

To whom does the future belong? essay sample

[Economics](#)



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In 2005 the combined output of emerging economies came to account for more than half of total world GDP (measured at purchasing-power parity). Consequentially, today rich countries no longer dominate the global economy, while developing countries have far greater influence over rich economies. The advent of offshoring has lowered production costs, allowing consumers in the developed world to reap the benefits of cheaper goods and services; this has reduced consumer price levels and thus inflation. Lower labour costs have been a in large part, a consequence of the manufacturing production function, generally it uses very little human capital and takes a form similar to $y = ak\alpha$. The massive rise in the effective unskilled labour supply resulting from the ability of MNC's to move these processes abroad has exerted tremendous downward pressure on unskilled labour's share of income L/Y , relative to skilled labours share L_h/Y in developed nations. As the world develops however, a growing supply of human capital across the world has begun to exert downwards pressure even on skilled domestic labourers. With lower costs of labour, have come lower costs of output and thus higher levels of Profit and larger share of profit in national income. The abundant supply of effective labour abroad, increases productivity.

This same resistance to inflation contributes to the United States' Dollar's reliability; in that it aids the dollar in remaining a strong store of value; backed by the full faith and credit of the United States Government, it is a liquid medium of exchange and a reliable unit of account. Given these facts, amidst the greatest growth miracle and supply shock in history, developing countries choose to purchase dollars for their reserves, consequentially, their rapid purchase of dollars vastly increases deficits through capital inflow

which may lowering U. S. Marginal Product of Capital = $MPK = \Delta Y/\Delta K = r$ which may represent its equilibrium interest rate. Despite the possibility of a falling interest rate yielding capital losses if adjusted for inflation, capital flows have continued to widen the deficit, leading many to think, or perhaps to have correctly thought, that at the very least, large deficits promote assets bubbles, and at worst that major economies might abandon it.

It has been argued that over dependence on foreign capital, and an excessive current account deficit, uncompensated by private savings might lead foreign central banks to determine the U. S. economy to have deteriorating fundamentals thus setting off a panic, this argument overlooks the U. S.' fundamental strength. Many Economists today believe that U. S. dependence on foreign capital and growing foreign debt has brought about an economy based on an unsustainable accumulation of foreign debt only worsened by excessively low private savings rates, and an out of control current account deficit with total net foreign liabilities approaching a quarter of GDP. It has been posited that failure of foreign U. S. Asset holders to continue purchasing dollar assets could set of a panic causing heavy dollar depreciation, rising domestic interest rates as available capital dries up and widespread inflation. Though this remains a possibility, it is not a likely one. Though the U. S. economy sits atop a mountain of debt, it is not a subprime borrower, as it has the means abilities and intentions to make good on its debt. With respect to its means, the U. S. economy leads the world in innovation and technological advancement, admittedly the economy can certainly expect a painful correction towards further specializing in this sector, with rising global demand, this should only reflect rising wage rates in

these sectors over time due to their scarce global nature, further boosting U. S. relative wealth through this period until other countries become equally skilled.

The U. S. is not unstable in relative historical terms, its currency will not collapse as its liabilities are denoted in dollars, it is not a “. com” nation without substance, it receives investment as it is technologically driven, it yields high returns has access to immigrant labor, additionally, its saving and intangible investment are vastly understated. There has been a great deal of fear that the United States “ net foreign debt” will come to reflect the experience of countries such as Argentina, Brazil, and Turkey resulting in absolute currency collapse but it must be noted that the United States is not a risky, unstable and poorly run emerging nation. Noteworthy differences include the fact that U. S. external liabilities are denominated in its own currency for which it can manipulate as it sees fit. What is more its ability to attract investors is not baseless but rather the result of its technologically driven economy, high returns and access to immigrant labor.

Despite downward pressure on certain labor markets, a day on the ground reveals even the furthest debts of the underclass seeking education or taking nonexportable jobs, the taxi driver, the restaurant server, these positions by their very nature wont be leaving their respective locations. As we know full well, despite these facts; where profits are stored or how they are allocated, corporate profits remain higher than ever before making portfolio investment more attractive than ever, all the while, capital gains on equities, 401(k) plans, and home values are excluded from measurements of personal saving; when they are added, total U. S. domestic saving is around <https://assignbuster.com/to-whom-does-the-future-belong-essay-sample/>

20 percent of GDP; about the same rate as in other developed economies. Additionally, investment in intangible technology remains entirely unmeasured, the NBER, estimates that intangible investment grew rapidly during the 1990s and is now at least as large as physical investment in plant and equipment at more than \$1 trillion per year, or 10 percent of GDP.

If the U. S government, the President, the Congress and Senate, the Military and Paramilitary are rational individuals and institutions, and they share the same primary objective and oath; “ to protect and uphold the Constitution of The United States of America”, there can be no question that eventually they will counter any powers that might threaten national security. If they are rational, they will act efficiently leveraging the abilities while they can. When once asked why he was so disinterested in the long run, John Menard Keynes responded, “ In the long run we are all dead”, there can be no question that in the long run, China’s growth is set to overtake that of the United States if it fails to take preemptive action, but this is an unrealistic assumption, as early as 2009 the Pentagon began holding Economic War Games inviting the best and the brightest to play out skirmishes involving Russia, China and the United States. Upon determining the vulnerability of the United States to China’s current ability to unload hundreds of small “ dollar bombs” with no particular risk to its self, the importance of reducing or excluding China from American debt holding’s should have become apparent.

Three years later we approach a radical fiscal cliff to eliminate such debt prior to the opening of China’s capital account. In the wake of the Doha round the U. S. has begun to partake in discrimination of the sort, which may despite the possibility of aggregate loss, serve U. S. strategic and national

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security interests. All the while, for the first time in decades the United States has reopened its self to oil exploration and the pursuit of energy independence. Perhaps most consequential of all, in 2012, advised by Mankiw, presidential candidate Mitt Romney proposed offering green cards to anyone who intended to seek an advanced degree in the United States; this is fascinating as it represents an outcome resulting from the public and messy institution of U. S., politics. Given a larger, more educated population, a reminder that the United States is not exempt from the most beneficial gains from trade. Given the presence of Rational Paramilitary organizations, efficient markets, institutions and the most educated cluster of humanity on earth I see no reason to expect the U. S. will not (as it always does) be proactive in defending its National Security interests.

Rather than speculating however we can stick with a “ ceteris paribus” set of premises and situations so characteristic of our discipline, holding all things constant, Nations will surpass the U. S. by GDP but in a Nuclear era, this is of little consequence, the real threat lays from the multitude of empowered institutions big and small. China and India are set to surpass the United States in terms of GDP, that said which economy comes out the largest is of little consequence to the question of to whom the future belongs, such a position would imply we are entering a multipolar world however the world we are entering is distinctly different to a multipolar world in that it is not to be dominated merely by countries but also by poles who are not themselves states, we see this from above by regional and global organizations, from below by militias and grassroots organizations and from the side via nongovernmental organizations (NGOs) and corporations.

To elaborate, the USA, EU, Japan China, India and Russia are major centers of power, they are not multipolar as regional powers such as Brazil, Saudi Arabia, Nigeria and Pakistan play key roles while institutions such as the IMF, UN, World Bank, African Union, Arab League, ASEAN and OPEC exert tremendous power without the presence of a state, all the while cities such as New York, Shanghai and Sao Paulo exert tremendous influence as power centers while MNC's dominate entire industries such as energy, manufacture and even news. Even small militia's such as Hamas, Hezbollah, and the Taliban are able to have tremendous impact. U. S. Uni-polarity sees its self, under threat from all angle's, today its vast military expenditure proves futile against poorly equipped militias on an ever-changing battlefield. In the nonpolar world, power and dominance are less linked due to the reluctance of others to come to its aid in pursuit of developing their own influence and undermining that of the U. S., a case in point being the ineffectiveness of American calls for sanctions against Iran due to Russia and China's refusal to take part. Even America's position as a fountain of global culture is fading to news by Al-Jazeera and film from India's Bollywood.

It should be noted that in the political sense, the fall of the United States Unipolar Hegemony is not directly the result of the growth of other nations but rather, it is partially the consequence of its political overreaching, its attempts to dominate through strength have led to costly wars which have put it in a particularly feeble position amidst an era of globalization.

Additionally, it is the result of globalization its self, globalization reinforces non-polarity in two major ways, for one many cross-border flows take place outside the control of governments and without their knowledge. As a result,

globalization dilutes the influence of the major powers. Secondly, these same flows often strengthen the capacities of nonstate actors, such as energy exporters, terrorists and MNC's.

Non-polarity will increase the number of threats facing countries such as the United States. These threats can take the form of rogue states, terrorist groups and energy producers that choose to reduce their output. That said, though non-polarity may be inevitable, its form is certainly not, a great deal can and should be done to shape a non-polar world, bearing that in mind, order will not emerge on its own, in fact Entropy shows that the more large actors a system has, the greater will be the extent of randomness, that is to say that left to its own devices, a nonpolar world will become more chaotic over time.

In conclusion, there is significant evidence to support the claim that rich countries no longer dominate global political economy, while developing countries now have far greater influence over rich ones. There is also substantial evidence to support the claim that offshoring has lowered production costs, allowing for cheaper goods and services and reducing consumer price levels and thus inflation. What is more, a growing supply of human capital across the world has begun to exert downwards pressure even on skilled domestic labourers, resulting in a greater share of income going to profit and increasing productivity. Many economists feel that these circumstances may soon warrant conclusions by central bankers that the U. S.'s inability to save as much as it invests may signal potential risk. Though the U. S. economy sits atop a mountain of debt, it is not a subprime borrower, as it has the means abilities and intentions to make good on its <https://assignbuster.com/to-whom-does-the-future-belong-essay-sample/>

debt, the U. S. economy receives investment inflows as a result of its ability to yield high risk weighted returns, combining access to immigrant labor, innovation and technological advancement.

Furthermore, if the U. S government is a rational institution there can be no question that eventually it will oppose any powers that might threaten national security. Ultimately, I do not believe there is sufficient evidence to claim that a large scale abandonment of the dollar should happen in the next decade or so, that said, I expect that as China comes to rise, it will wish to assert its self and may seek to either put the Yuan at the centre of the system or destroy the system it's self. Despite these views, it seems doubtful given the presence of nuclear weaponry that the world can ever again sustain a bi-polar or multipolar system, ultimately, if we are to survive as a species we will need to become unipolar or non-polar, as such, in the interim, the future will belong to either China, the United States, or anyone who can amass sufficient resources or means. It should be noted that the fall of the United States unipolar hegemony is not directly the result of the growth of other nations but rather, the consequence of its political overreaching, its attempts to dominate through strength have led to costly wars, ironically non-polarity will increase the number of threats facing countries such as the United States. These threats can take the form of rogue states, terrorist groups and energy producers that choose to reduce their output. That said, though non-polarity may be inevitable, its form is certainly not, a great deal can and should be done to shape a non-polar world.