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Yes, America Is in Decline

By Fareed Zakaria

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No,
America
is Still
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NATION

Are America's Best Days Behind Us?

The U.S. is used to being No. 1. But it's going to take a lot more than a few budget cuts and shifting resources to stay competitive in today's global arena. It's time to adopt a whole new way of thinking. Is America ready?

BY FAREED ZAKARIA

I AM AN AMERICAN, NOT BY ACCIDENT OF BIRTH BUT BY choice. I voted with my feet and became an American because I love this country and think it is exceptional. But when I look at the world today and the strong winds of technological change and global competition, it makes me nervous. Perhaps most unsettling is the fact that while these forces gather strength, Americans seem unable to grasp the magnitude of the challenges that face us. Despite the hyped talk of China's rise, most Americans operate on the assumption that the U.S. is still No. 1.

But is it? Yes, the U.S. remains the world's largest economy, and we have the largest military by far, the most dynamic technology companies and a highly entrepreneurial climate. But these are snapshots of where we are right now. The decisions that created today's growth—decisions about education, infrastructure and the like—were made decades ago. What we see today is an American economy that has boomed because of policies and developments of the 1950s and '60s: the interstate-highway system, massive funding for science and technology, a public-education system that was the envy of the world and generous immigration policies. Look at some underlying measures today, and you will wonder about the future.

The following rankings come from various lists, but they all tell the same story. According to the Organisation for Economic Co-operation and Development (OECD), our 15-year-olds rank 17th in the world in science and 25th in math. We rank 12th among developed countries in college graduation (down from No. 1 for decades). We come in 79th in elementary-school

enrollment. Our infrastructure is ranked 23rd in the world, well behind that of every other major advanced economy. American health numbers are stunning for a rich country: based on studies by the OECD and the World Health Organization, we're 27th in life expectancy, 18th in diabetes and first in obesity. Only a few decades ago, the U.S. stood tall in such rankings. No more. There are some areas in which we are still clearly No. 1, but they're not ones we usually brag about. We have the most guns. We have the most crime among rich countries. And, of course, we have by far the largest amount of debt in the world.

The Rise of the Rest

MANY OF THESE CHANGES HAVE TAKEN PLACE NOT BECAUSE OF America's missteps but because other countries are now playing the same game we are—and playing to win. There is a familiar refrain offered when these concerns are raised: "We heard all this in the 1980s. Japan was going to dominate the globe. It didn't happen, and America ended up back on top." It's a fair point as far as it goes. Japan did not manage to become the world's richest country—though for three decades it had the second largest economy and even now has the third largest. It is also a relatively small country. To become the largest economy in the world, it would have to have a per capita GDP twice that of the U.S. China would need to have an average income only one-fourth that of the U.S. to develop an economy that would surpass ours.

But this misses the broader point. The Harvard historian Niall Ferguson, who has just written a book, *Civilization: The West and the Rest*, puts things in historical context: "For 500 years the West



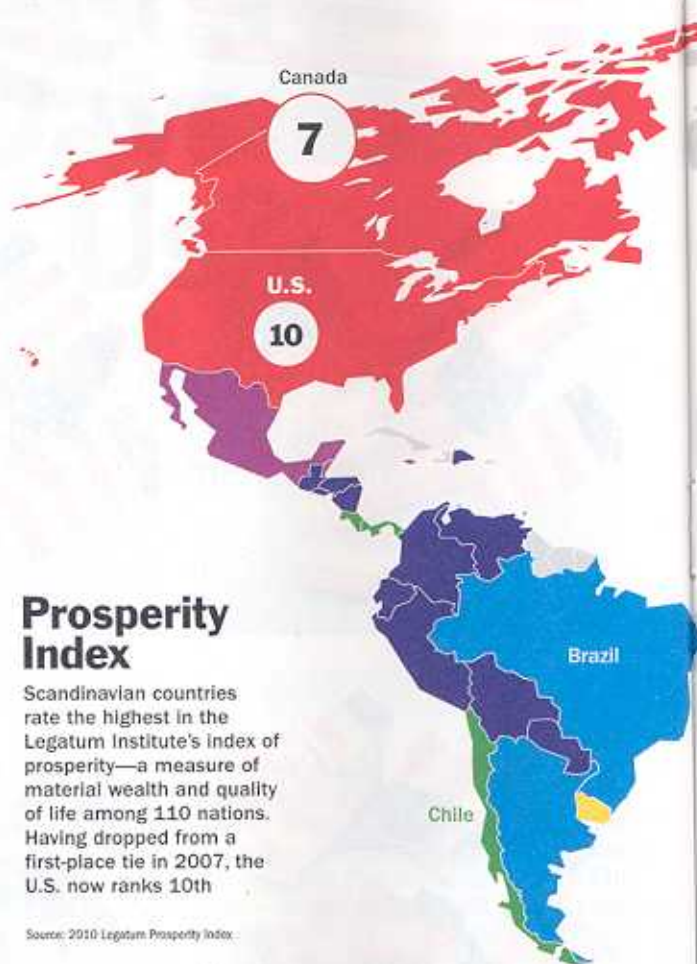
patented six killer applications that set it apart. The first to download them was Japan. Over the last century, one Asian country after another has downloaded these killer apps—competition, modern science, the rule of law and private property rights, modern medicine, the consumer society and the work ethic. Those six things are the secret sauce of Western civilization.”

To this historical challenge from nations that have figured out how the West won, add a technological revolution. It is now possible to produce more goods and services with fewer and fewer people, to shift work almost anywhere in the world and to do all this at warp speed. That is the world the U.S. now faces. Yet the country seems unready for the kind of radical adaptation it needs. The changes we are currently debating amount to rearranging the deck chairs on the *Titanic*.

Sure, the political system seems to be engaged in big debates about the budget, pensions and the nation's future. But this is mostly a sideshow. The battles in state capitals over public-employee pensions are real—the states are required to balance their budgets—but the larger discussion in Washington is about everything except what's important. The debate between Democrats and Republicans on the budget excludes the largest drivers of the long-term deficit—Social Security, Medicaid and Medicare—to say nothing of the biggest nonentitlement costs, like the tax break for interest on mortgages. Only four months ago, the Simpson-Bowles commission presented a series of highly intelligent solutions to our fiscal problems, proposing \$4 trillion in savings, mostly through cuts in programs but also through some tax increases. They have been forgotten by both parties, in particular the Republicans, whose leading budgetary spokesman, Paul Ryan, praises the commission in the abstract even though he voted against its recommendations. Democrats, for their part, became apoplectic about a proposal to raise the retirement age for Social Security by one year—in 2050.

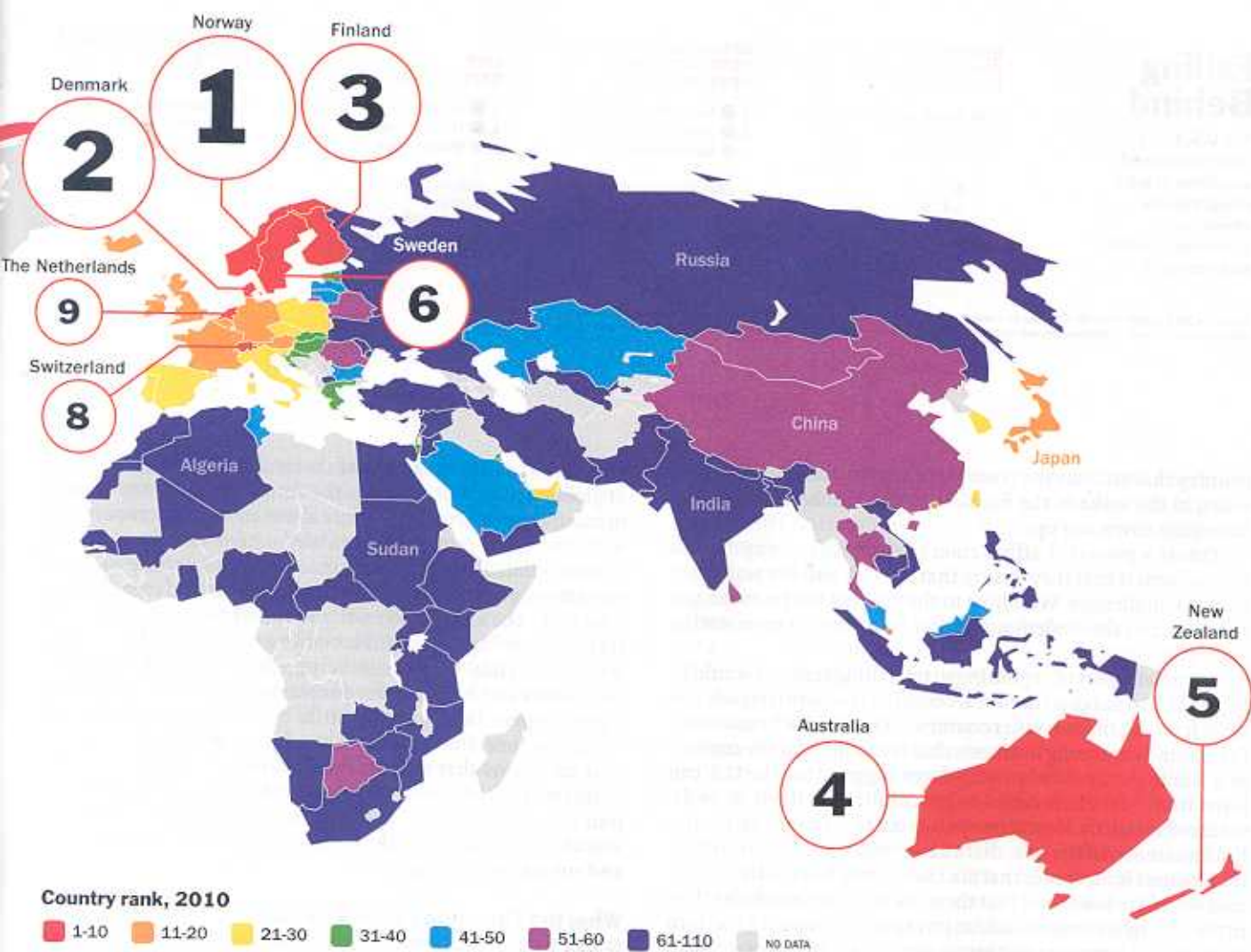
Instead, Washington is likely to make across-the-board cuts in discretionary spending, where there is much less money and considerably less waste. President Obama's efforts to preserve and even increase resources for core programs appear to be failing in a Congress determined to demonstrate its clout. But reducing funds for things like education, scientific research, air-traffic control, NASA, infrastructure and alternative energy will not produce much in savings, and it will hurt the economy's long-term growth. It would happen at the very moment that countries from Germany to South Korea to China are making large investments in education, science, technology and infrastructure. We are cutting investments and subsidizing consumption—exactly the opposite of what are the main drivers of economic growth.

So why are we tackling our economic problems in a manner that is shortsighted and wrong-footed? Because it is politically easy. The key to understanding the moves by both parties is that, for the most part, they are targeting programs that have neither a wide base of support nor influential interest groups behind them. (And that's precisely why they're not where the money is. The American political system is actually quite efficient. It distributes the big bucks to popular programs and powerful special interests.) And neither side will even talk about tax increases, though it is impossible to achieve long-term fiscal stability without them. Certain taxes—such as



ones on carbon or gas—would have huge benefits beyond revenue, like energy efficiency.

It's not that our democracy doesn't work; it's that it works only too well. American politics is now hyperresponsive to constituents' interests. And all those interests are dedicated to preserving the past rather than investing for the future. There are no lobbying groups for the next generation of industries, only for those companies that are here now with cash to spend. There are no special-interest groups for our children's economic well-being, only for people who get government benefits right now. The whole system is geared to preserve current subsidies, tax breaks and loopholes. That is why the federal government spends \$4 on elderly people for every \$1 it spends on those under 18. And when the time comes to make cuts, guess whose programs are first on the chopping board. That is a terrible sign of a society's priorities and outlook.



The Perils of Success

WHY HAVE OUR PRIORITIES BECOME SO MANGLED? SEVERAL decades ago, economist Mancur Olson wrote a book called *The Rise and Decline of Nations*. He was prompted by what he thought was a strange paradox after World War II. Britain, having won the war, slipped into deep stagnation, while Germany, the loser, grew powerfully year after year. Britain's fall was even more perplexing considering that it was the creator of the Industrial Revolution and was the world's original economic superpower.

Olson concluded that, paradoxically, it was success that hurt Britain, while failure helped Germany. British society grew comfortable, complacent and rigid, and its economic and political arrangements became ever more elaborate and costly, focused on distribution rather than growth. Labor unions, the welfare state, protectionist policies and massive borrowing all shielded Britain from the new international competition. The system be-

came sclerotic, and over time, the economic engine of the world turned creaky and sluggish.

Germany, by contrast, was almost entirely destroyed by World War II. That gave it a chance not just to rebuild its physical infrastructure but also to revise its antiquated arrangements and institutions—the political system, the guilds, the economy—with a more modern frame of mind. Defeat made it possible to question everything and rebuild from scratch.

America's success has made it sclerotic. We have sat on top of the world for almost a century, and our repeated economic, political and military victories have made us quite sure that we are destined to be No. 1 forever. We have some advantages. Size matters: when crises come, they do not overwhelm a country as big as the U.S. When the financial crisis hit nations such as Greece and Ireland, it dwarfed them. In the U.S., the problems occurred within the context of a \$15 trillion economy and in a

Falling Behind

The U.S. trails other developed countries in such categories as education, technology, health and economy

HIGHER-EDUCATION ENROLLMENT

1. ● South Korea
2. ● Finland
3. ● Greece
6. ● U.S.

SPENDING ON RESEARCH AND DEVELOPMENT

1. ● Germany
2. ● Sweden
3. ● Switzerland
11. ● U.S.

LIFE EXPECTANCY

1. ● Japan
2. ● Hong Kong
3. ● Switzerland
27. ● U.S.

YEARS OF SECONDARY EDUCATION PER WORKER

1. ● Slovakia
2. ● Germany
3. ● Austria
27. ● U.S.

Source: The 2010 Legatum Prosperity Index uses 89 measures of wealth and well-being to assess country performances in promoting prosperity in eight main areas: economy, entrepreneurship and opportunity, governance, education, health, safety and security, personal freedom and social capital

country that still has the trust of the world. Over the past three years, in the wake of the financial crisis, U.S. borrowing costs have gone down, not up.

This is a powerful affirmation of America's strengths, but the problem is that they ensure that the U.S. will not really face up to its challenges. We adjust to the crisis of the moment and move on, but the underlying cancer continues to grow, eating away at the system.

A crucial aspect of beginning to turn things around would be for the U.S. to make an honest accounting of where it stands and what it can learn from other countries. This kind of benchmarking is common among businesses but is sacrilege for the country as a whole. Any politician who dares suggest that the U.S. can learn from—let alone copy—other countries is likely to be denounced instantly. If someone points out that Europe gets better health care at half the cost, that's dangerously socialist thinking. If a business leader notes that tax rates in much of the industrialized world are lower and that there are far fewer loopholes than in the U.S., he is brushed aside as trying to impoverish American workers. If a commentator says—correctly—that social mobility from one generation to the next is greater in many European nations than in the U.S., he is laughed at. Yet several studies, the most recent from the OECD last year, have found that the average American has a much lower chance of moving out of his parents' income bracket than do people in places like Denmark, Sweden, Germany and Canada.

And it's not just politicians and business leaders. It's all of us. Americans simply don't care much, know much or want to learn much about the outside world. We think of America as a

We have sat on top of the world for almost a century, and our repeated economic, political and military victories have made us quite sure that we are destined to be No. 1 forever

globalized society because it has been at the center of the forces of globalization. But actually, the American economy is quite insular; exports account for only about 10% of it. Compare that with the many European countries where half the economy is trade-related, and you can understand why those societies seem more geared to international standards and competition. And that's the key to a competitive future for the U.S. If Olson is right in saying successful societies get sclerotic, the solution is to stay flexible. That means being able to start and shut down companies and hire and fire people. But it also means having a government that can help build out new technologies and infrastructure, that invests in the future and that can eliminate programs that stop working. When Franklin Roosevelt launched the New Deal, he spoke of the need for "bold, persistent experimentation," and he shut down programs when it was clear they didn't work. Today, every government program and subsidy seems eternal.

What the Founding Fathers Knew

IS ANY OF THIS POSSIBLE IN A RICH, DEMOCRATIC COUNTRY? In fact it is. The countries of Northern Europe—Denmark, Sweden, Norway, Finland—have created a fascinating and mixed model of political economy. Their economies are extremely open and market-based. Most of them score very high on the Heritage Foundation's Index of Economic Freedom. But they also have generous welfare states and make major investments for future growth. Over the past 20 years, these countries have grown nearly as fast as, or in some cases faster than, the U.S. Germany has managed to retain its position as the world's export engine despite high wages and generous benefits.

Now, America should not and cannot simply copy the Nordic model or any other. Americans would rebel at the high taxes that Northern Europeans pay—and those taxes are proving uncompetitive in a world where many other European countries have much lower rates and Singapore has a maximum personal rate of 20%. The American system is more dynamic, entrepreneurial and unequal than that of Europe and will remain so. But the example of Northern Europe shows that rich countries can stay competitive if they remain flexible, benchmark rigorously and embrace efficiency.

American companies are, of course, highly efficient, but American government is not. By this I don't mean to echo the

PERCEPTION THAT WORKING HARD GETS YOU AHEAD

1. ● Cambodia
2. ● Sri Lanka
3. ● Indonesia



28. U.S.

SATISFACTION WITH STANDARD OF LIVING

1. ● Denmark
2. ● Norway
3. ● The Netherlands



28. U.S.

ADEQUATE FOOD AND SHELTER

1. ● Denmark
2. ● Singapore
3. ● The Netherlands



31. U.S.

DOMESTIC SAVINGS RATE

1. ● Kuwait
2. ● Algeria
3. ● Kazakhstan



84. U.S.

OPTIMISM ABOUT JOB AVAILABILITY

1. ● Norway
2. ● The Netherlands
3. ● The Philippines



86. U.S.

usual complaints about waste, fraud and abuse. In fact, there is less of those things than Americans think, except in the Pentagon with its \$700 billion budget. The problem with the U.S. government is that its allocation of resources is highly inefficient. We spend vast amounts of money on subsidies for housing, agriculture and health, many of which distort the economy and do little for long-term growth. We spend too little on science, technology, innovation and infrastructure, which will produce growth and jobs in the future. For the past few decades, we have been able to be wasteful and get by. But we will not be able to do it much longer. The money is running out, and we will have to marshal funds and target spending far more strategically. This is not a question of too much or too little government, too much or too little spending. We need more government and more spending in some places and less in others.

The tragedy is that Washington knows this. For all the partisan polarization there, most Republicans know that we have to invest in some key areas, and most Democrats know that we have to cut entitlement spending. But we have a political system that has become allergic to compromise and practical solutions. This may be our greatest blind spot. At the very moment that our political system has broken down, one hears only encomiums to it, the Constitution and the perfect Republic that it created. Now, as an immigrant, I love the special and, yes, exceptional nature of American democracy. I believe that the Constitution was one of the wonders of the world—in the 18th century. But today we face the reality of a system that has become creaky. We have an Electoral College that no one understands and a Senate that doesn't work, with rules and traditions that allow a single Senator to obstruct democracy without even explaining why. We have a crazy-quilt patchwork of towns, municipalities and states with overlapping authority, bureaucracies and resulting waste. We have a political system geared toward ceaseless fundraising and pandering to the interests of the present with no ability to plan, invest or build for the future. And if one mentions any of this, why, one is being unpatriotic, because we have the perfect system of government, handed down to us by demigods who walked the earth in the late 18th century and who serve as models for us today and forever.

America's founders would have been profoundly annoyed by this kind of unreflective ancestor worship. They were global, cosmopolitan figures who learned and copied a

great deal from the past and from other countries and were constantly adapting their views. The first constitution, the Articles of Confederation, after all, was a massive failure, and the founders learned from that failure. The decision to have the Supreme Court sit in judgment over acts of the legislature was a later invention. America's founders were modern men who wanted a modern country that broke with its past to create a more perfect union.

And they thought a great deal about decline. Indeed, it was only a few years after the Revolution that the worrying began in earnest. The letters between Thomas Jefferson and John Adams, as the two men watched America in the early 19th century, are filled with foreboding and gloom; you could almost say they began a great American tradition, that of contemplating decay. Americans have been concerned about the health of their country for much of its existence. In the 1950s and '60s, we worried about the Soviet Union and its march toward modernization. In the 1980s, we worried about Japan. This did us no harm; on the contrary, all these fears helped us make changes that allowed us to revive our strength and forge ahead. Dwight Eisenhower took advantage of the fears about the Soviet Union to build the interstate-highway system. John Kennedy used the Soviet challenge in space to set us on a path toward the goal of getting to the moon.

What is really depressing is the tone of our debate. In place of the thoughtful concern of Jefferson and Adams, we have its opposite in tone and temperament—the shallow triumphalism purveyed by politicians now. The founders loved America, but they also understood that it was a work in progress, an unfinished enterprise that would constantly be in need of change, adjustment and repair. For most of our history, we have become rich while remaining restless. Rather than resting on our laurels, we have feared getting fat and lazy. And that has been our greatest strength. In the past, worrying about decline has helped us avert that very condition. Let's hope it does so today. ■



Restoring the American Dream: Getting Back to No. 1—a Fareed Zakaria GPS Special premieres on

GNN at 8 p.m. E.T. and P.T. on Sunday, March 6, and airs again at 8 p.m. E.T. and P.T. on Saturday, March 12

Don't Bet Against the United States

Through good times and bad, Americans have always worried about falling behind. That helps explain why the U.S. remains the world's leading nation

BY DAVID VON DREHLE

Poor U.S. of A., forever in decline. The arrival of public theaters in Boston circa 1790 caused Samuel Adams to despair for the cause of liberty in the face of such debauchery. "Alas!" he wrote. "Will men never be free!" Charles Lindbergh fretted, "It seems improbable that we could win a war in Europe." Long before baseball, hand-wringing was the national pastime. We've never been virtuous enough, civilized enough, smart enough or resolute enough.

I was born into a country reeling from Sputnik, which revealed to the whole world that Americans are as dumb as rocks. John F. Kennedy had just been elected President, in part by bemoaning the "missile gap" between the mighty Soviet arsenal and our paltry few bottle rockets. "The United States no longer carries the same image of a vital society on the move with its brightest days ahead," Kennedy said in his final debate with Richard M. Nixon. That's the same Nixon who declared eight years later, "We are worse off in every area of the world tonight than we were when President Eisenhower left office." Hard to believe we could sink further, but we did, as the nightmare of Vietnam segued into the nightmare of Watergate, while the Japanese exposed the insufficiency of American enterprise. As I stumbled off to college, President Jimmy Carter was warning us about "a crisis of confidence... that strikes at the very heart and soul and spirit of our national will." Thanks to our horrible schools, we were—according to the title of a major 1983 report—"A Nation at Risk." Then our family values went down the toilet.

You'd think America would be as washed up by now as the Captain and Tennille. So how come we're so much stronger than we were 50 years ago? Somehow, in the 235 years since we got started, Americans have weathered Boston theaters and Soviet science prodigies, violent lyrics and sex out of wedlock. We've

survived a Civil War, two world wars and a Great Depression, not to mention immigrant hordes, alcohol, Freemasons and the "vast wasteland" of network television. We've dodged the population bomb, the coming ice age, acid rain and the domino effect. America is to nations what Roberto Clemente was to right fielders. The Pirates legend fretted endlessly about how poorly he felt and how sick he was—while vigorously spraying hits and vacuuming fly balls.

So don't reach for the defibrillator paddles or the rosary beads quite yet.

Overblown Symptoms

THESE DAYS, THE DOCTORS DIAGNOSING AMERICAN DECLINE tend to focus on two types of disease. Some worry about deteriorating "social capital"—inadequate education, a demoralized workforce, dysfunctional politics. Others focus on the physical fitness of our economic edifice: the scale of investment, the level of debt, the fractures in the infrastructure. If you collect enough





symptoms, you can make a strong-sounding case that the country is indeed quite sick. But fallen trees don't prove the forest is dying.

And some of the most cited symptoms are overblown. Take the much discussed problem of income inequality. A very small number of superwealthy people are pocketing nearly all the growth in our national income. That sounds dire for a nation founded on the ideal of equality. It isn't, though, for a couple of reasons. First, a significant part of the rise in inequality is an illusion. Changes to the tax code since the 1980s have created strong incentives for owners of private businesses and certain partnerships to report their business earnings as personal income. This didn't necessarily change the amount of money in their pockets; it just meant that money is recorded in a different column of Uncle Sam's ledger. This expansion of so-called Subchapter S corporations and LLCs inflated the tax returns of the very rich—primarily the top 0.5% of all taxpayers. If the tax laws are changed again, money will shift again. Count on that.

Change could be good: a simpler tax code would be a boon

for most Americans. Ideally, we could accomplish this without discouraging the private charitable giving that totals more than \$300 billion per year in the U.S. But it probably wouldn't make much difference in the incomes of the less than superrich.

Why? Because the main force flattening income growth for most Americans is much bigger than the tax code. Globalization is one of those huge transformations you read about in history textbooks—and not in paragraphs but whole chapters, even whole volumes. Globalization is an epoch, as surely as the Bronze Age or the industrial age, only it is happening with unprecedented speed and scope.

Contrary to what you may hear, the U.S. is doing pretty well at riding that whirlwind. Wages may have stagnated, but the U.S. hasn't. America's inventors, innovators, entrepreneurs and workers have answered the sudden glut of cheap labor around the world by leading an astonishing revolution in productivity. One American produces as much, per capita, as six Chinese. We outproduce Japanese and Germans by about 30% and citizens of the European Union by nearly 45%. So despite slow wage growth, our standard of living has continued to improve. The \$160 that bought a portable black-and-white Admiral television set in 1971, with access to a handful of channels, will now buy (in 2011 dollars) a powerful laptop computer, with access to a world of information—more than any human could digest in a lifetime.

So yes, the world is changing, and yes, the U.S.—like all the world's countries—has a lot of hard work to do to keep up. It is deeply misleading, though, to cherry-pick dismal statistics from here and there to create an overall image of decline. To solve a problem, we must first understand it. American schools, for example, aren't lagging across the board. Where they struggle is in educating poor immigrant and minority students. Focus on that, and watch the gap close between our test scores and those of less diverse nations.

Even worse than flawed statistics, though, is the tendency to interpret the gains of other countries as losses for America. It's true that the U.S. used to generate more patents than the rest of the world combined. Now we produce slightly fewer than half. It is a safe bet that we will generate a smaller and smaller proportion in the future. We're not inventing less; instead, others are being empowered to imagine and invent. Will we always have more airports than the next dozen nations combined? Will we always have three times as many miles of railroad track as China? Probably not, because the rest of the world wants to be as connected as we are.

The fact that students in Finland score well on tests is no threat to us—even as we keep trying to improve our own performance. Attempts by China and Saudi Arabia to create world-class universities don't endanger our institutions—and nothing prevents us from making better use of those resources for more and more of our people.

As Americans, we're in favor of creativity wherever it can be found. We're apostles of prosperity and defenders of the free exchange of ideas. When more people in more countries are free to rise, to invent, to communicate, to dissent, it's not the doom of U.S. leadership. It is the triumph of the American way. Generations have worked hard and sacrificed much for the country to reach this point, and with further hard work and sacrifice (goaded by the spur of our relentless self-doubt) the U.S. will do just fine in the world it has shaped. ■