

# Can America Fail?

*A sympathetic critic issues a wake-up call for an America mired in groupthink and blind to its own shortcomings.*

BY KISHORE MAHBUBANI

IN 1981, SINGAPORE'S LONG-RULING PEOPLE'S Action Party was shocked when it suffered its first defeat at the polls in many years, even though the contest was in a single constituency. I asked Dr. Goh Keng Swee, one of Singapore's three founding fathers and the architect of its economic miracle, why the PAP lost. He replied, "Kishore, we failed because we did not even conceive of the possibility of failure."

The simple thesis of this essay is that American society could also fail if it does not force itself to conceive of failure. The massive crises that American society is experiencing now are partly the product of just such a blindness to potential catastrophe. That is not a diagnosis I deliver with rancor. Nations, like individuals, languish when they only have uncritical lovers or unloving critics. I consider myself a loving critic of the United States, a critic who wants American society to succeed. America, I wrote in 2005 in *Beyond the Age of Innocence: Rebuilding Trust Between America and the World*, "has done more good for the rest of the world than any other society." If the United States fails, the world will suffer too.

The first systemic failure America has suffered is groupthink. Looking back at the origins of the current financial crisis, it is amazing that American society accepted the incredible assumptions of economic gurus such as Alan

Greenspan and Robert Rubin that unregulated financial markets would naturally deliver economic growth and serve the public good. In 2003, Greenspan posed this question: "The vast increase in the size of the over-the-counter derivatives markets is the result of the market finding them a very useful vehicle. And the question is, should these be regulated?" His own answer was that the state should not go beyond regular banking regulation because "these derivative transactions are transactions among professionals." In short, the financial players would regulate themselves.

This is manifest nonsense. The goal of these financial professionals was always to enhance their personal wealth, not to serve the public interest. So why was Greenspan's nonsense accepted by American society? The simple and amazing answer is that most Americans assumed that their country has a rich and vibrant "marketplace of ideas" in which all ideas are challenged. Certainly, America has the freest media in the world. No subject is taboo. No sacred cow is immune from criticism. But the paradox here is that the *belief* that American society allows every idea to be challenged has led Americans to assume that every idea *is* challenged. They have failed to notice when their minds have been enveloped in groupthink. Again, failure occurs when you do not conceive of failure.

The second systemic failure has been the erosion of the notion of individual responsibility. Here, too, an illusion is at work. Because they so firmly believe that their society rests on a culture of individual responsibility—rather than a culture of entitlement, like the social welfare states of Europe—

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Americans cannot see how their individual actions have undermined, rather than strengthened, their society. In their heart of hearts, many Americans believe that they are living up to the famous challenge of President John F. Kennedy, “Ask not what your country can do for you—ask what you can do for your country.” They believe that they give more than they take back from their own society.

There is a simple empirical test to see whether this is true: Do Americans pay more in taxes to the government than they receive in government services? The answer is clear. Apart from a few years during the Clinton administration, the United States has had many more federal budget deficits than surpluses—and the ostensibly more fiscally responsible Republicans are even guiltier of deficit financing than the Democrats.

The recently departed Bush administration left America with a national debt of more than \$10 trillion, compared with the \$5.7 trillion left by the Clinton administration.

Because of this large debt burden, President Barack Obama has fewer bullets to fire as he faces the biggest national economic crisis in almost a century. The American population has taken away the ammunition he could have used, and left its leaders to pray that China and Japan will continue to buy U.S. Treasury bonds.

**H**ow did this happen? Americans have justified the erosion of individual responsibility by demonizing taxes. Every candidate for political office in America runs against taxes. No American politician—including President Obama—dares to tell the truth: that no modern society can function without significant taxes. In some cases, taxes do a lot of good. If Americans were to impose a \$1 per gallon tax on gasoline (which they could easily afford), they would begin to solve many of their

problems, reducing greenhouse-gas emissions, dependence on Middle East oil, and the production of fuel-inefficient cars and trucks.

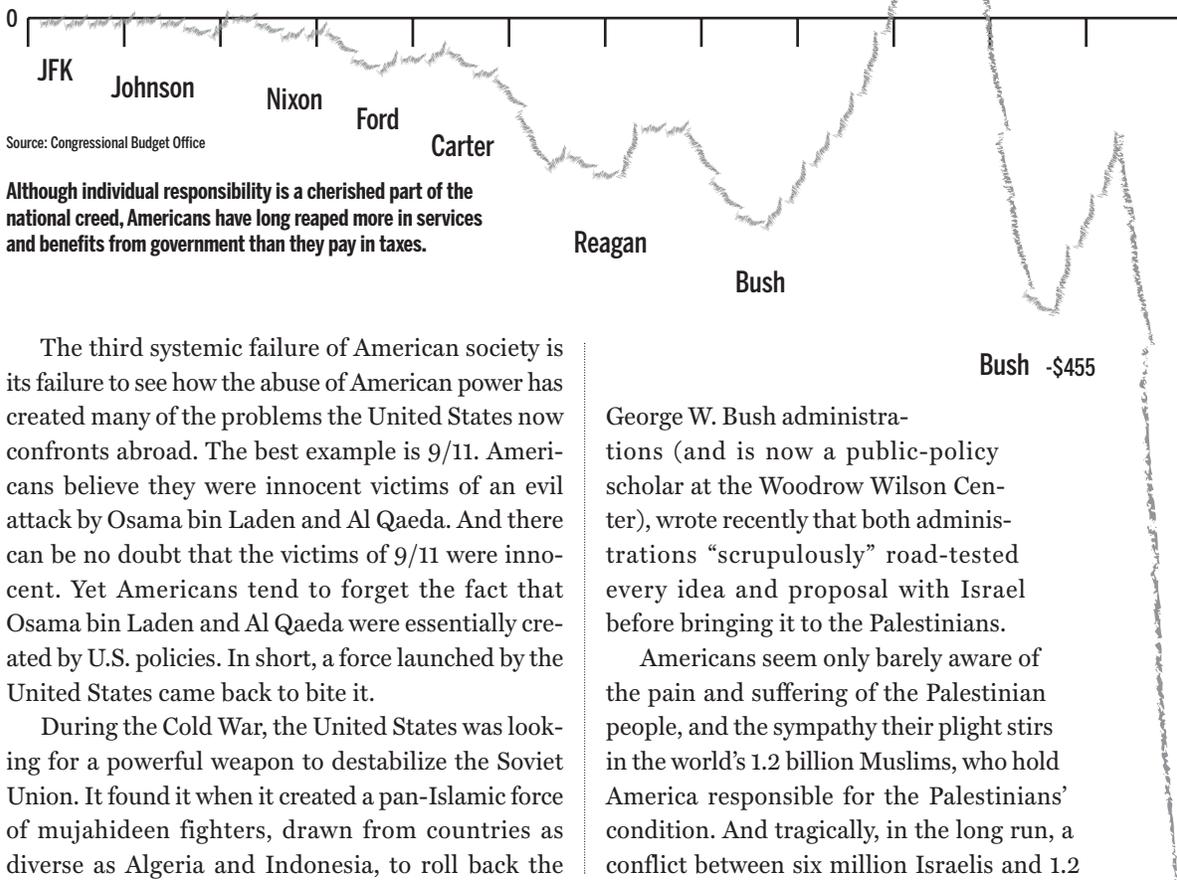
The way Americans have dealt with the tax question shows that there is a sharp contradiction between their belief that their society rests on a culture of individual responsibility and the reality that it has been engulfed by a culture of individual irresponsibility. But beliefs are hard to change. Many American myths come from the Wild West era, when lone cowboys struggled and survived supposedly through individual ingenuity alone, without the help of the state. Americans continue to believe that they do not benefit from state support. The reality is that many do.

Soviet invasion of Afghanistan after 1979. For a time, American interests and the interests of the Islamic world converged, and the fighters drove the Soviets out and contributed to the collapse of the Soviet Union. At the same time, however, America also awakened the sleeping dragon of Islamic solidarity.

Yet when the Cold War ended, America thoughtlessly disengaged from Afghanistan and the powerful Islamic forces it had supported there. To make matters worse, it switched its Middle East policy from a relatively evenhanded one on the Israel-Palestine issue to one heavily weighted toward the Israelis. Aaron David Miller, a longtime U.S. Middle East negotiator who served under both the Clinton and

## The Reckless Decades

America's Budget Deficit/Surplus, in Billions of Dollars



The third systemic failure of American society is its failure to see how the abuse of American power has created many of the problems the United States now confronts abroad. The best example is 9/11. Americans believe they were innocent victims of an evil attack by Osama bin Laden and Al Qaeda. And there can be no doubt that the victims of 9/11 were innocent. Yet Americans tend to forget the fact that Osama bin Laden and Al Qaeda were essentially created by U.S. policies. In short, a force launched by the United States came back to bite it.

During the Cold War, the United States was looking for a powerful weapon to destabilize the Soviet Union. It found it when it created a pan-Islamic force of mujahideen fighters, drawn from countries as diverse as Algeria and Indonesia, to roll back the

George W. Bush administration (and is now a public-policy scholar at the Woodrow Wilson Center), wrote recently that both administrations “scrupulously” road-tested every idea and proposal with Israel before bringing it to the Palestinians.

Americans seem only barely aware of the pain and suffering of the Palestinian people, and the sympathy their plight stirs in the world’s 1.2 billion Muslims, who hold America responsible for the Palestinians’ condition. And tragically, in the long run, a conflict between six million Israelis and 1.2

billion Muslims would bring grief to Israel. Hence, Americans should seriously review their Middle East policies.

The Middle East is only one of many areas in which American policies have harmed the world. From U.S. cotton subsidies, which have hurt poor African farmers, to the invasion of Iraq; from Washington's double standard on nuclear proliferation—calling on non-nuclear states to abide by the Nuclear Non-Proliferation Treaty while ignoring its own obligations—to its decision to walk away from the Kyoto Protocol without providing an alternate approach to global warming, many American policies have injured the 6.5 billion other people who inhabit the world.

**W**hy aren't Americans aware of this? The reason is that virtually all analysis by American intellectuals rests on the assumption that *problems* come from outside America and America provides only *solutions*. Yet the rest of the world can see clearly that American power has created many of the world's major problems. American thinkers and policymakers cannot see this because they are engaged in an incestuous, self-referential, and self-congratulatory discourse. They have lost the ability to listen to other voices on the planet because they cannot conceive of the possibility that they are not already listening. But until they begin to open their ears, America's problems with the world will continue.

It will not be easy for America to change course, because many of its problems have deep structural causes. To an outsider, it is plain to see that structural failures have developed in America's governance, in its social contract, and in its response to globalization. Many Americans still cannot see this.

When Americans are asked to identify what makes them proudest of their society, they inevitably point to its democratic character. And there can be no

doubt that America has the most successful democracy in the world. Yet it may also have some of the most corrupt governance in the world. The reason more Americans are not aware of this is that most of the corruption is legal.

In democracies, the role of government is to serve the public interest. Americans believe that they have

## AMERICAN THINKERS and policy-makers have lost the ability to listen to other voices on the planet.

a government "of the people, by the people, and for the people." The reality is more complex. It looks more like a government "of the people, by special-interest groups, and for special-interest groups." In the theory of democracy, corrupt and ineffective politicians are thrown out by elections. Yet the fact that more than 90 percent of incumbents who seek reelection to the U.S. House of Representatives are reelected provides a clear warning that all is not well. In *The Audacity of Hope* (2006), Barack Obama himself describes the corruption of the political system and the public's low regard for politicians. "All of which leads to the conclusion that if we want anything to change in Washington, we'll need to throw the rascals out. And yet year after year we keep the rascals right where they are, with the reelection rate for House members hovering at around 96 percent," Obama writes. Why? "These days, almost every congressional district is drawn by the ruling party with computer-driven precision to ensure that a clear majority of Democrats or Republicans reside within its borders. Indeed, it's not a stretch to say that most voters no longer choose their representatives; instead, representatives choose their voters."

The net effect of this corruption is that American governmental institutions and processes are now designed to protect special interests rather than public interests. As the financial crisis has revealed with startling clarity, regulatory agencies such as the Secu-

rities and Exchange Commission and the Commodity Futures Trading Commission have been captured by the industries they are supposed to regulate. And when Congress opens the government's purse, the benefits flow to special interests rather than the public interest. Few Americans are aware how severely

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special interests undermine their own national interests, both at home and abroad. The latest two world trade negotiating rounds (including the present Doha Round), for example, have been held hostage by the American agricultural lobbies. To protect 25,000 rich American cotton farmers, the United States has jeopardized the interests of the rest of the 6.8 billion people in the world.

Normally, a crisis provides a great opportunity to change course. Yet the current crisis has elicited tremendous delay, obfuscation, and pandering to special interests. From afar, America's myopia is astounding and incomprehensible. When the stimulus packages of the Chinese and U.S. governments emerged at about the same time, I scanned American publications in search of attempts to compare the two measures. I could not find any. This confirmed my suspicion that American intellectuals and policymakers could not even conceive of the possibility that the Chinese effort may be smarter or better designed than the American one.

An even bigger structural failure that American society may face is the collapse of its social contract. The general assumption in the United States is that American society remains strong and cohesive because every citizen has an equal chance to succeed. Because most Americans believe they have had the same opportunity, there is little resentment when a Bill Gates or a Sergey Brin amasses a great fortune.

This ideal of equal opportunity is a useful

national myth. But when the gap between myth and reality becomes too wide, the myth cannot be sustained. Today, research shows that social mobility in the United States has declined significantly. In the 2008 report *The Measure of America*, a research group, the American Human Development Project, notes that "the average income of the top fifth of U.S. households in 2006 was almost 15 times that of those in the lowest fifth—or \$168,170 versus \$11,352." The researchers also observe that "social mobility is now less fluid in the United States than

in other affluent nations. Indeed, a poor child born in Germany, France, Canada, or one of the Nordic countries has a better chance to join the middle class in adulthood than an American child born into similar circumstances."

Behind these statistics are some harsh realities. Nearly one in five American children lives in poverty, and more than one in 13 lives in extreme poverty. African-American babies are more than twice as likely as white or Latino babies to die before reaching their first birthday. People in more than half a million households experience hunger, data from the U.S. Department of Agriculture indicate. The education system is both inequalitarian and ineffective. In a recent international assessment of subject-matter literacy in 57 countries, America's 15-year-olds ranked 24th in mathematics and 17th in science. It should come as no surprise that though the United States ranks second among 177 countries in per capita income, it ranks only 12th in terms of human development.

More dangerously, many of those who have grown wealthy in the past few decades have added little of real economic value to society. Instead, they have created "financial weapons of mass destruction," and now they continue to expect rich bonuses even after they delivered staggering losses. Their behavior demonstrates a remarkable decline of American values and, more important, the deterioration of the implicit social contract between the wealthy and the rest of society. It would be fatal for America if the wealthy classes were to lose the trust and confidence

of the broader American body politic. But many of America's wealthy cannot even conceive of this possibility. This explains why so few of the Richard Fulds and John Thains have apologized with any sincerity for the damage they have done.

America's latest responses to globalization also reveal symptoms of a structural failure. Hitherto, Americans have been champions of globalization because they have believed that their own economy, the most competitive in the world, would naturally triumph as countries lowered their trade and tariff barriers. This belief has been an important force driving the world trading system toward greater openness.

Today, in a sign of great danger for the United States and for the world, the American people are losing confidence in their ability to compete with Chinese and Indian workers. More and more American politicians are jumping on the protectionist bandwagon (although almost all of them dishonestly claim they are not protectionists). Even the American intelligentsia is retreating from its once stout defense of free trade. Paul Krugman of Princeton and *The New York Times*, who won the Nobel Prize for Economics in 2008, showed which way the wind was blowing when he wrote, "It's hard to avoid the conclusion that growing U.S. trade with Third World countries reduces the real wages of many and perhaps most workers in this country. And that reality makes the politics of trade very difficult."

At the moment of their country's greatest economic vulnerability in many decades, few Americans dare to speak the truth and say that the United States cannot retreat from globalization. Both the American people and the world would be worse off. However, as

globalization and global capitalism create new forces of "creative destruction," America will have to restructure its economy and society in order to compete. It will need to confront its enormously wasteful and inefficient health care policies and the deteriorating standards of its public education system. It must



Hard times make one thing more plentiful: wishful thinking about a retreat from foreign trade.

finally confront its economic failures as well, and stop rewarding them. If General Motors, Chrysler, and Ford cannot compete, it will be futile to protect them. They, too, have failed because they could not conceive of failure.

Every problem has a solution. This has always been the optimistic American view. It is just as true in bad times as in good times. But painful problems do not often have painless solutions. This is equally true of the current economic crisis. To deal with it, American leaders must add an important word when they speak the truth to the American people. The word is *sacrifice*. There can be no solution to America's problems without sacrifice.

One paradox of the human condition is that the

most logical point at which to undertake painful reform is in good times. The pain will be less then. But virtually no society, and especially no democratic society, can administer significant pain in good times. It takes a crisis to make change possible. Hence, there is a lot of wisdom in the principle, “never waste a crisis.”

Let me suggest for purely illustrative purposes three painful reforms the United States should consider now. The goal of these suggestions is to trigger a serious discussion of reform in American discourse.

First, there is a silver bullet that can dispel some of the doom and gloom enveloping the world and admit a little hope. And hope is what we need to get the economic wheels turning in the right direction. As Amartya Sen, another Nobel laureate in economics, said recently, “Once an economy is in the grip of pessimism, you cannot change it just by changing the objective circumstance, because the lack of confidence in people makes the economy almost unrescuable. You have to address the confidence thing, and that requires a different type of agenda than we have.” The completion of the Doha Round of world trade talks would go a long way toward restoring that confidence. The good news is that the deal is almost 95 percent cooked. But the last five percent is the most difficult.

One of the key obstacles to the completion of the Doha Round is the resistance of those 25,000 rich American cotton farmers. Millions of their poor West African counterparts will not accept a Doha Round agreement without a removal of the U.S. cotton subsidies that unfairly render their own crops uncompetitive. In both moral and rational terms, the decision should be obvious. The interests of the 6.8 billion people who will benefit from a successful Doha Round are more important than the interests of 25,000 American farmers. This handful of individuals should not be allowed to veto a global trade deal.

America’s rich cotton farmers are also in the best position to make a sacrifice. Collectively, they have received more than \$3 billion a year in subsidies over the last eight years, a total of about \$1 million each. If they cannot make a sacrifice, who in America can? Where is the American politician with the courage say this?

America has a second silver bullet it can use: a \$1

per gallon tax on gasoline. To prevent the diversion of the resulting revenues into pork barrel projects, the money should be firewalled and used only to promote energy efficiency and address the challenge of climate change. Last year, the United States consumed more than 142 billion gallons of gas. Hence, even allowing for a change in consumption, a gas tax could easily raise more than \$100 billion per year to address energy challenges.

This sounds like a painful sacrifice, one that America’s leaders can hardly conceive of asking, yet it is surprising that Americans did not complain when they effectively paid a tax of well over \$1 per gallon to Saudi Arabia and other oil producers when oil prices surged last year. Then, the price at the pump was more than \$4 a gallon. Today, with world oil prices hovering around only \$40 a barrel, the price per gallon is around half its peak price. A \$1 tax would still leave gas relatively cheap.

This brings me to the third silver bullet: Every American politician should declare that the long-term interests of the country are more important than his or her personal political career. As leaders, they should be prepared to make the ultimate political sacrifice in order to speak the truth: The time has come for Americans to spend less and work harder. This would be an extraordinary commitment for politicians anywhere in the world, but it is precisely politics as usual that led the United States to today’s debacle.

The latest budget presented to Congress by President Obama offers a great opportunity for change. Instead of tearing the budget apart in pursuit of narrow interests and larding it with provisions for special interests, Congress has the opportunity to help craft a rational plan to help people at the bottom, promote universal health care, and create incentives to enhance American competitiveness.

I know that such a rational budget is almost totally inconceivable to the American body politic. The American political system has become so badly clogged with special interests that it resembles a diseased heart. When an individual develops coronary blockages, he or she knows that the choices are massive surgery or a massive heart attack. The fact that the American body politic cannot conceive of the possibility that its clogged political arteries could lead to a catastrophic heart attack is an indication that American society cannot conceive of failure. And if you cannot conceive of failure, failure comes. ■