



FOUR FORCES FOR ECONOMIC DOMINANCE TO
UNLEASH THE SECOND AMERICAN CENTURY

JOEL KURTZMAN

The United States is suffering from chronic, economic hypochondria.

On the one hand, it's the country with the world's largest, most sophisticated and creative economy, with a growing list of sectors in which it leads, with an unmatched capacity for creating wealth, located on the best piece of real estate on the planet. On the other hand, judging from all those books and articles written about it, it is a country that thinks it could be surpassed at any moment—first by Europe, then the Soviet Union (how'd that work out?), then Japan, and now China. Despite its breathtaking economic power, a lot of people in the United States feel the country is in decline.

How bad is its hypochondria? An article in *The New York Times* (“The Myth of Industrial Rebound,” January 26, 2014), lamented that the economy added “just 568,000 manufacturing positions since January 2010.” I’m no doctor, but can someone please explain why adding that many manufacturing jobs *in the midst of the deepest recession in 70 years* is bad, especially when the rest of the world was shedding positions? Doesn't that signal jobs are starting to return to our shores? And, if we added that many manufacturing jobs with an economic tsunami blowing in our faces, think how many we'll add when the wind is at our back?

I've been watching the American economy for decades, and for the last few years I've put it under a magnifying glass. My conclusions are strongly positive: the United States is about to enter a period of prolonged economic growth, filled with opportunity. It's not the emerging market countries that will power the world into the next economic era. It's the United States.

There are four forces that explain my optimism:

1. America's astounding levels of creativity
2. The renewal of manufacturing
3. Vast reserves of energy
4. Massive amounts of investible capital

Add to these four forces two additional facts. American consumers—the world's engine of growth for more than 50 years—have less debt as a share of income than at any time in the last 35 years, thanks to the cleansing effects of the recession. And, Americans' savings are at record levels. To paraphrase George Costanza's declaration to Jerry Seinfeld, "America's back, baby!"

The Force of American Creativity

If you take a walk around Cambridge, Massachusetts, you get a sense of what I mean by the force of America's unsurpassed creativity. In the one-square mile area surrounding the Massachusetts Institute of Technology, there are dozens of large biotech and life sciences companies, dozens of startups, and one of the most vibrant academic research centers in the world. As a result, Novartis, a giant Swiss pharmaceutical company, moved nearly its entire research center to Cambridge from Switzerland, to take advantage of expertise located in that one square mile. And the French pharmaceutical company, Sanofi, recently paid \$17 billion to buy Genzyme, an American biotech pioneer, to get into Cambridge and gain access to its brains, as its CEO said.

At the same time, billions of dollars have been spent building new research centers linked to MIT, and nearby Harvard, like the Broad Institute, the McGovern Institute for Brain Research, the Whitehead Institute, and many others. These research centers are doing pioneering work in genetics and medicine.

“It's not the emerging market countries that will power the world into the next economic era. It's the United States.”

No other country has anything quite like that one square mile of Cambridge real estate. But in the United States, we also have other centers of creativity that rival Cambridge—the areas around Stanford, in San Francisco, around San Diego, in Austin and Seattle, at the Research Triangle, along the I-95 corridor in New Jersey, in Houston, and in many other areas. And this is just biotech and the life sciences. We also have other world-leading clusters of creativity focusing on robotics, advanced manufacturing, computing, software, telecommunications, entertainment, materials science, and in many other scientific and technological areas.

And, because America is entrepreneurial, these clusters also produce companies —lots of them— which is why ideas coming out of our labs end up on our desks, in our phones, attached to our eyeglasses, in our cars, offices and homes so quickly. These centers of creativity are creating measurable value and are unique to the United States.

The Force of a Manufacturing Renewal

At the same time, while many people mindlessly repeat the phrase, “we don’t make anything here anymore,” it’s simply not true. The fact is the United States remains the preeminent manufacturing power in the world, producing about 20 percent of the world’s manufactured goods here in the United States, and a lot more outside the country.

Though China produces almost as much as the United States does within its borders—also about 20 percent of the world’s goods—there is a big difference between what our two countries make. China is a world power in low-margin electronics assembly, textiles and machinery. But the United States is a powerhouse in high-end, high-margin, sophisticated manufacturing processes. The United States leads the world in aircraft engines, turbines, avionics, advanced material fabrication, helicopters, business jets, and—depending on the year—airliners. We are also the leader in sophisticated radar and telecommunications technology, and, of course, in weaponry. In addition, the United States has retained its leadership in space with private companies, like SpaceX, building some of the world’s most sophisticated rockets.

There is a lot of evidence that there was movement underway to repatriate manufacturing to the U.S. from abroad before the 2008 crash. That movement stopped during the Great Recession, but has now resumed. American companies, as well as foreign firms, are expanding their manufacturing in the United States. BMW, for example, is now making all of its SUVs in the U.S.

““ While many people mindlessly repeat the phrase, “we don’t make anything here anymore,” it’s simply not true.

The Force of Newly Available Energy

The forces animating our return to manufacturing are twofold. First, energy has changed the equation. Chemical companies, in particular, are moving plants to the U.S. from around the world to take advantage of America's cheap natural gas.

Whereas it costs about \$14 to buy a million BTUs worth of natural gas in Europe, and \$16 in Japan, in the U.S., the same amount of natural gas cost plus-or-minus \$3. Since chemicals like insecticides, plastics, fertilizers, paints, cosmetics, and many others, can be manufactured from natural gas, it makes sense to go where the natural gas is cheapest—the U.S.

In addition, companies that make things, from cars to computers and airplanes, can use cheap American natural gas to heat, cool, and run their factories. And, as wages in China and India rise, and since the productivity of the American worker greatly exceeds workers in emerging markets, the United States is now competitively priced as a manufacturing site. Add to that the fact that if you make something in Asia, you still need to ship it to the U.S. in ships that burn expensive diesel fuel, but if you make things in the U.S., you have far less distance to travel to get your goods to customers. By cutting travel time and distance, manufacturers get more flexibility and lower costs.

Our newly available energy supplies are a powerful force for change in areas other than manufacturing too. With massive new sources of natural gas and domestically produced oil available, thanks to fracking technology (a technology perfected in the U.S.) the U.S. has cut its imports of oil dramatically. Whereas the U.S. imported more than 35 percent of the energy in 2005, in the last quarter of 2013, it imported only about 15.5 percent. To put that in context, the U.S. cut its imports of oil during that period by an amount equal to all the oil Japan uses. Japan is the world's third largest economy. The U.S. is once again the world's largest energy producer.

This massive shift in energy production means that a great deal of—hundreds of billions of dollars—that we would have sent overseas to pay for oil will be staying in the U.S. And, a great deal of that money will be invested in new energy infrastructure projects that will create jobs. In addition, since we are using more natural gas, and alternative fuels, like solar, wind and biofuels, America's CO2 emissions have fallen to 1993 levels. As more trucks, trains, and in some cases cars, use natural gas instead of oil, not only will we import less fuel, we will be substitute an inexpensive fuel for a costly one. That will give the United States a significant edge over its competitors.

I think of the American energy boom this way: Take the world's largest and most sophisticated economy and graft onto it the oil and natural gas riches of Saudi Arabia, Qatar, or Russia, and you get an idea of what this transformation will do to the United States.

The Force Of Capital

The fourth force that is powering our transformation is the massive amount of capital that is now available for investment. The Great Recession did what recessions usually do: It moved debt from the private side of the balance sheet to the public side. As a result, the government has a lot of debt, as we know too well, but households are in better shape than in decades. Households use a smaller share of their incomes to pay off their credit cards, mortgages, and other debts than at anytime in the last 35 years, and Americans are saving money at very high rates.

As they pare down their debt, the value of people's 401(k)s and other retirement accounts has recovered since falling during the Great Recession, and home prices are recovering too. Meanwhile, in the midst of the recession, companies took advantage of low interest rates and refinanced their debt, much of it in the form of securities like bonds, on more attractive terms, which reduced their debt payments.

I'm not trying to minimize the damage done to the economy by the Great Recession, but I do want to point out that a great deal of the damage from the worst downturn in 70 years has been repaired and people are behaving (at least for now) more frugally than in the past. Because of these changes, American consumers, and American households, have seen their net worth increase by tens of trillions of dollars.

There is another aspect to this story. Corporations are sitting on a mountain of cash—between \$4 and \$5 trillion, a sum greater than the size of the German economy. That money will be invested as soon as companies feel confident about the future. And, while about a quarter-to-a-third of that money is being held offshore by American companies, when (or is it if?) U.S. corporate tax laws are reformed, a great deal of that money will be coming home, looking for opportunities. In addition to all of the investible capital I already mentioned, there is more than \$1 trillion in excess reserve held at the Fed, which banks will soon be lending to clients. Right now, the problem in America is not too little money; it's too much money sitting on the sidelines. As problems go, it's not such a bad one to have.

Whereas some countries might have one or two of these four forces (creativity, manufacturing excellence, abundant energy, large capital reserves), working in their favor, no country but the U.S. has all four forces pushing in the right direction. For the first time since the Great Recession, the economic winds are at our backs.

“The Great Recession did what recessions usually do ... As a result, the government has a lot of debt, as we know too well, but households are in better shape than in decades.

I'm not suggesting that the U.S. doesn't have problems. We do. But what I am saying is that we now resources available to fix those problems that we haven't had in decades.

Because of these four, very powerful forces, I am strongly bullish on the United States over the next decade or more. That future will be built around a prolonged period of new growth. And, while it might be difficult to end our hypochondria, the fact is the United States has nothing to fear for the foreseeable future. **All we need to do is seize the opportunities before us—something that should be relatively easy, since they are everywhere.** 🇺🇸

Info



BUY THE BOOK | Get more details or buy a copy of [Unleashing the Second American Century](#).

ABOUT THE AUTHOR | Joel Kurtzman is a senior fellow at the Milken Institute, a nonprofit, non-partisan think tank, where his research focuses on globalization and its risks. Kurtzman is a member of the editorial board of MIT Sloan Management Review and a senior fellow at the Wharton School's SEI Center for Advanced Studies in Management. Earlier in his career, Kurtzman was the editor-in-chief of *Harvard Business Review*, founding editor-in-chief of *Strategy + Business* magazine, a business editor and columnist at *The New York Times*, and global lead partner for thought leadership and innovation at PriceWaterhouseCoopers.

→ **SEND THIS** | [Pass along a copy](#) of this manifesto to others.

→ **SUBSCRIBE** | [Sign up for e-news](#) to learn when our latest manifestos are available.

This document was created on February 19, 2014 and is based on the best information available at that time. The copyright of this work belongs to the author, who is solely responsible for the content. This work is licensed under the Creative Commons Attribution-NonCommercial-NoDerivs License. To view a copy of this license, visit [Creative Commons](#) or send a letter to Creative Commons, 559 Nathan Abbott Way, Stanford, California 94305, USA. Cover image from [Veer](#). You are given the unlimited right to print this manifesto and to distribute it electronically (via email, your website, or any other means). You can print out pages and put them in your favorite coffee shop's windows or your doctor's waiting room. You can transcribe the author's words onto the sidewalk, or you can hand out copies to everyone you meet. You may not alter this manifesto in any way, though, and you may not charge for it.

About ChangeThis

[ChangeThis](#) is a vehicle, not a publisher. We make it easy for big ideas to spread. While the authors we work with are responsible for their own work, they don't necessarily agree with everything available in ChangeThis format. But you knew that already.

800ceoread

ChangeThis is supported by the love and tender care of 800-CEO-READ. Visit us at [800-CEO-READ](#) or at our daily [blog](#).



Explore your knowledge further with [KnowledgeBlocks](#), a new project from 800-CEO-READ that lets you turn what you know into knowledge you can use.