokers failed, but all our primary financial institutions are now pretty well along toward complete recovery. Thus, our banking system is making much sounder loans and total U.S. lending activity in mid-summer had recovered to within 3% of the all-time high reached in October 2008, before the crash. Certainly a plus for our economy.

However, just about all of Europe is still in a deep hole. Its banks remain very shaky and its governments, mostly with large deficits, are struggling to borrow on a viable basis. The Euro nations continue in contentious discussions about what to do *four years after* the U.S. began to implement its recovery effort. They're still trying to decide what *first steps* they should take. As Bill Gross, founder of Pimco, the large bond manager, said recently, Europe's “policy makers' efforts have been, until now, a day late and a euro short, or more accurately, years late and a trillion euros short.”

So much as we may criticize our leaders for some of their actions in planning and executing recovery programs, the U.S. stands out for prompt, effective action. This financial resilience has helped our economy to start recovering – not as fast as we'd like, but at least heading upward – while many other nations are still deep in recession. This performance indicates an inherent strength in the U.S., which is likely to persist.



Strong Corporate Performance

The trite old phrase, “When the going gets tough, the tough get going,” certainly applied to many U.S. businesses during the past four years. Most American managements redoubled their efforts to hold down costs, to operate more efficiently, and to develop attractive new products and services. The result, as I’ve described in the past year, has been very successful business operations and *increased* profits, despite severely adverse economic pressures.

American companies have always been especially good at renewing themselves as the passage of time has made older product lines and business practices less successful. The extreme pressures of recent years accelerated renewal efforts and strategic changes by many companies – of which Coca-Cola, Cisco, eBay, General Electric, and IBM are just a few examples. This reminds me of that old pearl of wisdom, “There are three kinds of people in the world: those who make things happen, those who let things happen, and those who wonder what happened.” American managements, more than most others, clearly fit into the first category, another advantage for our country.

Innovation

As most people know, innovation is the number one force for economic growth, as new products and new services create new markets. And the U.S. has been by far the most successful innovator in the world for as long as anyone can remember. But there have been concerns recently that China might forge ahead of us in this key area.

Maybe they will, but so far – despite that country’s greatly increased research and development effort and excellent management of large companies – all the landmark new products continue to come from America. Note the growing “app economy” in the U.S., nurtured by Apple, Google and Facebook. It now employs over 300,000 people here, and its products and services sell widely all over the world.

Another example is 3D printing. Developed mainly in America, it’s an amazing method of making three-dimensional solid objects from a digital model. It uses “*additive*” processes, whereby an object is created by laying down successive thin layers of material in a predetermined pattern. This is the opposite of machining techniques (“*subtractive*” processes) which mostly rely on removal of material by drilling, cutting, etc. Already 3D printing is being used in a wide variety of industries, providing precisely dimensioned products at favorable costs.

Other examples of current U.S. innovation skills could be cited (beyond the ones described in the next paragraph), further demonstrating that our country is still holding its own versus all other nations in the development of new products, services, and skills.

Renewed Strength In Petroleum

Perhaps the most remarkable change in the U.S. during the past few years has been its enhanced ability to extract oil and natural gas from the vast reserves we have had that seemed unexploitable. This happy occurrence derives from the American development of better search and extraction techniques – by Schlumberger (an American company with deep French roots) and other U.S. oil service firms. There’s been a “great leap forward” in three-dimensional *seismic search* techniques, in *horizontal drilling* (to explore and access a much wider area from each well), and in *fracturing* tight rock formations to free up flows of oil and gas embedded in them.

So after being yesterday’s country for developing additional petroleum production, the U.S. is now on a fast track with new drilling. Today the industry is spending four times as much on U.S. exploration and production as it was ten years ago, searching for new fields and working over old ones to extract more oil and gas – all the result of innovative new techniques developed by American companies. Thus, there’s now a major drilling boom in North Dakota to exploit oil long known to be there but up to now trapped



in tight shale formations. And there are simultaneous booms underway in Pennsylvania and Texas to locate and extract vast amounts of natural gas previously locked into tight shale.

These new breakthroughs are completely changing the U.S. energy picture – from being highly dependent on huge imports of foreign oil and facing declining natural gas production, to a major move toward energy self-sufficiency. As a result, BP is predicting that by 2030 the U.S. will get 94% of its energy from domestic sources, versus just 77% now. This will put us in a better energy position than any other major industrial nation (including China) – greatly reducing our now-large trade deficit and boosting our Gross Domestic Product.

Favorable Population Trend

Unlike most major nations, the U.S. still has a pretty good rate of population growth. In fact, our annual rate of 0.96% is exceeded by only one major country: India at 1.34%. Most European nations are growing at only half our rate and some of those, like Italy, will soon turn negative – as will China, due to its long-standing one-child-per-family rule. Already at negative rates are Germany (-0.20%), Japan (-0.28%), and Russia (-0.47%). Those declines will accelerate as time goes on.

Population growth is an important factor in economic growth: more workers produce more goods and services. America's population growth advantage of 0.5-1.0% over other nations may not look like much, but significantly exceeding their real GDP growth of 2%-plus, it gives us a good boost. We gain our advantage from being more open to legal immigration – but our citizens' antipathy toward illegal immigration is making it hard for the U.S. to maintain a sound policy for legal immigration. However, the influx of illegal immigrants has fallen sharply in recent years due to the lack of low-skill jobs in our slack economy. In fact, the net flow of Mexicans crossing the Mexico/U.S. border has dropped to zero in the past two years.

In contrast, legal immigration has picked up, with 430,000 Asians entering the U.S. legally in 2010 (last figure available). These workers are highly motivated and well-educated. More than 60% of the Asians aged 25-64 coming to the U.S. have graduated from college, double the share for new arrivals from all other continents. So they are a definite plus for the country.

If the current political hassles over our immigration policy could be resolved, the U.S. would benefit further from a revision of its immigration rules, especially by allowing all the bright foreign students who graduate from American colleges and universities to remain in the U.S. if they wish to work here.

Already, the benefits from the well-educated young foreigners who have gotten in have been great. In Silicon Valley, an amazing 52% of all new companies started in recent years have been led by immigrants. Half of them have been Indians, and the remainder mainly from Britain, China, Taiwan and Japan. So even our good but less-than-ideal welcoming policy toward legal immigrants has been very beneficial for our economy – in contrast to the negative impact of tight immigration restrictions in most other nations.

Strong Entrepreneurial Culture

Also aiding our innovation and favorable GDP growth is America's uniquely strong entrepreneurial culture. It stems from our long-standing belief in the power of *individuals* to shape their own futures, which goes back to the founding of our *independent* country. And this has been nurtured by generations of immigrants coming to America to “seek their fortune.” Thus, our entrepreneurial spirit far exceeds that of any other nation.



I don't know the figures, but I'd guess more new businesses are started here in one month than in any other country in more than one year. Obviously, the entrepreneurial process accelerates economic growth and is one of the United States' great competitive advantages. And as long as China's leaders hold a heavy hand on business competition, generally favoring big government-owned companies over private businesses, entrepreneurialism will greatly help us to compete with them.

Education: Plus and Minus

Despite the woeful state of our public schools, America contains almost all of the world's premier universities, and they are a huge advantage for us. Now, if the well-recognized weaknesses in our primary and secondary education could finally respond to the increasing efforts for major improvement now underway in our schools, we'd get a good lift. But the outcome there is uncertain at this stage.

Conclusion

Looking at all the things we're doing badly (particularly in the political/government area), declinism should be a concern. But considering the many strong advantages America still has, it should not be a major worry – yet, at least. The strengths I've cited are helping us a lot in the current difficult period, and unless we become really stupid, we should not blow it in the future. So strong American-based companies still make a good foundation for investment portfolios, to offset any drift toward declinism that does occur for the U.S.

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