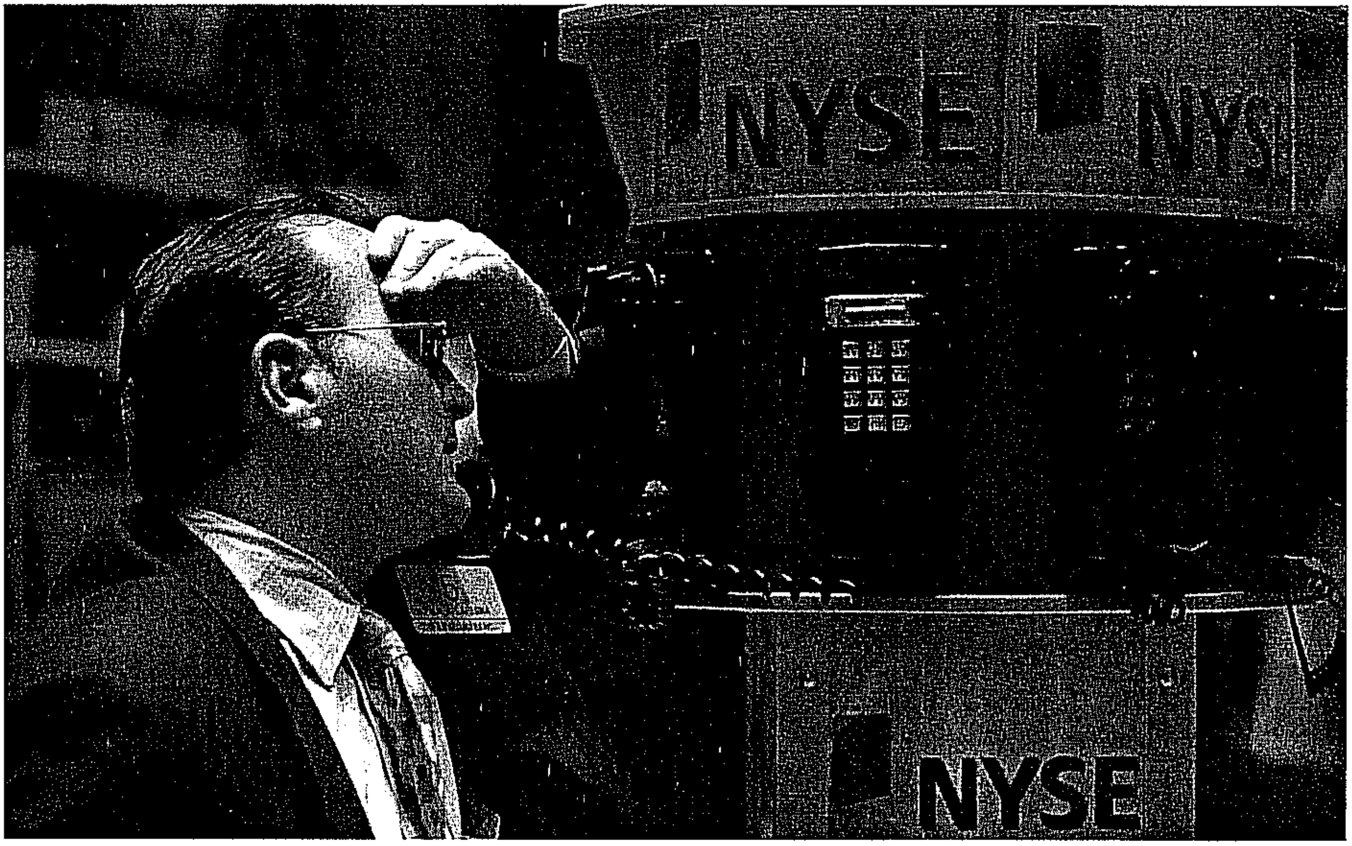
FreeMarket

by Terry Jones



Recent fluctuations in the stock market have caused floor traders and investors headaches. The media have been predicting a recession and, ultimately, the terminal economic decline of the United States. But gloom-and-doom reports about the U.S. economy, including that other nations will soon eclipse America, ignore positive signs for the country's future.

Death of U.S. Economy Greatly Exaggerated

There is no reason the 21st century cannot be another "American Century."

It's almost unavoidable these days: Whenever you pick up a newspaper, a magazine or browse the Internet, you come across a long, thoughtful piece written by someone incredibly smart about the inevitability of America's "decline."

Magazines and newspapers are full of the mantra. A recent *Washington Post* piece, for instance, wistfully pondered "The End of a U.S.-Centric World?" On TV, it's a staple on Lou Dobbs' show. And a spate of recent books mine the same theme, among them Niall Ferguson's "Colossus: The Price of America's Empire."

In journals of opinion and books too numerous to mention, it's now commonly accepted the United States is a giant in decline, our trade and fiscal deficits weighing us down. We'll soon be eclipsed, the argument goes, by much more vibrant, focused competitors such as China, India, Brazil, Russia and even a resurgent Europe.

It's tempting, of course, to give in to such gloom.

After all, so far this year our GDP is growing at an annual rate of just 1.3 percent—well below its long-term average of about 2.5 percent. At the current pace, it would take 55 years for us to double our economy. China, meanwhile, this year will grow an estimated 10 percent—a pace that would double its economy in just more than seven years.

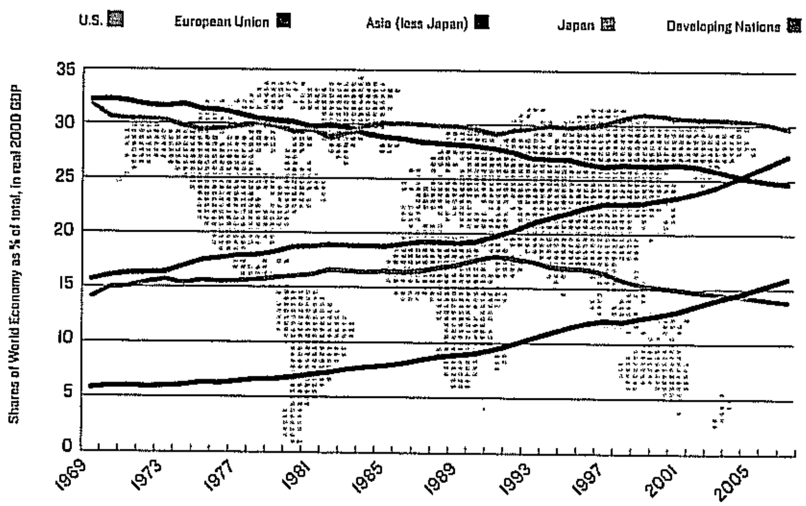
So, are we in terminal economic decline?

Not even close. Consider just two major areas:

• **Economics.** Start with the most basic fact: The United States, as a share of world output, isn't shrinking at all. In 1969, a time of unparalleled U.S. prosperity, we made up an impressive 31 percent of world GDP. Not much has changed. In 2007, with nearly $14 trillion in GDP, we made up about 30 percent of the world total (see chart).

Sharing the Growth

Despite rapid growth in both Asia and Europe since the late 1970s, the United States' share of world economic output has remained remarkably stable



Source: U.S. Department of Agriculture, Economic Research Service

Sure, China's growing fast, but it's not about to overtake us—not by a long shot. Even assuming China grows at a 7.5 percent pace, its average since the 1990s, and the United States expands by just 2.5 percent, the U.S. economy will still be twice the size of China's in 2025. We're adding GDP equivalent roughly to the size of Brazil every year, just from the sweat of our brows.

As for Europe, in 2000, it unveiled its Lisbon Strategy that experts said would enable the EU economy to "leapfrog" the United States by 2010. Yet today, the U.S. economy is 25 percent larger than the EU's—and the gap is widening. Our productivity growth over the last decade of 2.5 percent a year—about one percentage point higher than Europe's—is driving United States standards of living higher.

"Historically speaking ... America's economic hegemony has never been greater," says London Times columnist Gerard Baker, who predicts the U.S. economy will be twice Europe's size by 2021.

As for the rest of the world, it's true others are expanding their share of the pie. That's good. But the United States is still by far the world's most stable economy. It protects lives and property with laws and a strong military, keeps low trade barriers and low taxes, has a flexible, well-trained work force and encourages millions of talented people to immigrate here each year.

Moreover, it has a commanding lead in the 21st century's key new technologies—bioengineering and nanotechnology. And it should keep that lead.

"Higher education is the United States' best industry," wrote Fareed Zakaria recently in *Foreign Affairs*. "In no other field is the United States' advantage so overwhelming." We spend more than twice what Europe spends as a share of GDP on higher education, and it shows: In one recent survey, 17 of the world's top 20 universities were American.

• **Demographics.** A key difference between the United States and other industrial countries is that America still makes babies—a crucial economic fact that many often overlook.

The U.S. birthrate of 2.1 babies per woman is right at replacement rate. By comparison, Europe's birthrate of about 1.4 means its population will be in absolute decline by late in this century. It will have to import millions of poor, uneducated workers from the developing world just to keep Europe's streets cleaned and public hospitals staffed.

Japan's population is shrinking already, creating a nation of elderly pensioners whose care will soon require massive tax hikes on young workers. Meanwhile, after years of a rigid, state-enforced one-child policy, China's population growth has stagnated and will start declining in just a few decades. An aging population is already an issue for China. Can any economy grow at 8 to 10 percent with a geriatric population? A look at Japan, where growth has slowed to a crawl over the last decade of senescence, suggests the answer is no.

I could go on, but the picture is clear. Walter Lippmann dubbed the 20th century the "American Century." He was right. But if we play our cards right, there's no reason the 21st century should be any different. •

Terry Jones is associate editor of Investor's Business Daily. *You can view* IBD's *market coverage and stock analysis at Investors.com and read its economic and political commentary at IBDeditorials.com.*