STRATEGIC FORESIGHT BRIEF

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STRATEGIC FORESIGHT INITIATIVE

Global Trends 2030

The United States and the Global Future

How will the US economy evolve over the next twenty years and what might be the impact of various US economic scenarios on the global system? Will the United States have a Japan-like decade or two of anemic growth? If so, would this lead the United States to reduce its foreign involvement and commitments, become more protectionist, and focus on its internal problems? Or will the United States solve its fiscal and debt problems, reinvigorate growth and innovation, and return to sustainable economic growth? Would this underpin a renewed commitment to active US global leadership in mobilizing international cooperation to manage security, economic growth, and global challenges?

The economic future of the United States will be a critical factor determining the shape of the world in 2030. The United States has been and will continue to be in relative economic decline as the economies of China, India, and other developing countries with far larger populations grow faster than the United States and thus increase their share of global production. But will this relative economic decline, even if the United States resumes normal growth, affect the capacity of the United States to be a major if not the single most influential global actor in the coming two decades? Can the international system afford to be led by a weakened superpower at a time where there are no potential alternatives on the horizon? The United States faces grave political and economic challenges and will require broad-based structural reforms to restore robust growth; reduce the federal, state, and local deficits; enhance individual savings; strengthen the educational, healthcare, and retirement systems; and boost investment in infrastructure and R&D. In the meantime, the Eurozone faces an even deeper political and financial crisis and a slower economic recovery. Europe still faces the possibility of national defaults, the consequences of which could spread to the global economy and stop the US recovery in its tracks. The inextricably connected futures of the transatlantic community make these questions ever more pressing. – *Banning Garrett*

THE STRATEGIC FORESIGHT INITIATIVE

The Strategic Foresight Initiative seeks to help navigate an increasingly uncertain world towards desired outcomes. Established in 2011 as a critical component of the soon-to-be-launched Brent Scowcroft Center on International Security, the Strategic Foresight Initiative is an international hub for global trends experts from governments, businesses, think tanks, and universities in the United States and other key countries that aims to enhance futures analysis and policymaking through a better understanding of the challenges ahead.

The Initiative builds on a six-year partnership with the United States National Intelligence Council (NIC) in preparation of the NIC's global trends reports *Global Trends 2025: A Transformed World*, *Global Governance 2025: At a Critical Juncture*, and the upcoming *Global Trends 2030: Alternative Worlds*, to be released after this year's Presidential Election. This has included the organization of workshops in seventeen countries in East, Central, and South Asia, Africa, Latin America, the Middle East, Russia, and Europe. Through these workshops, the NIC and the Atlantic Council continue to support the ability and capacity of other nations to engage in long-term trends assessments.

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A National Scorecard

The United States, which typically ranks in the top five of the World Bank's Doing Business Indicators and the World Economic Forum's Global Competitiveness Index, remains not only the largest economy in the world by a factor of three in current dollar terms but also among its most open, innovative, and flexible. The United States' high per capita income reflects high productivity, the broadest and single best measure of competitiveness. Despite being home to less than five percent of the world's population, the United States accounted for 28 percent of global patent applications in 2008 and is home to nearly 40 percent of the world's best universities. Furthermore, US demographic trends are favorable compared to those in other advanced countries. Over the next twenty years, the UN expects the United States' population to grow by 17 percent, while projecting that of the rest of the developed world to grow by only 1 percent. Part of the United States' strength comes from high immigrant inflows and the country's unusual ability to integrate migrants. For these reasons, the United States is potentially among the best-placed economies to benefit from the twin modern-day trends of globalization and technology.

Nevertheless, the United States is also plagued by serious and growing weaknesses.

The American health care system is expensive and inefficient. Public and private health spending is 50 percent higher per-capita than that of the next highest OECD country but the US infant mortality rate, at 6.7 deaths per 1,000 births, is higher than in all OECD countries except Turkey and Mexico. Moreover, as the population ages, health care costs, which already account for about 17 percent of US GDP, are expected to rise rapidly.

Secondary education is weak, with 15-year-old American students ranking only 31st of sixty-five countries in mathematics tests and 22nd in science tests in a survey that includes many developing countries. This could mean that while future US workers will lay claim to the world's highest wages, many will bring only mediocre skills.

The US income distribution is considerably more unequal than other advanced countries and it is growing more unequal. While incomes of the top 1 percent of Americans have soared, median household incomes have declined since 1999. Moreover, the American Dream has become a myth for many people: social mobility is lower and relative poverty rates are higher in the United States than in most other advanced countries. Despite its high productivity and competitiveness, the US cumulative current account deficit over the last thirty years is $8.5 trillion, a reflection of extremely low household savings rates and government deficits. Dysfunctional tax policies are partly to blame for the indebtedness of both households and the federal government. The US tax system—complex and rife with distortions—overly encourages borrowing, including for housing. It is also an outlier among advanced countries in numerous other ways—for example, in its very low effective corporate tax rate (though high nominal rate), low effective income taxes on the richest Americans, tax breaks on large mortgages which are regressive, and low gasoline tax.

> **"I want to challenge the pessimistic projections of the United States' position in the global future. The US, along with the rest of the international community, is in a fog of transition. Amidst so many uncertainties, it is important to recognize that there are inevitable unknowns. The fundamental question that looms above the future of the United States is the ability of the country's institutions to close the gap between the rapidly evolving economic, political, and technological spheres."**
>
> *– David Ignatius*

The United States retains a dominant military apparatus. For example, the United States owns eleven of the world's twenty aircraft carriers—and Italy's fleet of two is the second largest. But this does not come cheap. US defense spending accounts for nearly 5 percent of its GDP—a share about twice that of other developed countries—and for 40 percent of global defense spending.

> **"The US military must be weary of perpetuating legacy systems as it continues to project influence across regions and states globally. Emerging states may quickly transcend these systems with more advanced and adaptable technology. Components of space, cyber, and energy security are amongst many pertinent security systems that require forward-thinking and progressive approaches to international security."**
>
> *– David Ignatius*

Last but not least, an increasingly polarized and even dysfunctional political system is contributing to the fiscal mess, as evidenced by the brinkmanship surrounding the debt ceiling and the failure of the congressional "super-committee." Political immobility has also often prevented the United States from leading on the big international issues—from climate change and trade negotiations to IMF replenishment, for example. The United States provides less foreign aid, proportional to its GDP, than any other advanced economy.

Some Important Trends

In *Juggernaut: How Emerging Markets are Reshaping Globalization*, Bill Shaw and Uri Dadush estimate that, by 2030, the rise of emerging markets will add approximately a billion people to the world middle class. These newly-empowered consumers will demand education, entertainment, and products and services driven by information technology—all goods the United States excels at producing. At the same time, trade barriers—which include logistical costs—have come down in recent decades and, despite the protectionist sentiment stirred by the Great Recession, world trade continues to far outpace GDP. Moreover, as a global technological leader, the United States could in the future be motored by innovations in medicine, biotechnology, communications, transportation, or energy. For example, developments that improve the efficiency or extraction of shale natural gas and oil—of which the United States possesses large reserves—will provide disproportionate benefits to the United States.

However, these favorable trends must be weighed against looming dangers. A fiscal disaster—caused by unchecked health care spending, unwillingness to raise taxes, and rising public debt—could lead to a sharp economic contraction and depressed demand for a prolonged period. Such a process could be accelerated by the collapse of the Eurozone, which could trigger another world recession and more intense scrutiny of sovereign debt levels. The last financial crisis exposed profound institutional vulnerabilities in the US financial system. But the economy's continued "financialization" and a failure to adequately address the root causes of the 2008 crisis and excessive risk-taking in banks may leave the United States vulnerable to another financial crisis. If left unaddressed, poverty and income inequality, both at their highest level in decades, could undermine social cohesion and further polarize national politics.

Some international trends are potentially adverse as well. While the rise of China and other emerging markets presents great opportunities, it also erodes the United States' relative economic weight and that of its traditional allies. The ability of the United States to manage and indeed accept the rapid rise of new global economic powers—in other words, to work with the trend rather than against it—is unclear. The rise of emerging powers is bound to cause numerous frictions, many of which are already visible today, from global imbalances and currencies, to aid policies, to negotiations over trade and financial regulation. How this power shift is managed is of utmost importance.

In few areas is the potential for conflict more evident than in mitigation of climate change, where China and India and many other relatively poor and fast-growing countries are understandably wary of committing to emission targets that could constrain their development. Even though the worst effects of climate change are unlikely to materialize within the twenty-year horizon of the projection, its early manifestations may intensify as may awareness of its dangers. This will raise the stakes in climate change negotiations, and the United States is ill-equipped to handle them given its lack of internal consensus on the issue and the checks and balances of its political system.

Two Stories

In our good scenario, most of these threats are avoided. International relations with key actors remain tense but generally peaceful; markets stay open and trade continues to grow rapidly; the US addresses its fiscal deficit and succeeds in stabilizing its debt: GDP ratio over the next decade; the Eurozone remains intact and no new major financial crises erupt; and the worst effects of climate change are avoided. In this case, we expect the US economy to grow steadily at about 2.7 percent a year (see *Juggernaut* for a more detailed discussion). This compares with 2.5 percent over the last twenty years, which includes the Great Recession.

This projection of US growth reflects both solid labor force growth and technological advance, while capital deepening plays a relatively small role. Average living standards continue to rise, as real per capita GDP increases by nearly 40 percent and the fruits of economic advance are more equally distributed, relieving social tensions and attenuating political divisions. Though the relative size of the US economy will decline—from about a third of G20 GDP in 2010 to about a quarter in 2030 in real dollars—it will remain the largest in the world at market exchange rates. In PPP terms, however, the US economy will be eclipsed by China in about five years and China's economy will be 70 percent larger than the United States' in 2030. Trade will also still shift east: the US share of world trade will dip from around 12 to 10 percent, while East Asia's share is expected to double from 10 to 20 percent. Though its growth slows quite sharply by the end of the forecast horizon, China becomes the central player in world trade and is the largest trading partner of most countries.

In our bad scenario, the US economy slows sharply. The breakup of the Eurozone leads to a massive financial crisis in Europe, causing US unemployment and fiscal deficits to rise further. With little countercyclical policy space left in the United States, a slow recovery follows after two to three years of deep recession. In the longer run, health care costs continue to rise rapidly and a failure to bridge ideological divisions over tax increases and cuts in social spending causes the debt: GDP ratio to continue its rapid rise. Investor confidence becomes severely eroded eventually leading to a fiscal crisis and a deep recession. Meanwhile, US foreign policy is handcuffed by fiscal constraints—as is already evident in the US response to the Arab Spring and the Eurozone crisis—and China and others are increasingly called on to help. Concerns about its waning influence deter the United States from reducing its defense spending, causing defense spending to accelerate in China and, in response, among its Asian rivals. US and foreign companies shun the fiscally- and growth-challenged United States as an investment destination. Outsourcing intensifies and good jobs in the United States are scarce while social cohesion is undermined by rising inequality and downward pressure on government spending on education, infrastructure, and social services. Distracted by its domestic problems and internal divisions, a paralyzed United States accelerates its withdrawal from the international stage. The multilateral trading system is stalled and trading partners eschew bilateral negotiations with the United States as they cannot rely on it to deliver on the deals it negotiates. The United States' influence in the IMF, World Bank, and WTO declines in proportion to its economic and financial weight.

The G20 in 2030

	Billion 2005 US Dollars, Market Exchange Rates	Billion PPP dollars	Average Annual Real Growth Rate, 2010-2030
Argentina	527	1,174	4.3
Australia	1,501	1,442	3.2
Brazil	2,440	4,217	4.3
Canada	2,083	2,087	2.8
China	21,479	37,644	9.3
France	3,323	3,025	2.0
Germany	3,593	3,360	1.2
India	5,328	13,321	8.0
Indonesia	1,073	2,446	5.5
Italy	2,197	2,102	1.2
Japan	5,786	5,170	1.2
Korea	2,122	2,510	3.9
Mexico	2,397	3,449	5.1
Russia	2,487	4,611	5.3
Saudi Arabia	896	1,401	4.6
South Africa	791	1,150	5.4
Turkey	1,437	2,054	5.1
United Kingdom	3,597	3,134	2.2
United States	22,258	22,258	2.7

> **"It is US leadership that faces the greatest challenge moving forward. Without leadership, without cooperation in Congress or action-oriented policy goals, this country will be hard-pressed to find solutions to critical domestic issues. If the US can effectively rebuild leadership, it can more effectively avoid realizing the projections of the worst-case scenarios."**
>
> *– David Ignatius*

In this bad story, growth in the United States slows to a snail's pace: an average of 1.5 percent a year through 2030. Weaker international trade and finance arrangements, as well as spillovers from US and European domestic crises, will slow growth in other countries by about 0.5 percent a year. Slower growth holds down US living standards: US per capita GDP rises by only 18 percent over twenty-five years, half as much as forecast in our baseline. The US role is considerably diminished internationally—the US share of G20 GDP (measured in real dollars) falls to just under 25 percent by 2030, while China's economy passes that of the United States in dollar terms and is 85 percent larger in PPP terms. Seen as a country on the downslide, the United States is both incapable of leading and disinclined to lead and other countries look to align themselves with ascendant powers.

Global Implications

Even in the good scenario, the United States will be a less dominant economic player on the international stage than it is now. That scenario, however, is unambiguously better not only for the United States but also for the international community, which the United States continues to lead on the strength of its institutions and values. A reinvigorated United States participates in the conclusion of a watered-down Doha Round and then leads a process of WTO reform that streamlines new negotiations and strengthens the rules governing the international trading system. An ambitious Trans-Pacific Partnership including Japan and China is concluded, as is an important bilateral agreement on reducing behind-the-border barriers with the European Union. IMF resources are greatly expanded. As it rebalances its own books, the United States steps up its contributions to the World Bank and embarks on an ambitious development initiative in support of a more democratic Middle East. Working closely with China and India and leading by example, the United States guides the G20 as it tackles the most difficult challenges, from climate change to agricultural and energy subsidies, to financial regulations.

In the bad scenario, the Eurozone unravels. The European Union remains but as an empty shell around a fragmented continent mired in a prolonged depression. Suffering from another global crisis, Japan remains ensnared in its decades-long slump. With the United States increasingly withdrawn and few countries willing to follow an authoritarian and mercantilist China (assuming it does not adapt quickly to playing a more prominent global role) a large and dangerous global power vacuum is created. There is also a vacuum of values and ideas, as the Washington Consensus becomes discredited and China, the world's most successful economy, is built on a one-party, state-driven system. Progress on climate change, trade reform, financial and monetary system reform, and global governance grinds to a halt and the trading system may be thrown into reverse by a revival of protectionism. A weaker and less secure international community would reduce its aid effort, leaving impoverished or crisis-stricken countries to fend for themselves and, therefore, multiplying the chances of grievance and peripheral conflicts. The United States would lose proportionally greatest influence to regional hegemons—China in Asia and Russia in Eastern Europe and Central Asia—while Western Europe would remain divided and rudderless and the Middle East driven by numerous rivalries which occasionally erupt into open conflict and oil price shocks. More generally, the absence of leadership and confusion on values makes the reconciliation of disputes more difficult and tempts the strongest to take risks they would not otherwise take.

> **"Governance systems still seem to function in constrained Westphalian political structures. Ultimately, however, systems must be adaptable. The capacity and willingness of statesmen to reach a consensus on new approaches to emerging powers and global power shifts can forge stable international dynamics amongst regions and countries into 2030."**
>
> *– David Ignatius*

Conclusion

Which of the stories is more likely? We believe the good scenario is the more likely, though many would disagree. What is clear is that the outcome will depend crucially on today's decisions, and, if mistakes are made, the bad scenario may well materialize. The overriding lesson of our two stories is that there is more at stake in current economic policy debates in Washington and Brussels than most people realize. A return of the United States and European economies to health over a reasonable time frame is vital for preserving the current international order and reestablishing a sound base for continued prosperity and peace. – *Uri Dadush*

"Unlike its European counterparts, the US has demonstrated a unique capacity to adapt to current global transitions. Despite economic instability throughout the world, the US financial sector is surprisingly healthy and flexible and has shown a great deal of resilience. In fact, the corporate sector adapts all too quickly, advancing at a far faster pace than the government. The cultural adaptability of the United States in the face of such change is a testament to the vitality of American exceptionalism, and continues to set the US apart from other countries in the international community."

– David Ignatius

Reflections on the Future

In any discussion regarding the US role in the global future, it is important to take into consideration the various components of US power internationally. The predicted relative economic decline of the US seems to be overstated and is only one piece of a larger picture.

The United States' global influence does not come from the size of its economic lead but rather from the proclivity and experience of the US to provide effective leadership and the ability of the international system to accept this leadership. Looking forward, how the United States translates political and military resources, as well as its economic strength, into power and influence will ultimately determine the longevity of its relevance on the international level.

The pessimistic scenario laid out above could be disaggregated into two sub-scenarios. On one hand, US decline would spiral into a failure to develop a long-term growth strategy, as other emerging nations continue to gain influence throughout the world. This could lead to a peaceful transfer of power from the West to an emerging East, culminating in either a new leader replacing the US as the main engine of global cooperation or a concert of powers on the international level. On the other hand, US decline could result in a purely multipolar international system, in which no leader emerges to replace the US' global position. The absence of a mechanism for collective decision-making would also paralyze any capacity for collective action; the global community would be left incapable of tackling the various trends that threaten states, regions, and societies throughout the world.

Even the more optimistic of the two scenarios, the baseline projection, still foresees the US in relative decline. The question then becomes, how do we translate our diminishing resources into power and influence? And, even if decline is not that acute, will future administrations have the political will to remain engaged internationally? In the coming decades, the US will undoubtedly sustain its military predominance throughout the world. It also will probably continue to play an instrumental role in forging the partnerships and policies needed to tackle and address the consequences of the most destabilizing global trends in the coming decades. To act otherwise would dramatically increase the uncertainties at the systemic level, multiply the risks, poorly serve the global community, and run counter to US interests. – *James B. Steinberg*

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