

## *A Debate: Is the American Economy in Decline?*

On **Thursday, October 18<sup>th</sup> 2012**, participants gathered at the Wilson Center for a panel debate titled “Is the American Economy in Decline?” The event was hosted by the Program on America and the Global Economy (PAGE) and featured two speakers on either side of the debate, arguing the affirmative and the negative. The affirmative side featured **Robert Atkinson**, President of ITIF, and **Edward Luce**, Chief U.S. Commentator, the Financial Times. The negative side featured **Daniel Gross**, Global Finance Editor at the Daily Beast/Newsweek, and **James Pethokoukis**, Columnist-blogger at AEI. The event was moderated by **Kent Hughes**, Director of the Program on America and the Global Economy at the Wilson Center.

**Robert Atkinson** started by pointing out that the issue was not the overall economy but rather that the United States is losing its comparative advantage over other nations. He believes the biggest problem is the decrease in manufacturing. **Atkinson** stated that “it is impossible to have a robust economy without a robust trading sector”. Further, the U.S. trade deficit continues to show how the economy is struggling. He stated that other countries are investing more into education, lowering corporate tax rates, increasing corporate R&D, and opening up to immigration. **Atkinson** closed out by asserting that the country will lose in the global race unless serious bipartisan cooperation takes place.

Arguing the negative, **Daniel Gross** highlighted that American decline was not an absolute one but one relative to other countries. **Gross** argued that the decline of the US economy already took place, between 1999 and 2008, and that the necessary changes for future growth already are in place. Further, **Gross** pointed out that he believes the U.S. is a service-based economy and that foreigners are going to continue investing in tourism, college education, and healthcare in the United States. Finally, **Gross** identified several indicators that show the resilience of the U.S. economy, including the emergence of companies such as Facebook and Google that required little to no venture capital and have managed to generate revenue worth billions of dollars.

**Edward Luce** countered the arguments made by **Daniel Gross** by highlighting what he believes are the structural problems facing the U.S. economy. **Luce** made two main points: First, the decline is relative as opposed to an absolute decline. Since 2000, the US share of global GDP has dropped from 31 to 23 percent. **Luce** argued that the decrease in average median wages that has occurred for decades is the strongest evidence that the economy is in decline. Second, **Luce** indicated that the polarization of American society, with the disappearance of the middle class, has a direct parallel in the polarization of politics. He said that finding government solutions in this political climate is going to be very difficult.

**James Pethokoukis** argued that the debate surrounding American decline is a recurring theme with the latest example being U.S. fear in the 1980s that Japan was going to

surpass America in economic power. Further, he argued that the U.S. did not really experience a decline in the early 2000s but rather that the economy of the 90s was an exceptionally and unsustainably good economy, and that the years following were a “simple mean reversion”. Acknowledging the recession that started in 2007, **Pethokoukis** placed the blame on bad monetary policy. He stated that “the fundamental American model of capitalism simply isn’t broken”. **Pethokoukis** concluded that he is not worried about the American economy and that the U.S. will be able to get back to a three percent annual growth rate.

Next, **Gross** cross-examined **Atkinson**, questioning why he disagrees that the \$2.2 trillion worth of exports in 2012 is a sign of a strong U.S. economy. **Atkinson** responded that the trade deficit has increased over the last several years, meaning that imports have outweighed exports. Further, the composition of U.S. imports are products that are more high-value added than the ones than U.S. exports. **Gross** responded by using the example of scrap paper exported by the United States and sold to China, arguing that though it isn’t a high-value added product, there is a huge need for it in the world. **Atkinson** agreed that the United States has been successful in some areas but that the trade sector, which accounts for a third of the economy, is an area where other countries have an advantage over the United States. Further, he added that services are only a small part of the trade sector, and even though the United States has a surplus in services trading, it does not offset the trade deficit.

**Luce** then cross-examined **Pethokoukis** about the consequences of the trends regarding weak performance in skills and educational output of the American people. **Pethokoukis** responded that there has not been a stagnation of wages and living standards in the United States in the last 40 years and that by having measured income and inflation incorrectly, the wrong conclusions about the state of the economy have been reached. Concerning the educational outcomes of American students, **Pethokoukis** agreed that the system is not necessarily good on the middle-school and high-school levels, but that universities make up for it, and many graduates become highly productive workers. Regarding the polarization and inefficiency of politics in Washington D.C., **Pethokoukis** commented that once a crisis becomes severe enough, it will act as a catalyst for action.

Next, **Kent Hughes** asked **Atkinson** about the potential need for a national innovation strategy. **Atkinson** responded that establishing such a strategy would violate the principles of the free market. He noted that during the fears of economic decline in the 1980s, the U.S. responded appropriately with bipartisan agreement that put policies into place enabling the economy to start growing again. **Hughes** then probed **Gross** about his view on the “permanent private sector revolution” described as being a key driver to the changes that will lead to a strong American economy. **Gross** expounded on how American companies have been doing well in the last decade, focusing on efficiency as a business model, giving an optimistic outlook on how the current system can be improved absent billion dollar investments.

**Hughes** then asked **Luce**, what could be done about the incentives of CEOs, being driven mainly by pension funds and mutual funds for whom the incentives are short-term. **Luce** stated that it would be very difficult to move back an era of patient capital because of the increasing rate of competitiveness in globalization, and the financially oriented nature of the American economy. **Hughes** then asked **Pethokoukis** whether or not the U.S. has kept pace with the rest of the world in education in terms of the K-12 system and college graduation rates. **Pethokoukis** commented that there is too much emphasis on getting a college degree and not enough emphasis on getting a quality education or an apprenticeship.

Questions for the panel included the internationalization of American companies, the diversification of the American economy, sustainability, as well as the role China has played in the American economy. The final question posed by the audience regarded the consequences of American debt. **Atkinson** responded that the U.S. will ultimately have to pay for it by consuming less and producing more, as well as exporting more than the country is importing.