This essay does not present the results of original research, but rather reflections based on what I have observed as a contemporary witness while living in the United States during the Obama years. I will examine some economic and social trends and ask what they might mean for the future. I will also discuss whether we are likely to see a continuation of the “American Century” or the demise of the world’s economic superpower. I am well aware that thirty years from now, researchers with the benefit of hindsight and access to sources might give a very different account.

Introduction

I entered the United States on March 31, 2008, as the financial crisis and the subsequent recession, the gravest since the Great Depression, were unfolding. The housing market was in free fall and Wall Street was reeling. On September 15, 2008, Lehmann Brothers collapsed; this was the largest bankruptcy in American history. A meltdown of the world’s entire financial system became a real possibility. On October 3, President Bush signed the Troubled Asset Relief Program (TARP). In real terms, TARP was more than three times as large as the assistance Herbert Hoover had granted to banks in 1932. The promise to purchase or insure up to 700 billion dollars of “troubled assets” prevented a wildfire and saved the world from a catastrophe. TARP was amended several times by the Obama administration. By 2014, the government had managed to sell most of the “troubled assets” it had acquired through TARP and even made a small profit on them.

Living in Washington through the turmoil of the financial crisis was a special experience for me. It is not every day that an economic historian witnesses such dramatic developments first-hand, even if I was not always immediately aware of the things that were going on in this city. A historic moment I did not miss occurred on November 4, 2008, when the first African-American was elected President of

---

1 This is a revised version of my farewell lecture, delivered at the GHI on June 18, 2015. This published version closely follows the original manuscript. Therefore notes are kept to a minimum.
After the results were announced, thousands of Washingtonians took to the streets. Many were singing, dancing, hugging each other and chanting “Yes, we can!” I stood at the corner of U Street and 14th Street, the epicenter of the last race riots in DC in 1968. Now, blacks and whites were united in an atmosphere of joy. It was an emotionally charged night, a moment when you felt that history was making a big, irreversible step forward. In DC, where 92 percent of the electorate had voted for Obama, a sense of relief was in the air after what was perceived by many as the oppressive Bush years. Thousands went to the White House and joyfully chanted: “Bye, bye, Bush.” Expectations for his successor were extremely high, not least because the Obama campaign had depicted its candidate as a kind of messiah. Obama himself made far-reaching promises to build nothing less than a new America. In this elated atmosphere it was easy to lose sight of realism.

And this mood lingered on, despite the dark clouds the recession was casting over the country. The number of people losing their jobs or homes, or both, was increasing.

Before Obama could take any action he had to be inaugurated. On January 20, 2009, I witnessed the ceremony in person, along with about two million other people on the Mall. The event was somehow tarnished, however, as neither Chief Justice Roberts nor Obama remembered the correct wording of the oath of office. To remove any doubt about his legitimacy, Obama had to take the oath again one day later.

In his inaugural address, the new president again raised expectations to unrealistic highs. In a brilliant speech full of biblical metaphors and historical references, he promised to overcome “greed and irresponsibility” and to “prepare the nation for a new age.”

Today I say to you that the challenges we face are real, they are serious and they are many. They will not be met easily
or in a short span of time. But know this America: They will be met. . . . On this day, we gather because we have chosen hope over fear, unity of purpose over conflict and discord. . . . The time has come to reaffirm our enduring spirit; to choose our better history; to carry forward that precious gift, that noble idea, passed on from generation to generation: the God-given promise that all are equal, all are free, and all deserve a chance to pursue their full measure of happiness. . . . This is the journey we continue today. We remain the most prosperous, powerful nation on Earth. . . . Starting today, we must pick ourselves up, dust ourselves off, and begin again the work of remaking America.2

The president did not have much time to ponder the ceremonial blunder of his inauguration, as the pressing economic problems required immediate attention. He had already announced a huge “recovery plan” and stated that there was “no disagreement” on its necessity. About two hundred economists contradicted him, saying that it was naïve to believe that more government spending would improve economic performance. Eleven days later about two hundred other economists signed a letter stating the exact opposite.

The American Recovery and Reinvestment Act (ARRA), commonly referred to as the Stimulus or Recovery Act, was signed into law on February 17, 2009. It comprised job creation and relief programs as well as investments in infrastructure, education, health, and renewable energy. The total cost is expected to exceed 830 billion dollars by the time the Act expires in 2019. Not surprisingly, the results of ARRA have been subject to controversy. Scholars disagree on the number of extra jobs it created and whether it had any impact on the business cycle. They argue over whether too much or too little money was spent. I am sure ARRA offers enough material for hundreds of doctoral dissertations. Yet it is undeniable that ARRA helped pull the country out of recession. ARRA modernized parts of the country; just think of the expansion of broadband services and renewable energy. At the same time, however, ARRA also exacerbated the debt problem.

The gravest recession since the Great Depression reached its trough in the last quarter of 2008, when real GDP shrank by 8.3%. In the first quarter of 2009, that is, before ARRA, the growth rate was
-5.4 percent; in the second quarter, it was 0.4 percent. The recession was technically over by the third quarter of 2009, but it was followed by a period of low and volatile growth.

The labor market went from near full employment to 10% unemployment in 2009. The tide turned in the fall of 2009, when a steady reduction in the unemployment rate set in. The official statistics overstate the improvement because some people dropped out of the labor market. By February 2015, the unemployment rate was 5.5% in the United States and 9.8% in the EU. The United States has thus overcome the crisis relatively fast. It is striking that Obama has received hardly any credit for this.

Even if we agree that the United States recovered relatively well, we should ask ourselves whether the country is well prepared for the future. This article will first address factors that suggest a negative answer. Then some factors pointing in the opposite direction will be discussed. But let us start with some rather depressing facts. I see eight impediments to growth and prosperity.

I. Impediments to Growth and Prosperity

1. Deep Social Divisions

Fig. 3 depicts the distribution of U.S. household wealth since 1913 and compares the share of the lower 90% of all households with the share of the richest 0.1%. The gap between the super-rich and everyone else began to narrow in 1929 and continued to narrow until 1979. Since then, however, it has widened steadily. The tiny top group expanded its share of all household wealth from 7% to 22%, and the majority received an ever smaller share of the overall increase in wealth.³

The social position of African-Americans and Hispanics has deteriorated compared to white Americans since 2010, after a period of shrinking differentials. White Americans’ median household wealth was ten times as large as African-Americans’ wealth in 2010, but thirteen times as large in 2013. The average black household then had a net worth of $11,000, the average white household one of $142,000. The differences had been smaller in most years of the 1980s and 1990s. Not only did economic inequality between the races not diminish during the Obama presidency, but it actually grew significantly.

Part of the widening gulf is due to the shrinking of the middle class. During the recession, many families sank into the lower strata of society, even into poverty. The middle class is the foundation of society. If its weakening continues, this will have serious repercussions. After rising for many decades, average income in real terms has been declining since 1999. At the heart of the American dream is the belief that each generation will do better than their parents, but this dream is fading. Today, Americans in their forties are earning less, on average, than their parents did at the same age in real terms.

2. Unequal Distribution of Social Capital and Educational Opportunities

We also see an alarming trend toward rising inequality when it comes to social capital. More and more children live in single-parent households. About 65% of these children have parents whose educations ended with the high school diploma or no diploma. By comparison, only 10% of children whose parents are college graduates are...
living in a single-parent household. Being raised by a single parent might not be so terrible when that parent earns 150,000 dollars or more, but most earn considerably less. Statistically, growing up in a single-parent family presents a strong risk of future poverty and a higher incidence of emotional and social problems. Growing up with two parents increases a child’s chances of future educational and occupational success.

The main factor determining the likelihood that a young person will attend college is their social origin. It all comes down to class, and the social divide is growing. Despite some progress through affirmative action, we are still dealing with a vicious circle. By and large, the U.S. educational system does not foster social mobility but, rather, it reinforces existing social divisions.

Although the middle classes still send their children to college, the American Dream shatters when these college graduates cannot find jobs that are sufficiently well paid for them to pay off their student loans. Student loan debt has more than quadrupled over the past twenty years. Tuition in real terms has almost quintupled since 1983. Does it still pay to go to college? In most cases it does. But growing numbers of recent graduates are moving back in with their parents and are saddled with debt for decades. College is still a doorway to higher incomes for most students, but the returns are decreasing. There is a clear downward trend as college tuition grows faster than middle-class incomes.

### 3. Wasting Human Capital

The United States has the highest incarceration rate in the world. It is seven times as high as Canada’s and ten times as high as Germany’s. The number of Americans in prison has more than quadrupled since 1980. 2.4 million Americans were incarcerated in 2013; that is almost four times the population of Washington DC. In some prisons it costs as much as 60,000 dollars a year to keep a person behind bars: it would often be cheaper to send inmates to college instead. But for most inmates prison is a dead end. Within three years of their release, about two-thirds return to prison. The numbers are even bleaker when we look at the total correctional population, that is, prison inmates plus offenders on probation or parole: in 2013 that number stood at 6.9 million, or 1 in 35 adults. African Americans and Hispanics are strongly overrepresented among this group.

---

The high recidivism rate is a sign that most prisoners do not get a second chance. Given its enormous expense, the correctional system could help educate, train, and reintegrate millions of Americans, but this does not happen. In short, a considerable part of the population is excluded from society and locked away at immense financial and social cost.

Another extremely wasteful system is public education in inner cities and rural areas outside wealthy suburban school districts. In Washington DC in 2013, tests revealed that more than 51 percent of the eighth graders in public schools were not proficient in reading and 39 percent were not proficient in math. These abysmal figures were, in fact, seen as a sign of progress because in 2004 the figures were 71 and 59 percent respectively. If a school system claims to have improved when half of its students still cannot properly read, the situation is dire. No progress at all was reported on racial and social equality. “Gaps between White, Black, and Hispanic student performance have remained constant over the past decade, with no significant gains in either direction. On average, White students scored between 50–60 points higher than Black and Hispanic students.”

Readers of the local pages of the Washington Post regularly learn of the schools’ problems, from crumbling buildings to lackluster teaching, from vermin infestations to truancy and even absent teachers. In 2007 a new Chancellor of DC public schools, Michelle Rhee, a daughter of South Korean immigrants, tried to aggressively cure the system through quick and radical reforms such as school closures and the firing of underperforming principals and teachers. In effect, she antagonized teachers unions and their supporters, as well as many parents, and stepped down in 2010. It is not only in DC that the public school system fails families who cannot afford an alternative. Again, black
and Hispanic kids are strongly overrepresented in these struggling institutions.

When the Obamas moved to Washington, some observers expected a clear sign in favor of public schools, but instead the first couple sent their daughters to a highly selective private school. This decision to follow a pattern set by the white upper class caused much controversy. Jimmy Carter was the last president who sent his child to a public, predominantly black school — an act that was regarded as highly symbolic.

One of the richest nations in the world allows social divisions to reproduce themselves in the school system. This deprives millions of children of the chance for a better future. It also weakens the overall qualification of the workforce. The skills gap, which affects mainly the lower and middle segments of the bifurcated labor market, weakens America’s international competitiveness. OECD studies show that, when compared to 21 OECD countries, students in American schools ranked second to last. In reading, writing, and problem-solving capabilities, 16 to 34 year olds from the United States were significantly below the OECD average. Other tests show that the literacy and numeracy skills of U.S. workers have declined over the last two decades and lag behind those of workers in other industrial nations. While Americans did not do so badly on average, the gap between well-qualified and poorly trained Americans is growing.

As a result, “advanced industries,” that is, companies engaged in technology research and development, face a labor supply challenge that places a drag on their competitiveness. Their demand for highly qualified staff comes up against an insufficient system of education and vocational training. This is even more worrying, as globalization and technological progress are increasing skill requirements.

4. The Health Crisis

Education, social status, and health are closely linked. The average level of Americans’ health is deteriorating fast. 71% of 17-to-24-year-olds would not qualify for military service because of physical, behavioral or educational shortcomings. Many lack the required high school diploma or fail the army’s relatively undemanding academic test. The single most important reason for disqualifying new recruits was physical deficiencies, above all, obesity. The situation is so bad that in 2009 retired military leaders formed a nonprofit to lobby for
improved nutrition in schools. Normally, one would not associate the army with an interest in healthier food. In 2009–10, 69.8% of all American adults were overweight or obese, 35.7% obese, and 6.3% extremely obese. Again, social and racial divisions stand out. This is bad news for future medical costs, for productivity at work, and for national security.

5. The Crisis of the Health System

Health costs are rising faster than GDP. They accounted for 5% of GDP in 1960. In 2013, this figure was 17.9%. This is nearly double the rate of most other developed countries. In terms of results, the United States mostly ranks below these nations. The system has so far been excessively expensive, inefficient, and socially divisive, and has denied a significant portion of the population regular access to health care.

The Patient Protection and Affordable Care Act (PPACA), commonly referred to as Obamacare, was signed into law by the President in March 2010. It represents the most thorough overhaul of the U.S. healthcare system since the passage of Medicare and Medicaid in 1965. This highly controversial law was intended to lower the uninsured rate, to improve the quality and increase the affordability of health insurance, and to reduce the costs of healthcare by subsidies.

The average number of uninsured during the period from January to September 2014 fell by 11.4 million compared to that number in 2010. The percentage of uninsured adults dropped from 18% in the third quarter of 2013 to 11.4% in the second quarter of 2015. While Obamacare will continue to be challenged, both politically as well as legally, it is highly unlikely that anyone will take away access to health care from more than 11 million Americans who are now covered for the first time. This reform will certainly be seen by future generations as a milestone, as a truly historical achievement of the Obama presidency.

Whether Obamacare is — apart from the substantial expansion of healthcare coverage — going to fulfill any of its other promises, remains to be seen. There are no signs yet of substantial cost reductions or quality improvements, and an uninsured quota of 11% is still a long way away from universal coverage.

6. Political Polarization and Gridlock

In 2013, I experienced my first government shutdown. At first, I liked it. There was less traffic and Washington felt very relaxed.
But the 16 days that most federal agencies were closed were not so relaxing for the furloughed federal employees. The U.S. economy lost about 24 billion dollars. Between the fall of 2011 and January 2014, the federal government had no regular budget and resorted to desperate means such as the sequester, which amounts to indiscriminate cuts affecting all branches of the administration. By not extending the debt ceiling, Congress put the country on the verge of bankruptcy.

This failure is indicative of what is known as political gridlock. The number of bills passed in the Obama presidency by April 2014 was at a historic low. Even pressing issues like immigration, tax, and entitlement reform have not been resolved. Ideological polarization and partisan warfare have led to virtual paralysis. The split-party control of the two chambers of Congress has aggravated the situation, but the primacy of partisanship is the main culprit. Not surprisingly, the rate of Americans who have confidence in Congress is extremely low. According to Gallup polls, Congress’s approval rating reached a historic low of 10% in February 2015.13

The political system is almost broken. Campaign finance and lobbying are two potent mechanisms that corrupt lawmaking. Think of the manipulative redrawing of electoral districts and of the absurdity of the filibuster. A senator can block a bill from coming up for a vote by talking about any topic for as long as humanly possible, unless sixty senators move to bring the debate to a close. In other words, a minority of 41 senators, who might represent as little as 11% of all

---

13 In June 2015 it was up to 17%. http://www.gallup.com/poll/155144/congress-approval-june.aspx.
voters, can obstruct any piece of legislation. This system clearly is not fit for the twenty-first century. A constitutional amendment is called for.

7. The Weakness of Public Administration

In a country that cherishes self-help, it comes as no surprise that many challenges that individuals or the private sector cannot deal with in an adequate manner are only insufficiently met by public authorities. Many branches of administration are known for their lack of competence, low productivity, and even lower morale. Ambitious, highly qualified civil servants normally do not stay for long, and instead leave for positions in the private sector that pay several times the salary of the civil service. The reputation of the “bureaucracy” is generally bad.

As a consequence, the administrative environment for research and innovation in the United States is far from optimal. Responsibilities for research policy are highly dispersed and the mechanisms of supporting research complex, even opaque. The country as a whole does not have a coherent national strategy for economic development or research. This goes hand-in-hand with diminishing public funds for research and innovation. Federal outlays for research and development have continuously fallen since the 1960s. Although the decline was steepest until the early 1980s, the trend has never been reversed. In 1965, federal R&D spending accounted for 11.7% of the federal budget and almost 2% of GDP, whereas the respective figures for 2015 are 3.6% and 0.8%. At the same time most states enacted massive cuts in their funding for universities.

The country’s esteem for individualism and private initiative is also reflected in the poor state of many public goods, especially when it comes to basic provisions like traffic infrastructure, social services, and schools. High-speed railway projects proposed by the federal government have been stalled or prevented by political circles, who regard the use of taxpayers’ money for building modern railways as inappropriate because, they argue, such projects would only benefit those who live along the railways. As a result, the United States has the most antiquated and inefficient rail system of any industrialized nation.

But roads and bridges are crumbling, too. The streets of Washington are full of potholes. According to the American Road and Transportation...
Builders Association, there are “14 ‘structurally deficient’ bridges
in the nation’s capital . . . Nationally, 61,064 spans get that broad
designation, which indicates ‘major deterioration, cracks, or other
deficiencies in their decks, structure, or foundations,’ according to
the U.S. Department of Transportation.”

If one were to look for a symbol of this crisis, one might well pick the
iconic 1930s-era Memorial Bridge in Washington. Leading from the
entrance of Arlington National Cemetery to the Lincoln Memorial, a
gateway to the nation’s capital, it had to be partially closed in June
2015 because it is badly corroded. Its drawbridge has not been opened
since 1961. The indefinite imposition of a weight limit and tempo-
rary lane closures implemented in 2015 add not only to commuters’
misery, but are seen as a national embarrassment. In the words of
Northern Virginia’s Congressman Don Beyer, “[t]here is nothing
more emblematic of Congress’ failure to invest in our nation’s infra-
structure than the bridge that brings people into our nation’s capital,
a national memorial, falling apart.” Only emergency repairs will
take place in 2015, as funds for a complete restoration are unavail-
able. The National Park Service, which is in charge of the bridge,
announced the partial closure with a somewhat ironic statement:
“Symbolically, the bridge was designed to show the strength of a
united nation by joining a memorial on the north side of the Potomac
River . . . with one on the south.” The bridge’s eagle sculptures, bas-
relief bison and artistic oak leaves are meant to “invoke national
strength and unity.”

Another historic symbol is the interstate highway system, which
President Eisenhower considered one of the most important achieve-
ments of his two terms in office. It symbolizes a modern, fully motor-
ized society, although its hidden agenda was shaped by the Cold War.
The new system was to provide key transport routes for the military
in case of an emergency, and evacuation corridors for major cities
if the Cold War turned hot. In 2006, the highway system turned 50
years old. In that year, Americans spent a total of 3.5 billion hours
stuck in traffic. What an economic waste.

In 2005, the American Society of Civil Engineers issued a scathing
report on fifteen categories of infrastructure after a large-scale evalu-
ation by thousands of engineers. The power grid, dams, and canal
locks received especially bad marks. All other categories did only
slightly better. The best grade, a C+, went to bridges, and even here,
“160,570 bridges, out of a total of 590,750, were rated structurally

deficient or functionally obsolete.” The neglected traffic infrastructure slows the country down, creates the risk of severe disruption, and entails enormous financial follow-up costs.

8. The Debt Problem

The nation’s yawning gap in infrastructure funding is directly connected to another key problem of the United States: the gigantic national debt. Figure 6 shows the public and intragovernmental debt, and its ratio to GDP. The debt is currently at around 100% of the GDP, which was exceeded only at one point in the entire history of the United States, namely after the Second World War. The ratio was significantly lower after the Civil War, the First World War, and even after 1929.

Under Clinton the debt was significantly reduced, whereas George W. Bush increased it by 70%. Then the financial crisis blew debt-to-GDP ratios skyward. Government revenues shrank, and spending, mainly for social and stimulus programs, expanded sharply. But the situation is much worse than this graph suggests. If one includes the unfunded liabilities of Social Security, Medicaid, and Medicare, the highest estimates put the real debt to GDP ratio at 480%. Even if this might be exaggerated, the result is crystal clear. The United States has entered a fiscally unsustainable path, and the situation is much worse than it was after 1945.

In 2010, Federal Reserve Chairman Ben Bernanke demanded “a credible plan for reducing deficits to sustainable levels.” After five years, no such plan exists. Bernanke’s predecessor, Alan Greenspan, had called for radical measures: “Only politically toxic cuts or rationing of medical care, a marked rise in the eligible age for health and retirement benefits, or significant inflation, can close the deficit.”


The United States faces all kinds of dilemmas. Interest rates will have to go up to reverse the excessive expansion of the monetary base, but this will put an additional strain on the budget and slow down growth. No matter what policy-makers do, things are going to get worse. The solution in the 1950s and 1960s was a combination of low interest rates, high taxes, and inflation. This might be feasible in a fast growing economy, but today it could be a recipe for disaster. If governments take debt reduction seriously, they will probably have to do so at the expense of growth. These problems might well exceed the problem-solving capacity of the political leadership and the political system.

The bundle of problems addressed so far is alarming. And we have not mentioned the country’s shrinking share of world trade, its declining productivity growth, and the demographic trap, which, of course, all industrial nations are confronted with. Still, it is fair to say that Obama’s promise to “remake America” did not come true. In fact, many problems that he addressed in his first inaugural speech have worsened. But, despite these deeply troubling trends, there is also good news to share. At least eight sources of strength are countering the political and economic decline of the United States.

II. Sources of Strength

1. America’s Wealth of Natural Resources

From its very beginning, the United States has benefited from an abundance of natural resources. It still does, and recently this old advantage has returned with regard to energy. In a remarkable push to minimize energy dependence, America became the world’s largest producer of oil and gas in 2014, even overtaking Saudi Arabia. The import of liquid fuels has dropped by more than half since 2010. Much of this is due to fracking, but also to Obama’s massive support for renewable energy. Wind-generated electricity has trebled since 2009. As this shift coincided with the tumbling of oil prices, cheap energy has returned. And that gives an enormous boost to consumers’ purchasing power.

Cheap energy is a reason for many companies to relocate their energy-intensive activities to the United States, as the German chemical giant BASF, for example, has done. There is also a trend toward on-shoring. Some of the industrial jobs that were exported to low-cost countries are returning because of lower energy costs in the U.S. and rising
wages and currencies abroad. According to the Boston Consulting Group, average wages in south China’s Yangtze delta, a manufacturing hotbed, jumped from $0.72 an hour in 2000 to approximately $6.31 in 2015. According to economic analyst and author Charles R. Morris, “[o]n-shore production also makes it easier to keep up with today’s just-in-time delivery mandates and ever-more-rapid product cycles. And, like all American companies, GE has become wary of the Chinese propensity to knock off market-leading product designs.” After losing 6 million manufacturing jobs in the 2000s, American industry is currently creating some new jobs in the United States. All in all, there are tentative signs of a partial resurgence of American manufacturing.

2. Top Research Facilities and High-Tech Clusters

The United States is the world’s leading high-tech country. The science and IT departments of American elite universities are surrounded by clusters of vibrant industries. They are able to attract talent and money from around the world. The list of Nobel-prize winners reflects this dominance in research. Far less restrictive regulation is not the only reason why European pharmaceutical firms transfer their laboratories to the United States; recruiting top talent is also significantly easier here.

The United States is home to some of the most innovative software and Internet businesses in the world, like Google, Intel, Microsoft, Apple, AMD, Dell, Facebook, etc. These and other advanced industries cluster in large metropolitan areas. These clusters generate strong network effects from the existence of key innovation resources, knowledge pools, skilled workers, and specialized supplier networks. Metropolitan regions like Austin, Boston, San Diego, Seattle, and Silicon Valley are impressive centers of growth, “world-class hubs of prosperity.” The U.S. seems well versed in exploiting promising new technologies, ranging from advanced robotics and 3-D printing to the digitization of everything.

Emerging economies, however, are catching up. No longer prepared to be mere producers of “designed in California” products, they are massively investing in education, training and innovation. The American leadership in high tech still seems to be intact at present, but it might be threatened in the future. It should be a warning sign that U.S. employment in advanced industries is low by international comparison and, more worryingly, decreasing.

---


23 Muro et. al., America’s Advanced Industries, p. 8. See also https://www.thefinancialist.com/why-the-future-of-american-high-tech-remains-bright/3t3hash_RfanSV15.dpuf
3. The World’s Strongest Capital Market

America still has the most important financial market and the U.S. dollar is still the world’s leading currency. Both might change, but not in the short run. In 2014, 62% of the world’s foreign currency reserves were held in U.S. dollars. The United States is an incredibly rich country, and this wealth is not going to diminish any time soon. On the contrary, it is increasing fast. And this country has an efficient infrastructure to funnel capital into productive use, through Wall Street and through private equity and hedge funds. Start-ups can draw on a large pool of venture capital. The terminology itself is telling. The word “venture capital” has a positive connotation, while the German translation is “risk capital,” indicating a more cautious, subdued approach. Thus, the German market for private equity and hedge funds is still small by American standards. The U.S. economy benefits from a well-functioning, highly innovative financial market that mobilizes gigantic amounts of capital.

4. The Positive Effects of Immigration

Despite an utterly dysfunctional immigration policy, the U.S. economy still reaps substantial benefits from immigration. The presence of millions of immigrants in the lower segments of the labor market puts continued downward pressure on wages. It is a scandal, however, that more than 12 million unauthorized but indispensable workers in most cases cannot legalize their status and build a future for themselves and their families in the United States.

At the other end of the labor market, America is a magnet for highly skilled people. As the GHI’s research project on immigrant entrepreneurship has shown, the ability of the United States to attract business talent from abroad has been, and still is, a source of great strength. Between 1995 and 2005, 52% of all Silicon Valley startups were founded by immigrants. For the engineering and high tech sectors generally, the figure was 25%. There are several hubs of immigrant entrepreneurship. 44% of new tech businesses in New York and about a third of those in Boston, Chicago, and San Diego were founded by immigrants. The experience of navigating between cultures can be uncomfortable, but at the same time it is a powerful asset. 

Let us look at the cofounders of some iconic American corporations. Google’s Serge Brin was born in Russia, Yahoo’s Jerry Yang in Taiwan,
Ebay’s Pierre Omidyar in France, with Iranian roots. Comcast co-founder Daniel Aaron fled Nazi Germany, Intel cofounder Andrew Gove communist Hungary. Amazon’s founder Jeff Bezos is the son of Cuban immigrants and Richard and Maurice McDonald were born to Irish emigrants. 40 % of all Fortune 500 companies were founded by immigrants or their children.25 Immigrants as a whole are more than twice as likely to start a business as people born in America. There are not many other countries that attract immigrant entrepreneurs in similar numbers. And there is no other country in the world that is so attractive to new immigrants. Sorting out its immigration policy could help the United States retain and even deepen this advantage.

5. The Wealth of Social Capital

Despite all social, racial, and political divisions, the United States has a strong culture of solidarity. Especially in moments of crisis, this sense of community comes to the fore. When Washington was hit by excessive snowfall in 2009, neighbors looked after the elderly, and people shared scarce supplies. When New York experienced its worst flooding during hurricane Sandy in 2012, thousands of volunteers spontaneously gathered in schools. The readiness to do volunteer work is astonishing. America’s social capital is not depleting — contrary to what Robert Putnam claimed in 2000 in his influential book, according to which Americans have increasingly become disconnected from family, friends, and neighbors.26 Many critics have vehemently denied this thesis, and others have pointed to the fact that civic engagement today takes different forms than it did in the 1950s and 1960s. Instead of participating in bowling leagues, people join social networks and neighborhood groups or interact with others through their children’s interest in sports leagues. Even if Putnam was right and there had been a decline of social capital since 1950, it would still be extraordinarily high by international comparison. It is my personal observation that active civic engagement is in no way fading. Rather, it is at a very high level. The numbers of voluntary associations and philanthropic charities, and the amount of money and time people give to them, is a source of national strength.

6. Positive Attitudes toward Entrepreneurship and Innovation

In the United States entrepreneurs are heroes, role models for children, who sell lemonade on street corners and dream about becoming the next Steve Jobs. The obstacles to launching new business

ventures are low. Many start-ups begin in garages or kitchens, almost mythical sites of U.S. business history. The founding of businesses is obstructed by much less red tape than in many other advanced economies.

In Europe, wealth is often seen critically. In the United States, making money is not regarded as a dubious activity. This certainly also has its risks. The cult of the self-made man opens the door to con artists like Bernhard Madoff. Ponzi schemes were literally invented in the U.S. — by Charles Ponzi in 1920, and imitated by a myriad of copycats. They are more widespread in the United States than elsewhere. This distinctively American disposition, an almost naïve veneration of wealth and success, spurs a culture of achievement, but at the same time creates huge opportunities for crooks.

Another notable prerequisite for growth is the openness to new products. These can take off with remarkable speed if they fill — or create — a demand. Look at the spread of Facebook, Twitter, YouTube, Instagram, Uber or Airbnb. People here are fascinated by the new, and their first thought is not to stop it by injunction. One might say that there is a kind of pioneering spirit. Young entrepreneurs with new ideas are not discouraged by skeptical financiers or traditionalist consumers but, as a rule, find the support of venture capitalists and, in many cases, of consumers too. It is hard to imagine that the U.S. would lose its present position as a pioneer of consumer innovation, as this status has a technological and a cultural base.

7. “Comeback Nation”: America’s Resilience and Adaptability

The same argument holds true for the ability of the American economy to rapidly recover after crises and to smoothly adapt to changing circumstances. This robustness and readiness to meet new challenges, too, has deep cultural roots, remnants of the “frontier spirit” linked to the concepts of “progress”, “American exceptionalism,” and “individualism.” A sense of confidence and optimism about the future, along with the willingness to help oneself and find pragmatic solutions, are widespread American dispositions.

As far as the labor market is concerned, its remarkable flexibility stands out. In Europe and Japan, collective wage bargaining, extensive regulation, and far-reaching protections for workers make it difficult for employers to adjust their labor intake, wages, hours,
and working conditions to the business cycle. To put it bluntly, firing and hiring according to the firms’ needs is much easier in the United States. The flipside of this is a much lower level of security and predictability on the part of the workforce. Besides, unemployment and social security benefits are relatively small and time-limited. American workers are therefore more likely to switch employers, start second careers, and move to wherever jobs are available. Because very few status rigidities exist, most unemployed are willing to accept lower wages or move across the country. If necessary, people with university degrees accept inferior jobs instead of waiting for what many European unemployment regulations call “reasonable employment” corresponding to one’s education and social status. The degree of geographical and professional mobility is high by international standards, just as employment protection standards are low. This is still the case, even though the long-term historical trend displays a decline in the flexibility of the American labor market.28

Another mechanism explaining the marked resilience and adaptability of the U.S. economy is the way the legal system treats bankrupt firms. Chapter 11 of the U.S. Bankruptcy Code grants corporations privileges that help them to stay afloat and recover fast. Indebted firms can acquire new financing on favorable terms by giving new lenders first priority on the business’s earnings. Old lenders can be prevented from any collection attempts or legal measures against the creditor. The bankrupt firms are also allowed to cancel existing contracts such as wage agreements with employees or unions, contracts with suppliers or customers, and real estate leases. These mechanisms favor corporations over all other stakeholders. Unions claim that employees’ rights are eroded and that they bear the brunt of such financial restructuring. Indeed, distressed firms regularly terminate collective-bargaining agreements and “retiree health benefits and pension plans without seeking equal sacrifice from other stakeholders and creditors.”29 Since 2002, every single major U.S. airline has filed for Chapter 11. Unions campaign for reform to prevent abuses. Chapter 11 in its present form, however, still allows corporations to adapt rapidly in times of crisis and to avoid total collapse. As far as employees are concerned, it is hard to decide what is better: unemployment or severe cuts in wages and benefits while keeping their jobs. There is no doubt that Chapter 11 creates flexibility for employers and helps the economy to rebound from crises, in both cases at considerable social costs.

8. Soft and Hard Power and the Military-Industrial-
Intelligence Complex

The United States is powerful. Soft power — Hollywood and global brands — gives American companies immense comparative advantages. But we should not forget hard power. The United States still possesses unique military capabilities and a gigantic intelligence apparatus. This is not a pleasant topic, but it is one with real weight. Soft and hard power translate into economic power. The NSA and the other sixteen intelligence agencies protect American trade secrets and spy on foreign companies. In bids for large contracts, U.S. businesses can count on their government’s support in a way competitors from smaller and less powerful nations simply cannot. Bargaining chips include arms deals, military cooperation, the opening or closure of military bases, and so on.

And then there is what President Eisenhower in his farewell address in 1961 called the “military-industrial complex,” warning against its “unwarranted influence.”30 In 2014, the U.S. government spent about 600 billion dollars on defense-related purposes. That was roughly equal to the combined amount spent by the next seven largest military powers. The supremacy of the U.S. is unchallenged. Most of this money goes to U.S. firms, which, by the way, contribute heavily to political campaigns of those who decide on these contracts. Despite the obvious pitfalls of this structure, the military-plus-intelligence-industrial complex has general economic benefits. As the U.S. will not relinquish its claim to global military hegemony any time soon, this perennial stimulus program is going to continue.

The military-industrial complex not only prospers in a giant defense market, but also improves the competitive position of the U.S. more generally. Defense Research and Development (R&D) has produced enormous spin-offs for the civilian economy, such as GPS systems in cars and smartphones. We have seen this in the past. The Defense Department’s “willingness in the 1960s to pay almost any price for compact . . . electronics for its missile programs stimulated the infant semiconductor industry. This early and cost-insensitive purchasing helped companies pioneering the technology to move down the learning curve.”31 Silicon Valley was born with defense-related R&D funds. Defense spending has crucial spin-off effects for the U.S. space, satellite, aircraft, and telecommunications industries. The military sponsors big research projects in scientific and

---

30 Farewell address by President Dwight D. Eisenhower, January 17, 1961; Final TV Talk 1/17/61 (1), Box 38, Speech Series, Papers of Dwight D. Eisenhower as President, 1953-61, Eisenhower Library, National Archives and Records Administration.

engineering fields ranging from nanotechnology to biomedicine. All of this is potentially dual-use technology that will give the United States significant competitive advantages on global defense and in civilian markets. These massive subsidies are a source of concern in the European Union, as they distort competition. These worries are well founded, as American defense-related R&D spending exceeds that of all EU members combined by seven times.

**Conclusion**

How all these factors will play out remains to be seen. History is an open process. I have tried to demonstrate that the social foundation of the U.S. economy is threatened. America cannot flourish when millions of people are left behind and even those in the middle are losing out. A social order will lose its legitimacy if it cannot find a balance between prosperity and solidarity, between efficiency and social justice.

The American dream has always been linked to the promise of a better life for all. Even without a major war or an acute crisis, the United States might for the first time in its history experience the opposite, namely, mass social decline. When most of its citizens get the short end of the stick and are insufficiently trained for the future job market, the foundation of American society and its economy will be at risk.

At the same time, the United States is still a vibrant and resilient nation with plenty of social capital and cutting-edge research institutions. It offers immigrants unique opportunities. It has a mighty
military-industrial complex, the world’s largest capital market, and cultural predispositions conducive to growth.

Although historians are not prophets, my tentative prediction for the twenty-first century is that the United States will lose its position as an unchallenged economic superpower. There will be no second American century. There will also be no Chinese, Indian, or European century. Rather, I think we will see a world without a single hegemon, a world with several economic powerhouses that will be interdependent but also fiercely competitive. Maybe it will be a “transnational century.” Given the rise of China and other emerging economies, the United States will not be able to retain its position as the sole economic superpower. The question is not whether, but when this will happen, and how much of its past supremacy the U.S. can preserve in this new world of shared responsibilities and intensified interdependence.

Again, I have to ask for caution. History might well take a very different course. History has seen many surprises, unforeseeable twists and turns. Still, it is our mandate as historians to explore the past and to reflect on its implications for possible futures.

Hartmut Berghoff was the Director of the German Historical Institute in Washington from April 2008 through September 2015, when he returned to his position as director of the Institute of Economic and Social History at the University of Göttingen. His major publications include: Zwischen Kleinstadt und Weltmarkt: Höhner und die Harmonika 1857 bis 1961: Unternehmensgeschichte als Gesellschaftsgeschichte. (Paderborn, 1997); Moderne Unternehmensgeschichte: Eine themen- und theorieorientierte Einführung (Paderborn, 2004); Fritz K. Ein deutsches Leben im 20. Jahrhundert (co-authored with Cornelia Rauh; Stuttgart, 2000), which has just been published in English translation as The Respectable Career of Fritz K. (New York: Berghahn Books, 2015).