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American Economic Decline? Exaggerated

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With a recent ratings downgrade, chronic unemployment, a growing budget deficit and a political system that seems determined to self-destruct, it might appear that the U.S. is losing its grip as the world's top economic power.

But analysts say that despite the laundry list of troubles—and predications of an American decline—the country is far from losing its ranking as the number one economy on the globe.

"The U.S. economy is the largest in the world, and the country has one of the highest average incomes in the world," says Matthew Rafferty, professor of economics in the Quinnipiac University School of Business. "There are few countries that are likely to rival the U.S. in the near future."

"I don't see U.S. power being eclipsed in the short term or even medium term," says Usha Haley, professor of international business at Massey University in Auckland, New Zealand. "The U.S. has problems of course, but the demise of the USA is much exaggerated."

What's keeping the U.S. afloat in a sea of economic woes, analysts say, is what's kept it upright in the past—innovation and the ability to produce.

"Silicon Valley is still the world leader in technology, and Wall Street is still the center of the financial world and of capitalism itself," says Charles Sizemore, CFA and editor of the *Sizemore Investment Letter*. "And we're manufacturing more today than we did in the 1970s. It's just with less labor."

Even in spite of a slowing economy, as shown in the gross domestic product (GDP), the U.S. is still ahead of other countries. Compared to the U.S., most of the major industrialized nations' percentage of GDP is less than half that of the U.S.

"The U.S. has a gigantic economy, even with a growth rate of slightly less than 3 percent," says Kamran Dadkhah, associate professor in economics at Northeastern University. "But that 3 percent increase in GDP is more than the entire GDP of many countries."

That's not to say that the U.S. shouldn't look over its shoulder. Many countries, specifically China, have long been gaining economic strength.

"China has had high growth rates for over 30 years," says Frank Lavin, CEO of Export Now and a former U.S. ambassador to Singapore. "Their ability to sustain those rates combined with the softness in the U.S. economy gives rise to speculation that China will surpass the U.S and assume economic leadership on international issues."

With China's GDP rate at around 8 percent to 11 percent a year, and the U.S. stuck at around 2 percent to 3 percent, it's easy to see why some say China's economy will be larger than the U.S. economy by 2016.

China isn't the only growing economic force on the horizon, say experts.

"The largest change over the last 10 to 15 years has been the growth of emerging markets," says Thomas Root, associate professor in finance at Drake University. "The BRIC countries capture the headlines, but many smaller countries, like some in South America and Asia, are having an increase in production."

"The European Union and Germany in particular are the most formidable

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threats to the U.S.," Massey University's Haley adds. "They are big enough countries to be threats even as they struggle."

America's battle to get its own economy growing at a faster pace opens the door for others, analysts point out.

"Perhaps the most damning evidence [of potential American decline] is the unemployment rate of around 9 percent," explains Adrian Cronje, a partner and Chief Investment Officer at Balentine, a worldwide investment firm. "The question is whether large segments of the U.S. workforce are sufficiently skilled and productive to compete and drive future economic growth."

There's also the falling value of the dollar that could help knock the U.S. off its perch, Cronje argues.

"The U.S. dollar is in danger of losing its status as a safe haven for investors," Cronje says. "It's been in a long term bear market against hard assets like gold, and that decline reflects a decline in economic power."

If the U.S. did lose its number one position, that would have global implications, according to Northeastern University's Dadkhah.

"For the U.S., it would mean a lower standard of living and less power to influence international events," Dadkhah explains. "And America is the pole holding up the tent of international finance. It the pole falls, we'd have a period of uncertainty and upheaval on a worldwide scale."

But what currently ails the U.S. is also hitting the rest of the world, according to analysts. Nations that for now seem to be riding a faster economic track will have likely have troubles of their own, says Roger Scher, professor of international political economy at Seton Hall University.

"History has shown us that economic success stories turn sour," explains Scher. "Witness poorly growing Brazil and Peru, and Europe's bust in recent years. And watch out for China's potential property price bubble. It's huge and brings considerable political risk."

As tempting as it may be to gloat over other countries' economic declines, analysts say the U.S. has plenty of work to do in order to remain a viable leader.

"We have large companies sitting on billions of dollars in cash with the capacity to hire American workers," says independent financial advisor Daniel White. "Those firms can't budget or manage for the uncertainty of fiscal and regulatory policy from Washington."

"We need long-term plans to cut the deficit and reduce entitlement and defense spending," says Seton Hall University's Scher. "At the same time, we need to invest in education and infrastructure, and cut tax loopholes."

In the end, say analysts, the U.S. should ultimately focus on its own economy and leave the question of who's number one to history.

"It's always trendy to speak about the decline of the U.S.," says Sizemore *Investment Letter's Sizemore*. "I'm not sure it really matters that much. Other countries are beating us with faster growth, but they're starting at a lower base."

"Whether the U.S. is number one is questionable as a premise," says Till Schreiber, assistant professor of economics at the College of William & Mary.

"People should be concerned about their standard of living rather than size of economy," Schreiber goes on to say. "Indonesia has a larger economy than Switzerland, but the Swiss are on average much richer. A union between the U.S. and Mexico would create a huge economy. But would that make Americans better off? No." ■