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To: H
Subject: Ambrose Evans-Pritchard piece

On the "World Power Swings Back to America" article in the Telegraph, my guys had the following to say:

First, the material in the article is real. But it would take some red-teaming to ensure we control for equal opposing stats. However, we are a bit less sanguine about some of the numbers in this article than the author is. Let's break it apart:

1) **Energy:** The energy numbers in this article are real; U.S. dependence on foreign oil, particularly Middle Eastern oil, is in a long-term decline. We're not convinced that we'll be entirely energy independent in a decade, but we'll be a lot more energy independent. This will have the economic benefit of reducing our trade and balance of payments deficit (if I remember correctly, about 40% of our trade deficit is for energy)—which will be a major economic benefit over time. And as a result of greater U.S. energy independence, events in the Middle East will be far more important for Europe and Asia than for the U.S. (though Europe and Asia are also discovering significant sources of unconventional gas, so it is highly plausible that 10-15 years from now the Middle East will just matter a lot less to global energy markets).

2) **Manufacturing economic prospects:** It's certainly true that we should expect a modest rebound in U.S. manufacturing in the coming years; indeed, the U.S. has already added about 150,000 manufacturing jobs in 2011. But let's keep these numbers in perspective: The U.S. has lost almost exactly 2,000,000 manufacturing jobs since the beginning of 2008. So a rebound of 800k by mid-decade, on top of the 150k created this year, will restore about 50% of the manufacturing job losses since early 2008. (And, as this chart shows, http://data.bls.gov/timeseries/CES3000000001?data_tool=XGtable, even with another 800k by mid-decade, we'll be about 4.5 million manufacturing jobs below where we were in January 2001).

   The major drivers of a rebound in U.S. manufacturing are, as the article notes, increased price competitiveness, driven largely by China's (and others') solid economic growth driving up Chinese (and others') wages and other costs, combined with stagnant wage and cost growth in the U.S. (Remember the articles of a few months ago noting that U.S. real median household income has fallen over the past decade to a ten or 12 year low (e.g., http://www.bloomberg.com/news/2011-10-02/falling-wages-threaten-u-s-rebound-as-consumers-may-retrench-on-spending.html?). And the Fed's easy money policies, putting downward pressure on the dollar vice the Euro and yen, and creating low borrowing costs, have also been significant; U.S. tax incentives, etc., adopted over the past couple of years to promote manufacturing have also played some role. And corporate wariness about Chinese IP theft has undoubtedly raised concerns about locating important manufacturing processes in China.

   The key caveat in this article is the sentence "[This] does not imply a healthy US recovery." To some large extent the positive trends the article highlights are the natural consequence of the "rise of the rest" eroding the rest's price advantage that led to their rise in the first place. And this article doesn't get at the questions of whether China, etc., will be able to compete more with the U.S. in services and other non-manufacturing industries in the coming years.

   Arvind Subraminian's recent provocative essay on China, "The Inevitable Superpower" (http://www.foreignaffairs.com/articles/68205/arvind-subramanian/the-inevitable-superpower) makes the point that projecting even relatively pessimistic growth rates for China, and optimistic growth rates for the U.S., in 2030 China will have a GDP of about 1.5 times the GDP of the U.S.; even though China's per capita GDP will be only about half of U.S. GDP. I think there are a lot of flaws in Subraminian's argument. But I do take his core point on economic size: For China not to have a significantly larger GDP than the U.S. in 2030 depends on either (a) a major adverse event in China, such a tremendous economic collapse and/or social unrest that the government proves unable to contain; or (b) some structural change in the U.S. that drives our sustained growth rate significantly above what we've seen for more than a decade now (3.5%+).

The Secretary had it profoundly right after her econ speech in New York when she said "we did this to ourselves." Many of our fundamentals remain strong--though years of under-investment in education and infrastructure haven't helped. We're innovative. We have a growing population base. And we have a culture of national self-flagellation that has, historically, helped to keep us on our toes and forced us to rise to meet new challenges. The major question is whether we today, as we have in the past, have the political will to rise to the challenges we face—to make investments, to make politically tough cuts to entitlements, to fix our immigration system so that we once again become the global magnet for entrepreneurs and those who want to work hard for a better life, to not default on our national debt, and the like. We're, say, 70% confident that we do. But not 100%. And it is that sense on the part of the rest of the world—that our political system just isn't up to the task, and thus that we're headed for a Japan-like decade—that is killing us globally.