

## The Old Titans All Collapsed. Is the U.S. Next?

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Back in August, during the panic over mortgages, [Alan Greenspan](#) offered reassurance to an anxious public. The current turmoil, the former [Federal Reserve Board](#) chairman said, strongly resembled brief financial scares such as the Russian debt crisis of 1998 or the U.S. stock market crash of 1987. Not to worry.

But in the background, one could hear the groans and feel the tremors as larger political and economic tectonic plates collided. Nine months later, Greenspan's soothing analogies no longer wash. The U.S. economy faces unprecedented debt levels, soaring commodity prices and sliding home prices, to say nothing of a weak dollar. Despite the recent stabilization of the economy, some economists fear that the world will soon face the greatest financial crisis since the 1930s.

That analogy is hardly a perfect fit; there's almost no chance of another sequence like the Great Depression, where the stock market dove 80 percent, joblessness reached 25 percent, and the Great Plains became a dustbowl that forced hundreds of thousands of "Okies" to flee to California. But Americans should worry that the current unrest betokens the sort of global upheaval that upended previous leading world economic powers, most notably Britain.

More than 80 percent of Americans now say that we are on the wrong track, but many if not most still believe that the history of other nations is irrelevant -- that the United States is unique, chosen by God. So did all the previous world economic powers: Rome, Spain, the Netherlands (in the maritime glory days of the 17th century, when New York was New Amsterdam) and 19th-century Britain. Their early strength was also their later weakness, not unlike the United States since the 1980s.

There is a considerable literature on these earlier illusions and declines. Reading it, one can argue that imperial Spain, maritime Holland and industrial Britain shared a half-dozen vulnerabilities as they peaked and declined: a sense of things no longer being on the right track, intolerant or missionary religion, military or imperial overreach, economic polarization, the rise of finance (displacing industry) and excessive debt. So too for today's United States.

Before we amplify the contemporary U.S. parallels, the skeptic can point out how doomsayers in each nation, while eventually correct, were also premature. In Britain, for example, doubters fretted about becoming another Holland as early as the 1860s, and apprehension surged again in the 1890s, based on the industrial muscle of such rivals as Germany and the United States. By the 1940s, those predictions had come true, but in practical terms, the critics of the 1860s and 1890s were too early.

Premature fears have also dogged the United States. The decades after the 1968 election were marked by waves of a new national apprehension: that U.S. post-World War II global hegemony was in danger. The first, in 1968-72, involved a toxic mix of global trade and currency crises and the breakdown of the U.S. foreign policy consensus over Southeast Asia. Books emerged with titles such as "Retreat From Empire?" and "The End of the American Era." More national malaise followed Watergate and the fall of Saigon. Stage three came in the late 1980s, when a resurgent Japan seemed to be challenging U.S. preeminence in manufacturing and possibly even finance. In 1991, Democratic presidential aspirant [Paul Tsongas](#) observed that "the Cold War is over. . . . Germany and Japan won." Well, not quite.

In 2008, we can mark another perilous decade: the tech mania of 1997-2000, morphing into a bubble and market crash; the Sept. 11, 2001, terrorist attacks; imperial hubris and the Bush administration's bungled 2003 invasion of Iraq. These were followed by [OPEC's](#) abandoning its \$22-\$28 price range for oil, with the cost per barrel rising over five years to more than \$100; the collapse of global respect for the United States over the Iraq war; the imploding U.S. housing market and debt bubble; and the almost 50 percent decline of the U.S. dollar against the euro since 2002. Small wonder a global financial crisis is in the air.

Here, then, is the unnerving possibility: that another, imminent global crisis could make the half-century between the 1970s and the 2020s the equivalent for the United States of what the half-century before 1950 was for Britain. This may well be the Big One: the multi-decade endgame of U.S. ascendancy. The chronology makes historical sense -- four decades of premature jitters segueing into unhappy reality.

The most chilling parallel with the failures of the old powers is the United States' unhealthy reliance on the financial sector as the engine of its growth. In the 18th century, the Dutch thought they could replace their declining industry and physical commerce with grand money-lending schemes to foreign nations and princes. But a series of crashes and bankruptcies in the 1760s and 1770s crippled Holland's economy. In the early 1900s, one apprehensive minister argued that Britain could not thrive as a "hoarder of invested securities" because "banking is not the creator of our prosperity but the creation of it." By the late 1940s, the debt loads of two world wars proved the point, and British global economic leadership became history.

In the United States, the financial services sector passed manufacturing as a component of the GDP in the mid-1990s. But market enthusiasm seems to have blocked any debate over this worrying change: In the 1970s, manufacturing occupied 25 percent of GDP and financial services just 12 percent, but by 2003-06, finance enjoyed 20-21 percent, and manufacturing had shriveled to 12 percent.

The downside is that the final four or five percentage points of financial-sector GDP expansion in the 1990s and 2000s involved mischief and self-dealing: the exotic mortgage boom, the reckless bundling of loans into securities and other innovations better left to casinos. Run-amok credit was the lubricant. Between 1987 and 2007, total debt in the United States jumped from \$11 trillion to \$48 trillion, and private financial-sector debt led the great binge.

Washington looked kindly on the financial sector throughout the 1980s and 1990s, providing it with endless liquidity flows and bailouts. Inexcusably, movers and shakers such as Greenspan, former treasury secretary [Robert Rubin](#) and the current secretary, [Henry Paulson](#), refused to regulate the industry. All seemed to welcome asset bubbles; they may have figured the finance industry to be the new dominant sector of economic evolution, much as industry had replaced agriculture in the late 19th century. But who seriously expects the next great economic power -- China, India, Brazil -- to have a GDP dominated by finance?

With the help of the overgrown U.S. financial sector, the United States of 2008 is the world's leading debtor, has by far the largest current-account deficit and is the leading importer, at great expense, of both manufactured goods and oil. The potential damage if the world soon undergoes the greatest financial crisis since the 1930s is incalculable. The loss of global economic leadership that overtook Britain and Holland seems to be looming on our own horizon.