

## Afterword to the 2010 Edition

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For those who cut their professional teeth on the decline debate of the 1980s and early 1990s, the reemergence of this topic in recent years has provoked feelings of nostalgia mixed with an undercurrent of anxiety. Now, as then, historical analogies are batted about with reckless abandon. Pessimistic prophecies are advanced from many quarters and, especially from overseas and from the left side of the political spectrum, with a certain grim satisfaction: an arrogant, overstretched America is about to get its comeuppance. Once again, debunkers have emerged (mostly from the Right) to challenge these predictions and to remind all who will listen of the American system's remarkable resilience.

My own contribution to the last debate over decline came in the form of a doctoral dissertation completed in 1986 and published two years later as *The Weary Titan*. While I chose in the end not to draw any direct comparisons, I was initially attracted to the topic by the apparent parallels between Great Britain at the turn of the century and the United States in the late 1970s and early 1980s. In both cases, there were disagreements about how to measure and track the shifting balance of power and, in part as a result, over how best to respond. The subsequent unfolding of events made clear that Britain's reaction to the first intimations of decline was incomplete, at best, and ultimately inadequate. Could America do better?

The answer, as it turned out, was "yes." Looking back at the 1980s, and at the 1990s with the perspective of an additional twenty years of hindsight, suggests four notable differences between the two cases that help to explain why:

- In retrospect, it is clear that the British tended to overstate their own strengths and underestimate those of their rivals, while the Americans were prone to err in the opposite direction. Given that it helped spur the United

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States on to greater efforts to maintain its position, this bias was by no means a bad thing.

- As compared to Great Britain at the turn of the century, America in the 1980s was far more flexible, energetic, and adaptive in responding to economic and geopolitical challenges. The United States was better able to mobilize the human, financial, and technological resources needed to compete more vigorously with the Soviet Union, while its economy adjusted to increasing commercial pressure from the other advanced industrial nations. Unlike their American counterparts eighty years on, the British also showed signs of societal fatigue and of an underlying pessimism about their ability to keep up with emerging competitors.
- Although this fact tended to get lost in some of the more heated debates of the time, the United States in the 1980s and 1990s also continued to enjoy enormous advantages in the size of its economy, the sophistication of its science and technology base, and the capabilities of every component of its armed forces. As we have seen, by the turn of the century Britain no longer had the world's biggest economy, its army was tiny, and even its much-vaunted navy was being challenged from all sides.
- Last but not least, America was simply lucky. While avoiding a destructive and enervating global war of the sort that hastened Britain's decline, it nevertheless gained a decisive victory in the Cold War when its rival suddenly and unexpectedly collapsed. Given the way things looked in the late 1970s and early 1980s, this outcome was little short of miraculous.

The fact that we know how the story turned out the last time around is reassuring to those of us who hope for the longest possible prolongation of American primacy. Surely the "declinists" will once again be sent packing and the United States will emerge from its present troubles even stronger than before. Perhaps; but perhaps not. The world today is obviously very different than it was two decades ago, and so too, in many respects, is the United States. The factors that permitted America to regain its footing and reassert its dominance after the exertions of the Cold War may no longer be present. Just because previous predictions of decline were disproven does not mean that today's will be. In the words of the familiar and newly poignant Wall Street warning: "past performance is no guarantee of future results."

## From “Declinism” to “Triumphalism”

Fear of decline is nothing new. Writing in 1989, as the last cycle of worry was approaching its depths, Samuel Huntington counted four previous waves of national pessimism in the post–World War II era. In the late 1950s Americans worried that they were falling behind the Soviet Union in the “space race” and the “GNP race.” In the late 1960s the nation’s leaders believed that the lingering aftereffects of the Vietnam War would constrict its capabilities even as new centers of power emerged in Europe and East Asia. A few years later the 1973 OPEC oil embargo seemed to herald a new era of slow growth, high inflation, and accelerated decline. By the end of the decade the situation appeared even bleaker. The Iranian revolution set off a second oil price shock and a new economic crisis, while the Soviet Union’s relentless military buildup and its growing adventurism in the Third World (culminating in the invasion of Afghanistan) appeared to pose an increasingly sharp challenge to the United States.<sup>1</sup>

For Huntington, “declinism” served a vital, galvanizing function: it stirred the nation to redouble its efforts, change its ways, and renew the deepest sources of its strength. Ronald Reagan’s initial decisions to cut taxes, reduce regulation, and crush inflation as a spur to growth, while strengthening America’s armed forces and stiffening its stance toward the Soviet Union, appear in retrospect as classic illustrations of Huntington’s thesis. It would be an understatement to say that they were not universally regarded in this way at the time. To the contrary, as the 1980s wore on and the United States accumulated growing fiscal and trade deficits, many observers concluded that Reagan’s policies were actually driving the nation into a steepening downward spiral.

The most influential statement of this view was Paul Kennedy’s 1987 book *The Rise and Fall of the Great Powers*. Drawing on examples from nearly half a millennium of world history, Kennedy concluded that the United States had fallen victim to the temptations of what he called “imperial overstretch.” Decades of spending on military preparedness and overseas adventurism had deflected resources from productive investment, slowing the pace of economic growth and eroding the foundations of American national power. Like Great Britain before it, the United States had become a “weary titan,” staggering under the weight of its accumulated global commitments and bloated defense budgets. Instead of restoring its strength, the policies

<sup>1</sup> Samuel P. Huntington, “The U.S.—Decline or Renewal?” *Foreign Affairs* (Winter 1988/89), pp. 76–96.

of the Reagan administration were, in this view, the straw that broke the titan's back.

Kennedy had the good fortune to see his book appear only weeks after the October 1987 stock market crash seemed to confirm Americans' darkest fears about their future and a good two years before the collapse of the Soviet Union showed which superpower was actually suffering from the more severe case of "imperial overstretch." (And, as a newly minted assistant professor, I had the good fortune to have my own book published just as the wave of controversy unleashed by Kennedy's was reaching its peak.) Notwithstanding the dramatic and, from an American perspective, highly favorable shifts in the distribution of international power that accompanied the end of the Cold War, worries about decline persisted for a time into the 1990s. Exhausted from its exertions, the United States was supposedly on the verge of being overtaken economically by Japan or by a uniting Europe. Despite its obvious absurdity, some Western analysts rushed to embrace Mikhail Gorbachev's self-exculpating claim that "we all lost the cold war." Another bit of conventional wisdom that would not stand the test of time was the notion that, as 1992 Democratic presidential candidate Paul Tsongas put it, "The Cold War is over and Japan won."

It would take the better part of a decade for the declinism of the late 1980s and early 1990s to fully dissipate. The collapse of Japan's asset bubble and the prolonged slump that followed, Europe's sluggish growth, and America's IT-driven burst of productivity combined to ensure that the United States would retain its place as the world's number one economy. Meanwhile, in Iraq and again in Kosovo, the United States gave stunning proof of its ability to deliver devastating force across great distances, and of the widening gap between its own capabilities and those of any conceivable rival.

Despite all this, Americans were slow to grasp the full implications of the Soviet Union's collapse. Among the first to do so was columnist Charles Krauthammer, who in a 1990 article announced the end of the era of bipolarity and the arrival of the "unipolar moment."<sup>2</sup> In a similar vein, the much-criticized (if seldom read) 1992 Defense Planning Guidance paper of the outgoing George H. W. Bush administration took note of the nation's newfound preponderance and urged actions designed to prolong it by discouraging the reemergence of a new rival on par with the Soviet Union.<sup>3</sup>

<sup>2</sup> Charles Krauthammer, "The Unipolar Moment," *Foreign Affairs* (Winter 1990/1991), pp. 23–33.

<sup>3</sup> Various drafts and supporting documents have now been declassified and

can be found at the National Security Archive website (<http://www.gwu.edu/~nsarchiv/nukevault/ebb245/index.htm>).

But these were hardly mainstream views. It was only at the close of the decade that recognition of America's unusual position became truly widespread. In a widely cited 1999 article, political scientist William Wohlforth made a compelling case that the world was indeed unipolar and that it would remain so for some time. By the turn of the century the issue on the minds of foreign policy elites was, in the words of future State Department Policy Planning Director Richard Haass, "what to do with American primacy."<sup>4</sup>

### A Brief History of the "Unipolar Moment"

What is striking about the latest cycle of declinism is both its amplitude—how high assessments of American power were at the peak, and how low they have sunk since—and the speed with which these changes occurred. The Bush administration came into office confident of U.S. supremacy, especially in the military realm, and determined to preserve it. Its principals intended to do this by blocking the further spread of weapons of mass destruction, building missile defenses to neutralize small, "rogue state" arsenals, and "transforming" the armed forces to prepare them for twenty-first-century warfare against future advanced opponents. Bush and his advisers were not eager to actually use all of this overwhelming power. To the contrary, they made much of their desire to avoid the kinds of ill-advised interventions and attempts at "nation-building" that they believed had characterized the Clinton years.

September 11 demonstrated America's vulnerability to attack, despite primacy, but the events of that day also set in motion two dramatic displays of its power and resolve. The conquest of Afghanistan and the overthrow of the Taliban regime took about two months, from a standing start, with virtually no advance preparation and despite warnings of a quagmire like the one into which the Soviets had fallen in the 1980s. The run-up to the war in Iraq, and its initial phases, further heightened the perception of American strength and determination. Though it caused severe diplomatic trauma, the Bush administration's willingness to go to war despite objections from so many other countries was impressive in its own way, as was the ability of the U.S. military to topple Saddam Hussein, with very low initial casualties, in just a few weeks. By the spring of 2003, it seemed to the rest of the world that the Americans were capable of bringing overwhelming force to bear whenever and wherever they chose.

<sup>4</sup> William C. Wohlforth, "The Stability of a Unipolar World," *International Security* (Summer 1999), pp. 5–41; and Rich-

ard N. Haass, "What to Do With American Primacy," *Foreign Affairs* (September/October 1999), pp. 37–49.

Certainly this possibility was much on the minds of those with reason to think they might be next on Washington's list. Included among these were: the Iranian regime, which, if the 2007 National Intelligence Estimate is to be believed, chose after the invasion of Iraq to suspend the more obviously military portions of its nuclear program; Libya's Moammar Qaddafi, who decided at around the same time to give up his covert nuclear program; and North Korean dictator Kim Jong-II, who agreed under Chinese pressure to enter discussions of his nuclear ambitions in the spring of 2003.

Worried dictators were not the only ones impressed. Scholarly assessments of U.S. power rocketed skyward in the interval between the collapse of the Taliban and the fall of Saddam. In February 2002, Paul Kennedy concluded that America's advantages were so huge as to be without precedent: "nothing has ever existed like this disparity of power," he wrote, "nothing."<sup>5</sup> Commentators competed with one another to come up with suitably awe-inspiring historical parallels, but, in the end, none seemed adequate. Even when it ruled the waves, Great Britain could not match its European rivals on land. Even Rome at its zenith was merely what would today be called a "regional power."

It was during these months that observers on the Right, as well as the Left, began to speak seriously of a new American empire. As it overturned foreign tyrants who aided and abetted terrorism, Washington would find itself having to impose order and oversee the creation of new, preferably democratic, regimes. Rather than trying to evade this responsibility, Americans were urged to embrace it. After all, wrote conservative columnist Max Boot in early May 2003, "We're going to be called an empire no matter what we do. We might as well be a successful empire."<sup>6</sup> This self-appraisal, so much at odds with the nation's longstanding anti-imperial traditions, had resonance in some surprising places. According to journalist Ron Susskind, in the summer of 2002 an unnamed White House official told him bluntly, "We're an empire now and when we act we create our own realities."<sup>7</sup>

In retrospect, the top of the market was probably reached on May 1, 2003, the day that President Bush stood in front of the "Mission Accomplished" banner and declared the end of "major combat operations" in Iraq. From that point on, things skidded rapidly downhill. Within a matter of months, it was clear to those willing to see that the

<sup>5</sup> Paul Kennedy, "The Eagle Has Landed," *Financial Times* (February 2, 2002).

<sup>6</sup> Max Boot, "American Imperialism? No Need to Run Away from Label," *USA*

*Today* (May 6, 2003).

<sup>7</sup> Ron Susskind, "Faith, Certainty, and the Presidency of George W. Bush," *New York Times Magazine* (October 17, 2004).

United States faced not a few “bitter enders,” but a metastasizing insurgency that it did not know how to counter or contain. Recognition of this fact set in motion what would become a steep downward correction in assessments of U.S. power, both at home and abroad.

As ethnic violence spiraled out of control, and as it began to seem that the American adventure in Iraq would end in outright defeat and ignominious retreat, decline again became the trope of the day. British writer Timothy Garton Ash captured the mood in the summer of 2006 when he bade “farewell to the unipolar moment of apparently unchallengeable American supremacy.”<sup>8</sup> U.S. power was described as having reached a “nadir.”<sup>9</sup> In an ironic reversal of their previous concerns, observers in Europe and Asia now worried that America’s sudden weakness, rather than its untrammelled strength, was “becoming a problem for the world.”<sup>10</sup> By the end of 2006, even Charles Krauthammer was forced to conclude that the United States was “past the apogee” of its unprecedented power.<sup>11</sup> The unipolar moment was nearly over, and a new era of multipolarity was at hand.

While there were some skeptics, by the end of the Bush administration (and before the onset of the 2008 financial crisis) the idea that the United States had entered into a period of relative decline had gained widespread acceptance.<sup>12</sup> What was happening, as Fareed Zakaria explained reassuringly, was not so much that the United States was declining as that “everyone else” was rising.<sup>13</sup> In its periodic assessment of “global trends,” the CIA, which four years earlier had confidently predicted that America would “remain [the] single most powerful actor economically, technologically, [and] militarily,” now sounded a more diffident note. “Owing to the relative decline of its economic, and to a lesser extent, military power,” the CIA analysts

<sup>8</sup> Timothy Garton Ash, “The Unipolar Moment of American Supremacy Has Passed,” *Guardian* (July 20, 2006).

<sup>9</sup> Sebastian Malaby, “A Nadir of U.S. Power,” *Washington Post* (October 23, 2006).

<sup>10</sup> Stefan Kornelius, “America’s Downfall,” *Sueddeutsche Zeitung* (October 20, 2006).

<sup>11</sup> Charles Krauthammer, “Past the Apogee: America Under Pressure,” Keynote address at the Foreign Policy Research Institute’s annual dinner, November 14, 2006 (<http://www.fpri.org/enotes/20061213.krauthammer.pastapogee.html>).

<sup>12</sup> For less gloomy judgments, see Joel

Kotkin, “Down for the Count, Again,” *The American Interest* (November/December 2006), pp. 21–30; Alan W. Dowd, “The Decline and Fall of Declinism,” *The American* (August 2007) (<http://www.american.com/archive/2007/august-0807/the-decline-and-fall-of-declinism>); Robert J. Lieber, “Falling Upwards: Declinism, the Box Set,” *World Affairs* (Summer 2008) (<http://www.worldaffairsjournal.org/2008%20-%20Summer/full-Lieber.html>); and Edward Luttwak, “The Declinists, Wrong Again,” *The American Interest* (November/December 2008), pp. 7–13.

<sup>13</sup> Fareed Zakaria, *The Post-American World* (New York: W.W. Norton, 2008).



concluded, Washington would find its influence increasingly constrained. In the years to come, the United States would have “less power in a multipolar world than it has enjoyed for many decades.”<sup>14</sup>

### From “Empire” to “Empire Falls”

So how did we get so quickly from “Empire” (the title of a well-received 2003 book by historian Niall Ferguson) to “Empire Falls” (a 2006 *Vanity Fair* essay by the same author)?<sup>15</sup> One part of the answer is that, like earlier predictions of impending decline, reports of American omnipotence had been greatly exaggerated. Some observers made the classic Political Science 101 mistake of equating “power as control over resources” with “power as control over outcomes.” Just because the United States has the largest economy and the most powerful military does not mean that it can get everyone to do everything it wants all the time. This is an obvious point, made painfully so by the events that followed the invasion of Iraq. Still, it is too often forgotten.

Of the many possible sources of friction or “leakage” that can stand in the way of converting resources to outcomes, two in particular deserve note. Fearful of the possible economic and political consequences, national leaders are often reluctant to mobilize every ounce of potential strength to reach their objectives. Especially in a democracy, ratcheting up the level of commitment and exertion typically requires an act of political will. Even where the necessary resolve exists and ample resources are available, nations sometimes lack the skill required to apply them successfully. Thus, while the size of a nation’s armed forces can be important, the quality of their leadership, training, and doctrine often matters even more.

Iraq provides an example of both points. The level of manpower deployed there initially was a function not of any absolute limitations imposed by the size of the American population, but of a series of decisions by national leaders about how large U.S. ground forces should be and what fraction of them should be committed to the fight. Similarly, the inability of the United States to create some sem-

<sup>14</sup> For the first assessment, see Report of the National Intelligence Council’s 2020 Project, *Mapping the Global Future* (December 2004), p. 8 (<http://www.foia.cia.gov/2020/2020.pdf>). For the second, see National Intelligence Council, *Global Trends 2025: A Transformed World* (November 2008), p. 93 (<http://>

[www.dni.gov/nic/PDF\\_2025/2025\\_Global\\_Trends\\_Final\\_Report.pdf](http://www.dni.gov/nic/PDF_2025/2025_Global_Trends_Final_Report.pdf)).

<sup>15</sup> Niall Ferguson, *Empire: The Rise and Decline of the British World Order and the Lessons for Global Power* (New York: Basic Books, 2003), and “Empire Falls,” *Vanity Fair* (October 2006), pp. 222–230.



blance of order in Iraq during the first three years of the war was not due solely to the inherent difficulty of the problem; it was a direct result of the counterproductive strategy stubbornly pursued during that period. By contrast, President Bush's decision to initiate the "surge" at the end of 2006, against the advice of most experts, reflected an unusual exercise of political determination. The military's subsequent success in stemming the violence in Iraq was likewise due to the ability of a new group of U.S. commanders, led by General David Petraeus, to formulate and implement a more appropriate counterinsurgency strategy.

Despite the gains that were achieved after the start of the surge, Iraq remains the single most important factor in explaining the sudden reemergence of declinism. If things had gone more smoothly following the initial drive on Baghdad, pundits would still be praising (and decrying) the new American empire. Needless to say, things did not go well, and that fact more than any other is responsible for unleashing an ongoing wave of despairing commentary.

Those who emphasize Iraq above all else tend to see the American experience there not as the product of avoidable errors with reversible consequences, but rather as an inevitable comeuppance for overreaching, and the start of a precipitous and lasting decline in U.S. power. Various arguments have been made to support these claims. Some allege that the Bush administration's arrogance, unilateralism, and violation of international norms squandered American "soft power" and set in motion a process of "soft balancing" that, unless Washington changes its ways, will lead eventually to "hard balancing," i.e., the formation of real countervailing coalitions whose purpose is to neutralize American power. It is further claimed that the war in Iraq (along with Afghanistan) has strained, exhausted, and perhaps even "broken" the U.S. armed forces, especially the Army and Marines. Worse yet, by toppling Saddam, the United States may actually have accelerated the process of nuclear proliferation by convincing other rogue regimes (like North Korea and Iran) that they must have nuclear weapons if they are to deter future American attacks. In an echo of Paul Kennedy's arguments of more than twenty years ago, some observers also assert that the United States has exacerbated its long-term economic difficulties by turning huge budget surpluses into deficits, raising debt levels, and diverting resources from productive investments to overseas adventures.

Some of these assertions deserve to be taken more seriously than others. Unless it can be stopped, the further spread of nuclear weapons will greatly complicate America's ability to deploy and use its armed forces in several key regions. But this process, and the secret

nuclear weapons programs of North Korea, Iran, and Libya, among others, were already well in train before 9/11. Heightened U.S. concern about the possible implications of proliferation, and the Bush administration's aggressive efforts to block it, did not create the problem but rather forced it to the top of the national security agenda.

Claims about the importance of "soft power" and "soft balancing" have likewise been greatly oversold. For one thing, the notion that the United States has lost something it once had in abundance assumes the existence of a (mythical) golden age when we could easily get others to "want what we want." Meanwhile, the "soft balancing" coalition that some experts saw emerging in 2003–4 (consisting of Russia, Germany, France, and China, among others) has failed to coalesce.

Arguments about the importance of "soft power" were put to the test during the opening years of Barack Obama's presidency. The new administration had none of the stigma attached to its predecessor, and it made various gestures (such as announcing its intentions to close the prison at Guantanamo Bay, withdraw expeditiously from Iraq, and engage in direct diplomacy with Iran, Syria, and North Korea) that were designed to reestablish America's prestige and enhance its influence. Opinion polls showed that the United States was more warmly regarded after the 2008 presidential election than before. But none of this seemed sufficient to cause the European nations to send more troops to Afghanistan, or to persuade the Russians to help squeeze Iran or the Chinese to devalue their currency.

An intangible cost of Iraq that does not get the attention it deserves is the damage done to foreign perceptions of American competence in intelligence, diplomacy, and military operations. This may have been partially reversed by the effects of the surge, but it will take a long time to repair and rebuild. Any thought that the United States is all-seeing, all-knowing, and unfailingly skillful has now been decisively dispelled. Unfortunately, a more realistic assessment of American power by potential opponents cannot help but complicate future U.S. efforts to deter or compel them.

A second factor contributing to today's pessimism is what Zakaria and others have labeled "the rise of the rest," the rapid growth of non-Western economies relative to those of the advanced industrial nations. This trend is real, but, despite what the phrase seems to suggest, it is hardly the engine of an omnidirectional diffusion of power throughout the international system. The "rest" are not all rising, at least not in terms of their power in relation to the United States. While many smaller countries will become more productive and pros-

perous than they have ever been, most of the projected growth in shares of total global output (a rough and ready first-order approximation of national power) is accounted for by a handful of countries, the so-called “BRICs”—Brazil, Russia, India, and China. Of these, the last two are by far the biggest and most important.

The ongoing shift in the locus of the world economy toward Asia and the projected emergence of China and India, in particular, as major economic and military powers are hardly news. To the contrary, these developments have been predicted and tracked since before the end of the Cold War. Even under the most forward-leaning assumptions, however, they will take several decades to unfold. The 2003 Goldman Sachs study that serves as the basis for much recent discussion predicts that China will overtake the United States in terms of total output by around 2040. (India starts from further behind and will not close the gap until well into the second half of the century.) But it does so on the basis of the assumption that China’s GDP growth rate will decline smoothly and slowly as it develops, while the rate of growth of U.S. labor productivity (the most important driver of overall American economic growth) will flatline at lower than historic levels. To perform this well, Beijing will have to find ways to circumvent or solve all the myriad social, economic, environmental, and political problems it faces without major setbacks or disruptions. If their government can pull off this trick, China’s billion-plus people will still enjoy average per capita incomes only about a third as large as their American counterparts. Such a country may boast the world’s biggest economy, and, like the Soviet Union, it may be able to pose a significant military challenge to the United States, at least in the regions around its periphery. But it will still be a long way from true global parity in terms of standards of living, technological sophistication, and political influence.<sup>16</sup>

In sum: we are indeed headed into a world in which wealth and power will be more widely distributed. This process has been unfolding for several decades, and the trials and tribulations of the Bush years, and the war in Iraq, have done little, if anything, to hasten the pace of change. Assuming that “the rest” remain on track, what lies ahead is not true multipolarity, with three or more roughly equal powers, but something closer to a return to bipolarity, with China and the United States head and shoulders above the rest, and America still significantly ahead of China.

<sup>16</sup> Dominic Wilson and Roopa Purushothaman, “Dreaming With BRICs: The Pat to 2050,” Goldman Sachs Global Economics Paper no. 99 (October

2003) (<http://www2.goldmansachs.com/ideas/brics/book/99-dreaming.pdf>).

If not for the financial meltdown of late 2008, the election of Barack Obama would probably have marked an inflection point in the national mood and an upturn in foreign assessments of American power. Instead, the crisis and the severe recession that followed have reinforced the latest cycle of declinism, driving it to new depths. Pessimists warn that, like the global depressions of the 1890s and 1930s, this one too will accelerate underlying trends and hasten a restructuring of the international order. Some analysts now predict that the crisis will result in a permanent widening of the gap in long-term growth rates between the “West” and “the rest” and, in particular, between the United States and China, thereby hastening the latter’s bid to become the world’s biggest economy.<sup>17</sup>

America’s economic troubles may also have a lingering effect on its ability to sustain an edge in “hard power.” Huge budget deficits, made even bigger by efforts to jump-start growth with massive stimulus packages and by the cost of new health and social programs, could put powerful downward pressure on defense spending for years to come. Just as China, Russia, Iran, and North Korea, among others, are working hard to neutralize some of America’s longstanding military advantages in power projection, Washington may find it tougher to mobilize the resources needed to stay ahead.

Wall Street’s inability to police itself, with devastating consequences for the rest of the world, could also diminish America’s soft power by discrediting its model of freewheeling capitalism. More concretely, recent events may help to displace the United States from its position at the center of the global economy, weakening its status in international economic institutions and hastening the demise of the dollar as the world’s reserve currency.<sup>18</sup>

While it is too soon to dismiss these gloomy prognostications, the fact that the global economic nosedive appears, as of this writing, to have leveled off provides some grounds for cautious optimism. The dollar will eventually have to share its role as a reserve currency with

<sup>17</sup> Goldman Sachs has now updated its earlier estimates with another attention-grabbing prediction: instead of 2040 or 2035, the handoff from the United States to China will now occur in 2027. See Jim O’Neill, “The New Shopping Superpower,” *Newsweek* (March 21, 2009).

<sup>18</sup> For early statements of some of these concerns, see Niall Ferguson, “Rough Week, But America’s Era Goes

On,” *Washington Post* (September 21, 2008); and Gideon Rachman, “Is America’s New Declinism For Real?” *Financial Times* (November 25, 2008). For a sober, comprehensive assessment that benefits from some additional perspective, see Robert D. Blackwill, “The Geopolitical Consequences of the World Economic Recession—A Caution,” RAND Corporation, Occasional Paper OP-275 RC (2009).

the euro and perhaps the renminbi, but, as economist Barry Eichengreen has suggested, the shift will be gradual, and significant change remains far off. At least for the moment, the dollar has not lost its luster and has actually become more attractive in light of recent uncertainties.<sup>19</sup> Despite a good deal of heavy breathing about the end of the American economic model, most of the emerging and advanced industrial nations appear more interested in improving the regulation of financial transactions than in finding an alternative form of, still less an alternative to, market-driven capitalism.

U.S. defense spending will doubtless be constrained in the years ahead, but more as a result of politics than of any iron law of economics. In other words, the limitations will reflect the current administration's tax and spending priorities rather than an objective scarcity of financial resources. More worrisome than the absolute size of the defense budget is the possibility that it may be heavily skewed toward fighting the last war. Focusing single-mindedly on preparing for the next counterinsurgency could leave the nation ill-equipped to cope with new nuclear weapons states or to counter China's across-the-board military buildup.

The long-term impact of the current crisis will ultimately depend on how well the United States and the other major powers respond to the challenges it presents. If all revert to their pre-crisis growth trajectories, the effect on the evolving shape of the international system will be minimal. If some bounce back more smartly than others, and if the changes prove lasting, the implications will be more far-reaching.

China and the United States are clearly the two most important players to watch in this regard. Beijing has generally received high marks for its initial responses to the first serious economic setback it has suffered in nearly two decades. Nevertheless, while China's economy did not contract like those of the more advanced industrial nations, the drop in its annual growth rate put it dangerously close to the minimum level required to maintain employment and preserve social stability. The expedients used to pull the country out of this slump—including massive spending on public works and a loosening of credit—may also lead to industrial overcapacity, asset price inflation, bank failures, and another downturn. A prolonged period of relatively slow growth may yet trigger a major social and political crisis in China, perhaps derailing its rapid progress and knocking all predictions about its future rise into a cocked hat.

And what of the United States? Here again it is too early to say.

<sup>19</sup> See Barry Eichengreen, "The Dollar Dilemma," *Foreign Affairs* (September/October 2009), pp. 53–68.

There is a real danger that the crisis will lead to an increase in the government's role in the national economy, rising tax burdens, pork barrel spending, protectionism, and restrictions on immigration, all of which together would slow growth and bring the declinists' predictions closer to fulfillment. However, recent events could also provide the occasion for a wave of "creative destruction" in finance and manufacturing, a lasting rise in national savings rates, selective increases in government spending on infrastructure modernization, education, and basic science, and new incentives for private investment in energy, information, and biotechnology.

As was true in the late 1980s, it would be unwise to bet against the resilience and adaptability of the American system. But it would also be a mistake to take these qualities for granted, or to assume that they will preserve us indefinitely and without effort from the experience of relative decline.

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