

China's Rise, America's Fall. Which Superpower is more Threatened by its "Extractive Elites"?

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The rise of China surely ranks among the most important world developments of the last 100 years. With America still trapped in its fifth year of economic hardship, and the Chinese economy poised to surpass our own before the end of this decade, China looms very large on the horizon. We are living in the early years of what journalists once dubbed "The Pacific Century," yet there are worrisome signs it may instead become known as "The Chinese Century."

But does the Chinese giant have feet of clay? In a recently published book, *Why Nations Fail*, economists Daron Acemoglu and James A. Robinson characterize China's ruling elites as "extractive"—parasitic and corrupt—and predict that Chinese economic growth will soon falter and decline, while America's "inclusive" governing institutions have taken us from strength to strength. They argue that a country governed as a one-party state, without the free media or checks and balances of our own democratic system, cannot long prosper in the modern world. The glowing tributes this book has received from a vast array of America's most prominent public intellectuals, including six Nobel laureates in economics, testifies to the widespread popularity of this optimistic message.

Yet do the facts about China and America really warrant this conclusion?

China Shakes the World

By the late 1970s, three decades of Communist central planning had managed to increase China's production at a respectable rate, but with tremendous fits and starts, and often at a terrible cost: 35 million or more Chinese had starved to death during the disastrous 1959-1961 famine caused by Mao's forced industrialization policy of the Great Leap Forward.

China's population had also grown very rapidly during this period, so the typical standard of living had improved only slightly, perhaps 2 percent per year between 1958 and 1978, and this from an extremely low base. Adjusted for purchasing power, most Chinese in 1980 had an income 60-70 percent below that of the citizens in other major Third World countries such as Indonesia, Nigeria, Pakistan, and Kenya, none of which were considered great economic success stories. In those days, even Haitians were far wealthier than Chinese.

All this began to change very rapidly once Deng Xiaoping initiated his free-market reforms in 1978, first throughout the countryside and eventually in the smaller industrial enterprises of the coastal provinces. By 1985, *The Economist* ran a cover story praising China's 700,000,000 peasants for having doubled their agricultural production in just seven years, an achievement almost unprecedented in world history. Meanwhile, China's newly adopted

one-child policy, despite its considerable unpopularity, had sharply reduced population growth rates in a country possessing relatively little arable land.

A combination of slowing population growth and rapidly accelerating economic output has obvious implications for national prosperity. During the three decades to 2010, China achieved perhaps the most rapid sustained rate of economic development in the history of the human species, with its real economy growing almost 40-fold between 1978 and 2010. In 1978, America's economy was 15 times larger, but according to most international estimates, China is now set to surpass America's total economic output within just another few years.

Furthermore, the vast majority of China's newly created economic wealth has flowed to ordinary Chinese workers, who have moved from oxen and bicycles to the verge of automobiles in just a single generation. While median American incomes have been stagnant for almost forty years, those in China have nearly doubled every decade, with the real wages of workers outside the farm-sector rising about 150 percent over the last ten years alone. The Chinese of 1980 were desperately poor compared to Pakistanis, Nigerians, or Kenyans; but today, they are several times wealthier, representing more than a tenfold shift in relative income.

A World Bank report recently highlighted the huge drop in global poverty rates from 1980 to 2008, but critics noted that over 100 percent of that decline came from China alone: the number of Chinese living in dire poverty fell by a remarkable 662 million, while the impoverished population in the rest of the world actually rose by 13 million. And although India is often paired with China in the Western media, a large fraction of Indians have actually grown poorer over time. The bottom half of India's still rapidly growing population has seen its daily caloric intake steadily decline for the last 30 years, with half of all children under five now being malnourished.

China's economic progress is especially impressive when matched against historical parallels. Between 1870 and 1900, America enjoyed unprecedented industrial expansion, such that even Karl Marx and his followers began to doubt that a Communist revolution would be necessary or even possible in a country whose people were achieving such widely shared prosperity through capitalistic expansion. During those 30 years America's real per capita income grew by 100 percent. But over the last 30 years, real per capita income in China has grown by more than 1,300 percent.

Over the last decade alone, China quadrupled its industrial output, which is now comparable to that of the U.S. In the crucial sector of automobiles, China raised its production ninefold, from 2 million cars in 2000 to 18 million in 2010, a figure now greater than the combined totals for America and Japan. China accounted for fully 85 percent of the total world increase in auto manufacturing during that decade.

It is true that many of China's highest-tech exports are more apparent than real. Nearly all Apple's iPhones and iPads come from China, but this is largely due to the use of cheap Chinese labor for final assembly, with just 4 percent of the value added in those world-leading items being Chinese. This distorts Chinese trade statistics, leading to unnecessary friction. However, some high-tech China exports are indeed fully Chinese, notably those of Huawei, which now ranks alongside Sweden's Ericsson as one of the world's two leading telecommunications manufacturers, while once powerful North American competitors such as Lucent-Alcatel and Nortel have fallen into steep decline or even bankruptcy. And although

America originally pioneered the Human Genome Project, the Beijing Genomics Institute (BGI) today probably stands as the world leader in that enormously important emerging scientific field.

China's recent rise should hardly surprise us. For most of the last 3,000 years, China together with the Mediterranean world and its adjoining European peninsula have constituted the two greatest world centers of technological and economic progress. During the 13th century, Marco Polo traveled from his native Venice to the Chinese Empire and described the latter as vastly wealthier and more advanced than any European country. As late as the 18th century, many leading European philosophers such as Voltaire often looked to Chinese society as an intellectual exemplar, while both the British and the Prussians used the Chinese mandarin state as their model for establishing a meritocratic civil service based on competitive examinations.

Even a century ago, near the nadir of China's later weakness and decay, some of America's foremost public intellectuals, such as Edward A. Ross and Lothrop Stoddard, boldly predicted the forthcoming restoration of the Chinese nation to global influence, the former with equanimity and the latter with serious concern. Indeed, Stoddard argued that only three major inventions effectively separated the world of classical antiquity from that of 18th-century Europe—gunpowder, the mariner's compass, and the printing press. All three seem to have first appeared in China, though for various social, political, and ideological reasons, none were properly implemented.

Does China's rise necessarily imply America's decline? Not at all: human economic progress is not a zero-sum game. Under the right circumstances, the rapid development of one large country should tend to improve living standards for the rest of the world.

This is most obvious for those nations whose economic strengths directly complement those of a growing China. Massive industrial expansion clearly requires a similar increase in raw-material consumption, and China is now the world's largest producer and user of electricity, concrete, steel, and many other basic materials, with its iron-ore imports surging by a factor of ten between 2000 and 2011. This has driven huge increases in the costs of most commodities; for example, copper's world price rose more than eightfold during the last decade. As a direct consequence, these years have generally been very good ones for the economies of countries that heavily rely upon the export of natural resources—Australia, Russia, Brazil, Saudi Arabia, and parts of Africa.

Meanwhile, as China's growth gradually doubles total world industrial production, the resulting "China price" reduces the cost of manufactured goods, making them much more easily affordable to everyone, and thereby greatly increases the global standard of living. While this process may negatively impact those particular industries and countries directly competing with China, it provides enormous opportunities as well, not merely to the aforementioned raw-material suppliers but also to countries like Germany, whose advanced equipment and machine tools have found a huge Chinese market, thereby helping to reduce German unemployment to the lowest level in 20 years.

And as ordinary Chinese grow wealthier, they provide a larger market as well for the goods and services of leading Western companies, ranging from fast-food chains to consumer products to luxury goods. Chinese workers not only assemble Apple's iPhones and iPads, but are also very eager to purchase them, and China has now become that company's second largest market, with nearly all of the extravagant profit margins flowing back to its American

owners and employees. In 2011 General Motors sold more cars in China than in the U.S., and that rapidly growing market became a crucial factor in the survival of an iconic American corporation. China has become the third largest market in the world for McDonald's, and the main driver of global profits for the American parent company of Pizza Hut, Taco Bell, and KFC.

Social Costs of a Rapid Rise

Transforming a country in little more than a single generation from a land of nearly a billion peasants to one of nearly a billion city-dwellers is no easy task, and such a breakneck pace of industrial and economic development inevitably leads to substantial social costs. Chinese urban pollution is among the worst in the world, and traffic is rapidly heading toward that same point. China now contains the second largest number of billionaires after America, together with more than a million dollar-millionaires, and although many of these individuals came by their fortunes honestly, many others did not. Official corruption is a leading source of popular resentment against the various levels of Chinese government, ranging from local village councils to the highest officials in Beijing.

But we must maintain a proper sense of proportion. As someone who grew up in Los Angeles when it still had the most notorious smog in America, I recognize that such trends can be reversed with time and money, and indeed the Chinese government has expressed intense interest in the emerging technology of non-polluting electric cars. Rapidly growing national wealth can be deployed to solve many problems.

Similarly, plutocrats who grow rich through friends in high places or even outright corruption are easier to tolerate when a rising tide is rapidly lifting all boats. Ordinary Chinese workers have increased their real income by well over 1,000 percent in recent decades, while the corresponding figure for most American workers has been close to zero. If typical American wages were doubling every decade, there would be far less anger in our own society directed against the "One Percent." Indeed, under the standard GINI index used to measure wealth inequality, China's score is not particularly high, being roughly the same as that of the United States, though certainly indicating greater inequality than most of the social democracies of Western Europe.

Many American pundits and politicians still focus their attention on the tragic Tiananmen Square incident of 1989, during which hundreds of determined Chinese protesters were massacred by government troops. But although that event loomed very large at the time, in hindsight it generated merely a blip in the upward trajectory of China's development and today seems virtually forgotten among ordinary Chinese, whose real incomes have increased several-fold in the quarter century since then.

Much of the Tiananmen protest had been driven by popular outrage at government corruption, and certainly there have been additional major scandals in recent years, often heavily splashed across the pages of America's leading newspapers. But a closer examination paints a more nuanced picture, especially when contrasted with America's own situation.

For example, over the last few years one of the most ambitious Chinese projects has been a plan to create the world's largest and most advanced network of high-speed rail transport, an effort that absorbed a remarkable \$200 billion of government investment. The result was the construction of over 6,000 miles of track, a total probably now greater than that of all

the world's other nations combined. Unfortunately, this project also involved considerable corruption, as was widely reported in the world media, which estimated that hundreds of millions of dollars had been misappropriated through bribery and graft. This scandal eventually led to the arrest or removal of numerous government officials, notably including China's powerful Railways Minister.

Obviously such serious corruption would seem horrifying in a country with the pristine standards of a Sweden or a Norway. But based on the published accounts, it appears that the funds diverted amounted to perhaps as little as 0.2 percent of the total, with the remaining 99.8 percent generally spent as intended. So serious corruption notwithstanding, the project succeeded and China does indeed now possess the world's largest and most advanced network of high-speed rail, constructed almost entirely in the last five or six years.

Meanwhile, America has no high-speed rail whatsoever, despite decades of debate and vast amounts of time and money spent on lobbying, hearings, political campaigns, planning efforts, and environmental-impact reports. China's high-speed rail system may be far from perfect, but it actually exists, while America's does not. Annual Chinese ridership now totals over 25 million trips per year, and although an occasional disaster—such as the 2011 crash in Weizhou, which killed 40 passengers—is tragic, it is hardly unexpected. After all, America's aging low-speed trains are not exempt from similar calamities, as we saw in the 2008 Chatsworth crash that killed 25 in California.

For many years Western journalists regularly reported that the dismantling of China's old Maoist system of government-guaranteed healthcare had led to serious social stresses, forcing ordinary workers to save an unreasonable fraction of their salaries to pay for medical treatment if they or their families became ill. But over the last couple of years, the government has taken major steps to reduce this problem by establishing a national healthcare insurance system whose coverage now extends to 95 percent or so of the total population, a far better ratio than is found in wealthy America and at a tiny fraction of the cost. Once again, competent leaders with access to growing national wealth can effectively solve these sorts of major social problems.

Although Chinese cities have negligible crime and are almost entirely free of the horrible slums found in many rapidly urbanizing Third World countries, housing for ordinary workers is often quite inadequate. But national concerns over rising unemployment due to the global recession gave the government a perfect opportunity late last year to announce a bold plan to construct over 35 million modern new government apartments, which would then be provided to ordinary workers on a subsidized basis.

All of this follows the pattern of Lee Kwan Yew's mixed-development model, combining state socialism and free enterprise, which raised Singapore's people from the desperate, abject poverty of 1945 to a standard of living now considerably higher than that of most Europeans or Americans, including a per capita GDP almost \$12,000 above that of the United States. Obviously, implementing such a program for the world's largest population and on a continental scale is far more challenging than doing so in a tiny city-state with a population of a few million and inherited British colonial institutions, but so far China has done very well in confounding its skeptics.



America's Economic Decline

These facts do not provide much evidence for the thesis in *Why Nations Fail* that China's leaders constitute a self-serving and venal "extractive" elite. Unfortunately, such indications seem far more apparent when we direct our gaze inward, toward the recent economic and social trajectory of our own country

Against the backdrop of remarkable Chinese progress, America mostly presents a very gloomy picture. Certainly America's top engineers and entrepreneurs have created many of the world's most important technologies, sometimes becoming enormously wealthy in the process. But these economic successes are not typical nor have their benefits been widely distributed. Over the last 40 years, a large majority of American workers have seen their real incomes stagnate or decline.

Meanwhile, the rapid concentration of American wealth continues apace: the richest 1 percent of America's population now holds as much net wealth as the bottom 90-95 percent, and these trend may even be accelerating. A recent study revealed that during our supposed recovery of the last couple of years, 93 percent of the total increase in national income went to the top 1 percent, with an astonishing 37 percent being captured by just the wealthiest 0.01 percent of the population, 15,000 households in a nation of well over 300 million people.

Evidence for the long-term decline in our economic circumstances is most apparent when we consider the situation of younger Americans. The national media endlessly trumpets the tiny number of youthful Facebook millionaires, but the prospects for most of their contemporaries are actually quite grim. According to research from the Pew Center, barely half of 18- to 24-year-old Americans are currently employed, the lowest level since 1948, a time long before most women had joined the labor force. Nearly one-fifth of young men age 25-34 are still living with their parents, while the wealth of all households headed by those younger than 35 is 68 percent lower today than it was in 1984.

The total outstanding amount of non-dischargeable student-loan debt has crossed the trillion-dollar mark, now surpassing the combined total of credit-card and auto-loan debt—and with a quarter of all student-loan payers now delinquent, there are worrisome indicators that much of it will remain a permanent burden, reducing many millions to long-term debt peonage. A huge swath of America's younger generation seems completely impoverished, and likely to remain so.

International trade statistics, meanwhile, demonstrate that although Apple and Google are doing quite well, our overall economy is not. For many years now our largest goods export has been government IOUs, whose dollar value has sometimes been greater than that of the next ten categories combined. At some point, perhaps sooner than we think, the rest of the world will lose its appetite for this non-functional product, and our currency will collapse, together with our standard of living. Similar Cassandra-like warnings were issued for years about the housing bubble or the profligacy of the Greek government, and were proven false year after year until one day they suddenly became true.

Ironically enough, there is actually one major category in which American expansion still easily tops that of China, both today and for the indefinite future: population growth. The rate of America's demographic increase passed that of China over 20 years ago and has been greater every year since, sometimes by as much as a factor of two. According to standard projections, China's population in 2050 will be almost exactly what it was in 2000, with the country having achieved the population stability typical of advanced, prosperous

societies. But during that same half-century, the number of America's inhabitants will have grown by almost 50 percent, a rate totally unprecedented in the developed world and actually greater than that found in numerous Third World countries such as Colombia, Algeria, Thailand, Mexico, or Indonesia. A combination of very rapid population growth and doubtful prospects for equally rapid economic growth does not bode well for the likely quality of the 2050 American Dream.

China rises while America falls, but are there major causal connections between these two concurrent trends now reshaping the future of our world? Not that I can see. American politicians and pundits are naturally fearful of taking on the fierce special interest groups that dominate their political universe, so they often seek an external scapegoat to explicate the misery of their constituents, sometimes choosing to focus on China. But this is merely political theater for the ignorant and the gullible.

Various studies have suggested that China's currency may be substantially undervalued, but even if the frequent demands of Paul Krugman and others were met and the yuan rapidly appreciated another 15 or 20 percent, few industrial jobs would return to American shores, while working-class Americans might pay much more for their basic necessities. And if China opened wide its borders to more American movies or financial services, the multimillionaires of Hollywood and Wall Street might grow even richer, but ordinary Americans would see little benefit. It is always easier for a nation to point an accusing finger at foreigners rather than honestly admit that almost all its terrible problems are essentially self-inflicted.

Decay of Constitutional Democracy

The central theme of *Why Nations Fail* is that political institutions and the behavior of ruling elites largely determine the economic success or failure of countries. If most Americans have experienced virtually no economic gains for decades, perhaps we should cast our gaze at these factors in our own society.

Our elites boast about the greatness of our constitutional democracy, the wondrous human rights we enjoy, the freedom and rule of law that have long made America a light unto the nations of the world and a spiritual draw for oppressed peoples everywhere, including China itself. But are these claims actually correct? They often stack up very strangely when they appear in the opinion pages of our major newspapers, coming just after the news reporting, whose facts tell a very different story.

Just last year, the Obama administration initiated a massive months-long bombing campaign against the duly recognized government of Libya on "humanitarian" grounds, then argued with a straight face that a military effort comprising hundreds of bombing sorties and over a billion dollars in combat costs did not actually constitute "warfare," and hence was completely exempt from the established provisions of the Congressional War Powers Act. A few months later, Congress overwhelmingly passed and President Obama signed the National Defense Authorization Act, granting the president power to permanently imprison without trial or charges any American whom he classifies as a national-security threat based on his own judgment and secret evidence. When we consider that American society has experienced virtually no domestic terrorism during the past decade, we must wonder how long our remaining constitutional liberties would survive if we were facing frequent real-life attacks by an actual terrorist underground, such as had been the case for many years with the IRA in Britain, ETA in Spain, or the Red Brigades in Italy.

Most recently, President Obama and Attorney General Eric Holder have claimed the inherent right of an American president to summarily execute anyone anywhere in the world, American citizen or not, whom White House advisors have privately decided was a “bad person.” While it is certainly true that major world governments have occasionally assassinated their political enemies abroad, I have never before heard these dark deeds publicly proclaimed as legitimate and aboveboard. Certainly if the governments of Russia or China, let alone Iran, declared their inherent right to kill anyone anywhere in the world whom they didn’t like, our media pundits would immediately blast these statements as proof of their total criminal insanity.

These are very strange notions of the “rule of law” for the administration of a president who had once served as top editor of the *Harvard Law Review* and who was routinely flattered in his political campaigns by being described as a “constitutional scholar.”

Many of these negative ideological trends have been absorbed and accepted by the popular culture and much of the American public. Over the last decade one of the highest-rated shows on American television was “24”, created by Joel Surnow and chronicling Kiefer Sutherland as a patriotic but ruthless Secret Service agent, with each episode constituting a single hour of his desperate efforts to thwart terrorist plots and safeguard our national security. Numerous episodes featured our hero torturing suspected evildoers in order to extract the information necessary to save innocent lives, with the entire series representing a popular weekly glorification of graphic government torture on behalf of the greater good.

Now soft-headed protestations to the contrary, most governments around the world have at least occasionally practiced torture, especially when combating popular insurgencies, and some of the more brutal regimes, including Stalinist Russia and Nazi Germany, even professionalized the process. But such dark deeds done in secret were always vigorously denied in public, and the popular films and other media of Stalin’s Soviet Union invariably featured pure-hearted workers and peasants bravely doing their honorable and patriotic duty for the Motherland, rather than the terrible torments being daily inflicted in the cellars of the Lubyanka prison. Throughout all of modern history, I am not aware of a single even semi-civilized country that publicly celebrated the activities of its professional government torturers in the popular media. Certainly such sentiments would have been totally abhorrent and unthinkable in the “conservative Hollywood” of the Cold War 1950s.

And since we live in a entertainment-dominated society, sentiments affirmed on the screen often have direct real-world consequences. At one point, senior American military and counter-terrorism officials felt the need to travel to Hollywood and urge its screenwriters to stop glorifying American torture, since their shows were encouraging U.S. soldiers to torture Muslim captives even when their commanding officers repeatedly ordered them not to do so.

Given these facts, we should hardly be surprised that international surveys over the past decade have regularly ranked America as the world’s most hated major nation, a remarkable achievement given the dominant global role of American media and entertainment and also the enormous international sympathy that initially flowed to our country following the 9/11 attacks.

An Emerging One-Party State

So far at least, these extra-constitutional and often brutal methods have not been directed

toward controlling America's own political system; we remain a democracy rather than a dictatorship. But does our current system actually possess the central feature of a true democracy, namely a high degree of popular influence over major government policies? Here the evidence seems more ambiguous.

Consider the pattern of the last decade. With two ruinous wars and a financial collapse to his record, George W. Bush was widely regarded as one of the most disastrous presidents in American history, and at times his public approval numbers sank to the lowest levels ever measured. The sweeping victory of his successor, Barack Obama, represented more a repudiation of Bush and his policies than anything else, and leading political activists, left and right alike, characterized Obama as Bush's absolute antithesis, both in background and in ideology. This sentiment was certainly shared abroad, with Obama being selected for the Nobel Peace Prize just months after entering office, based on the widespread assumption that he was certain to reverse most of the policies of his detested predecessor and restore America to sanity.

Yet almost none of these reversals took place. Instead, the continuity of administration policy has been so complete and so obvious that many critics now routinely speak of the Bush/Obama administration.

The harsh violations of constitutional principles and civil liberties which Bush pioneered following the 9/11 attacks have only further intensified under Obama, the heralded Harvard constitutional scholar and ardent civil libertarian, and this has occurred without the excuse of any major new terrorist attacks. During his Democratic primary campaign, Obama promised that he would move to end Bush's futile Iraq War immediately upon taking office, but instead large American forces remained in place for years until heavy pressure from the Iraqi government finally forced their removal; meanwhile, America's occupation army in Afghanistan actually tripled in size. The government bailout of the hated financial manipulators of Wall Street, begun under Bush, continued apace under Obama, with no serious attempts at either government prosecution or drastic reform. Americans are still mostly suffering through the worst economic downturn since the Great Depression, but Wall Street profits and multimillion-dollar bonuses soon returned to record levels.

In particular, the continuity of top officials has been remarkable. As Bush's second defense secretary, Robert Gates had been responsible for the ongoing management of America's foreign wars and military occupations since 2006; Obama kept him on, and he continued to play the same role in the new administration. Similarly, Timothy Geithner had been one of Bush's most senior financial appointments, playing a crucial role in the widely unpopular financial bailout of Wall Street; Obama promoted him to Treasury secretary and authorized continuation of those same policies. Ben Bernanke had been appointed chairman of the Federal Reserve by Bush and was reappointed by Obama. Bush wars and bailouts became Obama wars and bailouts. The American public voted for an anti-Bush, but got Bush's third term instead.

During the Cold War, Soviet propagandists routinely characterized our democracy as a sham, with the American public merely selecting which of the two intertwined branches of their single political party should alternate in office, while the actual underlying policies remained essentially unchanged, being decided and implemented by the same corrupt ruling class. This accusation may have been mostly false at the time it was made but seems disturbingly accurate today.

When times are hard and government policies are widely unpopular, but voters are only offered a choice between the rival slick marketing campaigns of Coke and Pepsi, cynicism can reach extreme proportions. Over the last year, surveys have shown that the public non-approval of Congress—representing Washington’s political establishment—has ranged as high as 90–95 percent, which is completely unprecedented.

But if our government policies are so broadly unpopular, why are we unable to change them through the sacred power of the vote? The answer is that America’s system of government has increasingly morphed from being a representative democracy to becoming something closer to a mixture of plutocracy and mediocracy, with elections almost entirely determined by money and media, not necessarily in that order. Political leaders are made or broken depending on whether they receive the cash and visibility needed to win office.

National campaigns increasingly seem sordid reality shows for second-rate political celebrities, while our country continues along its path toward multiple looming calamities. Candidates who depart from the script or deviate from the elite D.C. consensus regarding wars or bailouts—notably a principled ideologue such as Ron Paul—are routinely stigmatized in the media as dangerous extremists or even entirely airbrushed out of campaign news coverage, as has been humorously highlighted by comedian Jon Stewart.

We know from the collapsed communist states of Eastern Europe that control over the media may determine public perceptions of reality, but it does not change the underlying reality itself, and reality usually has the last laugh. Economics Nobel Laureate Joseph Stiglitz and his colleagues have conservatively estimated the total long-term cost of our disastrous Iraq War at \$3 trillion, representing over one-fifth of our entire accumulated national debt, or almost \$30,000 per American household. And even now the direct ongoing costs of our Afghanistan War still run \$120 billion per year, many times the size of Afghanistan’s total GDP. Meanwhile, during these same years the international price of oil has risen from \$25 to \$125 per barrel—partly as a consequence of these past military disruptions and growing fears of future ones—thereby imposing gigantic economic costs upon our society.

And we suffer other costs as well. A recent *New York Times* story described the morale-building visit of Secretary of Defense Leon Panetta to our forces in Afghanistan and noted that all American troops had been required to surrender their weapons before attending his speech and none were allowed to remain armed in his vicinity. Such a command decision seems almost unprecedented in American history and does not reflect well upon the perceived state of our military morale.

Future historians may eventually regard these two failed wars, fought for entirely irrational reasons, as the proximate cause of America’s financial and political collapse, representing the historical bookend to our World War II victory, which originally established American global dominance.

Our Extractive Elites

When parasitic elites govern a society along “extractive” lines, a central feature is the massive upward flow of extracted wealth, regardless of any contrary laws or regulations. Certainly America has experienced an enormous growth of officially tolerated corruption as our political system has increasingly consolidated into a one-party state controlled by a unified media-plutocracy.

Consider the late 2011 collapse of MF Global, a midsize but highly reputable brokerage firm. Although this debacle was far smaller than the Lehman bankruptcy or the Enron fraud, it effectively illustrates the incestuous activities of America's overlapping elites. Just a year earlier, Jon Corzine had been installed as CEO, following his terms as Democratic governor and U.S. senator from New Jersey and his previous career as CEO of Goldman Sachs. Perhaps no other American had such a combination of stellar political and financial credentials on his resume. Soon after taking the reins, Corzine decided to boost his company's profits by betting its entire capital and more against the possibility that any European countries might default on their national debts. When he lost that bet, his multi-billion-dollar firm tumbled into bankruptcy.

At this point, the story moves from a commonplace tale of Wall Street arrogance and greed into something out of the Twilight Zone, or perhaps Monty Python. The major newspapers began reporting that customer funds, eventually said to total \$1.6 billion, had mysteriously disappeared during the collapse, and no one could determine what had become of them, a very strange claim in our age of massively computerized financial records. Weeks and eventually months passed, tens of millions of dollars were spent on armies of investigators and forensic accountants, but all those customer funds stayed "missing," while the elite media covered this bizarre situation in the most gingerly possible fashion. As an example, a front page *Wall Street Journal* story on February 23, 2012 suggested that after so many months, there seemed little likelihood that the disappeared customer funds might ever reappear, but also emphasized that absolutely no one was being accused of any wrongdoing. Presumably the journalists were suggesting that the \$1.6 billion dollars of customer money had simply walked out the door on its own two feet.

Stories like this give the lie to the endless boasts of our politicians and business pundits that America's financial system is the most transparent and least corrupt in today's world. Certainly America is not unique in the existence of long-term corporate fraud, as was recently shown in the fall of Japan's Olympus Corporation following the discovery of more than a billion dollars in long-hidden investment losses. But when we consider the largest corporate collapses of the last decade that were substantially due to fraud, nearly all the names are American: WorldCom, Enron, Tyco, Global Crossing, and Adelphia. And this list leaves out all the American financial institutions destroyed by the financial meltdown—such as Lehman, Bear Stearns, Merrill Lynch, Washington Mutual, and Wachovia—and the many trillions of dollars in American homeowner equity and top-rated MBS securities which evaporated during that process. Meanwhile, the largest and longest Ponzi Scheme in world history, that of Bernie Madoff, had survived for decades under the very nose of the SEC, despite a long series of detailed warnings and complaints. The second largest such fraud, that of Allen R. Stanford, also bears the label "Made in the USA."

Some of the sources of Chinese success and American decay are not entirely mysterious. As it happens, the typical professional background of a member of China's political elite is engineering; they were taught to build things. Meanwhile, a remarkable fraction of America's political leadership class attended law school, where they were trained to argue effectively and to manipulate. Thus, we should not be greatly surprised that while China's leaders tend to build, America's leaders seem to prefer endless manipulation, whether of words, money, or people.

How corrupt is the American society fashioned by our current ruling elites? That question is perhaps more ambiguous than it might seem. According to the standard world rankings produced by Transparency International, the United States is a reasonably clean country,

with corruption being considerably higher than in the nations of Northern Europe or elsewhere in the Anglosphere, but much lower than in most of the rest of the world, including China.

But I suspect that this one-dimensional metric fails to capture some of the central anomalies of America's current social dilemma. Unlike the situation in many Third World countries, American teachers and tax inspectors very rarely solicit bribes, and there is little overlap in personnel between our local police and the criminals whom they pursue. Most ordinary Americans are generally honest. So by these basic measures of day-to-day corruption, America is quite clean, not too different from Germany or Japan.

By contrast, local village authorities in China have a notorious tendency to seize public land and sell it to real estate developers for huge personal profits. This sort of daily misbehavior has produced an annual Chinese total of up to 90,000 so-called "mass incidents"—public strikes, protests, or riots—usually directed against corrupt local officials or businessmen.

However, although American micro-corruption is rare, we seem to suffer from appalling levels of macro-corruption, situations in which our various ruling elites squander or misappropriate tens or even hundreds of billions of dollars of our national wealth, sometimes doing so just barely on one side of technical legality and sometimes on the other.

Sweden is among the cleanest societies in Europe, while Sicily is perhaps the most corrupt. But suppose a large clan of ruthless Sicilian Mafiosi moved to Sweden and somehow managed to gain control of its government. On a day-to-day basis, little would change, with Swedish traffic policemen and building inspectors performing their duties with the same sort of incorruptible efficiency as before, and I suspect that Sweden's Transparency International rankings would scarcely decline. But meanwhile, a large fraction of Sweden's accumulated national wealth might gradually be stolen and transferred to secret Cayman Islands bank accounts, or invested in Latin American drug cartels, and eventually the entire plundered economy would collapse.

Ordinary Americans who work hard and seek to earn an honest living for themselves and their families appear to be suffering the ill effects of exactly this same sort of elite-driven economic pillage. The roots of our national decline will be found at the very top of our society, among the One Percent, or more likely the 0.1 percent.

Thus, the ideas presented in *Why Nations Fail* seem both true and false. The claim that harmful political institutions and corrupt elites can inflict huge economic damage upon a society seems absolutely correct. But while the authors turn a harsh eye toward elite misbehavior across time and space—from ancient Rome to Czarist Russia to rising China—their vision seems to turn rosy-tinted when they consider present-day America, the society in which they themselves live and whose ruling elites lavishly fund the academic institutions with which they are affiliated. Given the American realities of the last dozen years, it is quite remarkable that the scholars who wrote a book entitled *Why Nations Fail* never glanced outside their own office windows.

A similar dangerous reticence may afflict most of our media, which appears much more eager to focus on self-inflicted disasters in foreign countries than on those here at home. Presented below is a companion case-study, "[Chinese Melamine and American Vioxx: A Comparison](#)," in which I point out that while the American media a few years ago joined its

Chinese counterparts in devoting enormous coverage to the deaths of a few Chinese children from tainted infant formula, it paid relatively little attention to a somewhat similar domestic public-health disaster that killed many tens or even hundreds of thousands of Americans.

A society's media and academic organs constitute the sensory apparatus and central nervous system of its body politic, and if the information these provide is seriously misleading, looming dangers may fester and grow. A media and academy that are highly corrupt or dishonest constitute a deadly national peril. And although the political leadership of undemocratic China might dearly wish to hide all its major mistakes, its crude propaganda machinery often fails at this self-destructive task. But America's own societal information system is vastly more skilled and experienced in shaping reality to meet the needs of business and government leaders, and this very success does tremendous damage to our country.

Perhaps Americans really do prefer that their broadcasters provide Happy News and that their political campaigns constitute amusing reality shows. Certainly the cheering coliseum crowds of the Roman Empire favored their bread and circuses over the difficult and dangerous tasks that their ancestors had undertaken during Rome's rise to world greatness. And so long as we can continue to trade bits of printed paper carrying presidential portraits for flat-screen TVs from Chinese factories, perhaps all is well and no one need be too concerned about the apparent course of our national trajectory, least of all our political leadership class.

But if so, then we must admit that Richard Lynn, a prominent British scholar, has been correct in predicting for a decade or longer that the global dominance of the European-derived peoples is rapidly drawing to its end and within the foreseeable future the torch of human progress and world leadership will inevitably pass into Chinese hands.

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