



# IS AMERICA'S AGE OF DESCENT USHERING IN A G-ZERO WORLD?

TUESDAY, MAY 29, 2012  
WASHINGTON, D.C.

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Transcript by Federal News Service  
Washington, D.C.

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DAVID ROTHKOPF: Good evening, ladies and gentlemen. Thank you for joining us here at the Carnegie Endowment for another in our series of discussions that we're hosting here on critical issues. My name is David Rothkopf. I'm a visiting scholar here at the Carnegie Endowment.

And it's going to be my pleasure to provoke a little bit in this discussion but to get out of the way for most of it, unless I can't help myself, because we have two great guests who are full of not just opinions, which are in large supply in Washington – (laughter) – but opinions that are backed up by facts and knowledge, and that's less common. (Laughter.) And so we thought we would throw them together and see if we couldn't get a little bit of light to go with the heat that we feel outside on our way here and in most Washington conversations.

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So on my far right, we have Ed Luce, who is the Washington columnist for the Financial Times and author of "Time to Start Thinking: American in the Age of Descent." And beside Ed, we have Ian Bremmer, who the president of the Eurasia Group and has just written most recently "Every Nation for Itself: Winners and Losers in a G-Zero World."

And you know, every spring brings with it a plethora of books. And in Washington, it's hard to know which to read. And I have to say, both in my work here at Carnegie and also in my work at Foreign Policy, I'm obligated to read a lot of them. And the two books written by these two guys are among the few that you really need to get and sit down and spend some time with. They're important in terms of the insights they offer into the United States and into the world and into America's role in the world. And the reason we ended up deciding to have this particular conversation is that there are in them some very important resonances where it's clear both gentlemen agree, and there is some important disconnect that we think will be worth having a useful discussion about.

[00:02:40]

And to begin with, although I think we're going to open up this discussion broadly into what kind of world we're heading into and what America's role in that world will be, I'd like to start here and close to home and talk about where we are with the United States right now.

Ed, you talk in your book of America in the age of descent. Following the American century, following a period in which American supremacy led to a brief moment of America being described as the hyperpower, the unchallenged only power in the world, we now seem to be having a debate whether it's a power or even, in the case of Ian's book, whether anyone is a power, whether there is, you know, any sort of coherence to the power structure of the world.

A lot of that has to do with the wellsprings of power at home. You went out, you looked at America up close, the underpinnings of its economic strength, and you came to some rather dark conclusions about it. And I was wondering if we could begin there. Is –

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are – is kind of the engine room of the U.S. ship of state in great disrepair? And, you know, are you optimistic or pessimistic about the opportunities to address that disrepair?

[00:04:10]

EDWARD LUCE: I mean, it's – I – the title in particular is pretty dark. But as – but as I was telling Ian, the subtitle in particular – as I was telling Ian, there's a different subtitle outside of America, which actually was for my publisher – (inaudible) – which is “America and the Spectre of Descent,” which I do slightly prefer. But it is, even then, a fairly bleak – a fairly bleak book in terms of what trajectory the United States is on and the degree to which it can easily reverse course in so many on the deep structural trends that are affecting America's economy.

I can't – the only extent to which I can shed light, which is your initial plea, is that my name, Luce, is (pronounces in Italian) luce; it means “light” in Italian. I suspect I'm not going to have you dancing in the aisles with what I say, though. (Laughter.)

MR. ROTHKOPF: Although feel free. Don't let us – (laughter) – if you feel the urge to dance.

MR. LUCE: What we're having is something natural and positive in terms of the change in the world economy, which is the rise of the very poor countries that really since the mid-18<sup>th</sup> century, since the Industrial Revolution began, were very much excluded from development, from the Western club, the – initially the colonial club, or America's case, the semicolonial club, I guess.

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And we're now getting what Mike Spence the economist, the Nobel prize-winning economist, calls “the great convergence,” an inevitable, natural catch-up by which some time in the next sort of half-generation or generation or so, maybe by 2050 at the latest, you're going to have a far more representative global breakdown of GDP in terms of population. The places like China will account for roughly a fifth of the world's economy, the places like India will account for 15 percent of the world economy, and America will continue to see its share slide. This is a natural and inevitable thing, and it's not necessarily a bad thing. In fact, it's almost wholly a positive thing. Economics is not a zero-sum game. When Chinese get richer, when Indians get richer, Americans don't get poorer. They open up new markets and new opportunities for themselves.

Geopolitics, however, is, to some extent, a zero-sum game. When another country gets more powerful, the United States may or may not get weaker, depending on which that country is, whether it's an ally or not an ally. And I think that there, you do see a direct effect – it's not an exact one – but a direct effect between America's relative economic decline and its declining geopolitical punch. And to this extent, and in fact to a very large extent, I agree with Ian's book that we are moving towards –

MR. ROTHKOPF: (Inaudible.)

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MR. LUCE: Yes.

MR. ROTHKOPF: Because disagreement is so much more interesting.

MR. LUCE: Yeah. I will – I will generate some spurious controversy at every next available opportunity.

MR. ROTHKOPF: Thank you. Good.

[00:07:18]

MR. LUCE: But I do agree – I do agree largely with Ian’s book. And I do agree largely with what Ian and others, including yourself in your book, have said, which is that the most important thing America can do in response to this, in response to the national security challenges, to the uncertainties of a world in which it’s no longer the undisputed hegemon, is to rebuild its economy here at home.

And my book focuses essentially on how difficult that will be given the politics, given the gridlock, given the fact that the dysfunction, I think, the continuing deterioration of Washington’s ability to make sensible, pragmatic policies, is something that is deeply rooted. Polarization in American politics is very much in a negative feedback loop with the kind of polarization we’re seeing in the real economy beyond the Beltway.

And this negative feedback loop makes sensible governments, makes intelligent long-term economic reform, the kinds of things we need to see happening, not just sort of passing a budget but looking at the composition of the budget, that these kinds of basic, routine things that the American system used to deliver is becoming decreasingly easy to do. And so I – my pessimism, really, stems from that, that it’s very clear what America should be doing; it’s hard right now to see a path to a scenario where it will be doing what it should be doing.

[00:08:47]

MR. ROTHKOPF: OK. Well, we can come back to that.

So you – one way to interpret what Ed has been saying, which is consistent with what some people have said and in conversations I’ve had with him is, you know, America is entering an age of limitations where, you know, we – whether it’s because of budget deficits or because of deficits associated with health care or because of structural problems within the economy, we’re just not going to be able to do what we used to do. We can’t sort of get out the checkbook and solve every problem in the world.

Another interpretation that’s a variation on that, which comes from what Ed has just said, is we at the very least are going to have to turn inward for a while, and that to the extent to which we turn inward and get things in order, that’s going to have a geopolitical consequence. To begin with, in the context of the G-Zero world, let’s start with the G-1 and ask the question, do you agree with Ed’s thesis? And if so, what elements of the current issues in the United States do you think are going to most limit us?

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IAN BREMMER: So – yeah, we should start with the notion that Ed and I like each other, we read each other's books, we respect each other. It's not fun that have that conversation in front of all of you people, though, so –

MR. ROTHKOPF: I was about to say, that is a terrible sign usually. But in Washington, when somebody says they like them, they're about to hit them over the head. (Laughter.)

MR. BREMMER: No, but this is – but this is actually true. This is – I don't want it to be boring, and so I'm trying to find places where we disagree. I think – because we do generally take on the notion that the U.S. is going to be doing a lot less, and the U.S. is going to be inward-looking.

But I also – look, I am not in any way a declinist. I do believe that the world order we are now in, that in my view started really in 2008 in terms of proximate cause but had been coming for a long time, is a less attractive world globally. It's a less attractive world for the U.S. than it – than the previous G-1-plus world order was. But it's much less attractive for other countries than it is for the United States. In other words, we're the toughest drunk in the saloon, right? I've said a lot recently, you know, if you are with a bunch of other campers and a bear chases you, you don't need to outrun the bear; you need to outrun the other campers, right? You're swimming, shark comes along; don't need to outswim the shark, just your sister. (Laughter.) And that's kind – I have more of these – that's kind of the –

MR. : He works with Wall Street a lot. (Laughter.)

MR. BREMMER: A lot, it's true. Too much.

[00:11:21]

But – so why do I think that's happened? I don't believe it's – I mean, Fareed Zakaria talks about the rise of the rest. I don't believe it's the rise of the rest. I really don't. We've had already the rise of plenty of countries. I mean, after, you know, World War II, it was just the G-1. The G-1 became the G-1-plus because other countries were rising. We happened to help them. They happened to agree with us on most things.

We are now not experiencing the rise of the rest. We're experiencing the rise of the different; let's not be afraid to say that. We're experiencing the rise of the other. That's a – doesn't mean that they're bad. It's not the rise of the evil. But it's the rise of the different. We have a problem with different because we don't agree with the different on most things. They're poor; we're not, all right? They have – they're more politically unstable. They do not have the same level of experience in terms of international leadership or political capacity to build institutions that are beyond their own country that the United States does. They don't have the same – the multinational corporations that would engage in the same way domestically and internationally that ours do. Some of them have different political and

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economic systems. Fundamentally, the world's second-largest economy has an economic system that's state capitalist, has a political system that's authoritarian. What do we agree with these people on, right? We can pretend, right? We can pretend. But the reality is different. And that's – so that's half of the reason why the G-20 should not have come into existence and we have a G-Zero, is because of the rise of the other.

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The other half is because we as the United States don't want to do this stuff. We don't want – a large segment of the American population does not want to be the lender of last resort. A large part of the U.S. population does not want to be the world's policeman. We do not want to lead globalization because a lot of us increasingly do not believe that we benefit from that. Now, that is a challenge.

But I would make it very clear: If we decide that we do not want to remove Assad from power in Syria – and it seems like we are making that decision on a daily basis – that is a problem for us at the margins. I assure you it's a bigger problem for Turkey and Lebanon and Saudi Arabia and Qatar, right? When we cut a deal with Karzai to get those troops out in 2014 – I know – I know we're going to build a lot of drones with NATO and I know that's going to help, right? But the reality is that while that's a problem at the margins for the U.S., it's a much bigger problem for the Afghans and for Pakistan and for India.

And it should even be a bigger problem for China, but when I talked to Chinese leaders a couple of months ago and I said, come on, guys, you know, the Brits did it, Soviets did it, we did it; it is your turn, right? (Laughter.) It is absolutely screw up Afghanistan. It is – the field is wide open, right? It's a greenfield site. Their response was we're not going to do it. It's a cesspool. We're not interested. There are a lot of things that the Chinese aren't going to do. The Chinese aren't going to do Sudan the way we would do Sudan in a G-1 world, even though the Chinese are the ones that have absolutely the most up and down side there.

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And so all of that leads me to – those two things that come together at the same time, given an underlying, very dramatic change in the balance of power, leads me to believe that we're in a G-Zero. Do I think that means America's in decline? If you asked me if I could invest in a portfolio of America 20 years ago or America today, I would agree with Ed, I'm investing 20 years ago. But that portfolio, thank God for all of us, does not exist, right? All we can do is invest in stuff that exists now.

And I watched a lot of people. They put their money where their mouth is. I look where the U.S. equity markets are today. They're doing real well. I think there's an underlying problem that we both fundamentally agree on: We must invest in the long term in the United States because we're not going to have the same global projection that we have historically. I believe we will not do that. I suspect I agree with Ed on that. I think we won't do it in part because of the G-Zero, in part because of the safe haven curse. You've heard of the resource curse. Companies that have – countries that have lots of oil or lots of stuff you can take out of the ground, they don't need to engage in political or economic

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reform. Well, when we get downgraded by S&P, nothing happens because people are scared. (And in ?) environments of much greater global volatility, a G-Zero world, the U.S. looks more stable. The U.S. is more resilient. It is a larger market. So we have more rope to hang ourselves with. I suspect this Congress is prepared to use that rope.

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So, I mean, that's, I think – (inaudible) – there are points of disagreements, I think, at every step along the way, but I think ultimately we end up a little bit similarly in terms of our – the – hard to get excited that the political process is going to get us to the right place.

MR. LUCE: And Dave is looking very worried about this. We've got to – we've got to –

MR. ROTHKOPF: No, I'm not. I'm not worried. I – because I can see beneath the surface here. (Laughter.)

So let's take a dip beneath the surface of this. In terms of Ian's statement, you know, that he's not a declinist, and, you know, he also said that if he were looking at, you know, places to invest, he'd invest, and look, the market's investing in us. And, you know, setting aside for the moment that on a fairly regular basis, the market makes the wrong call, this last point is salient. We are probably not going to invest in infrastructure. We are probably not going to fix the health care deficits that we've got. We're probably going to take a long time in dealing with the fiscal deficits. We have 50 percent of inner-city minority students not graduating from high school. The old formula that works in the U.S. economy – productivity goes up, jobs go up – that doesn't work anymore. Social mobility in the past decade has declined. Inequality has increased. Net income's down, or median income's down. Job creation down. Something is clearly broken inside the U.S. economy.

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We are here at the hub of policy – you know, right here, these – you know, this one block of Massachusetts Avenue is where really, all the great ideas – never mind. (Laughter.) But the point is that there is no discussion about – to speak of about how this paradigm is changing and how we fix ourselves. Well, that's not a – you know, I mean, that's a – you guys may agree on it, but to me, that's not a debate – that's not a formula for a country that's got any chance of succeeding going forward. That's a – that's a formula for a country that is on the verge of, you'll forgive the expression, U.K.-like decline.

MR. LUCE: Yeah. I mean, I think if you'd had a conversation in 1900 – and this conversation did occur in 1900 in Britain – about the rise of others and about the fact that in many areas, including education, including some types of innovations, many types of innovations, Britain was being overtaken by the United States, by Bismarck's Germany and by others – you would have got the conclusion that Britain reached, which is, look, we have this system that served us well, we have this system that gave us Pax Britannica, free trade, since the 1840s, since the abolition of the Corn Laws. Nobody else has been following it, including America. Remember, America at this stage has 40 (percent) to 50 percent average tariffs, as does Bismarck's Germany. Remember, America at this stage is – and Germany –

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are investing heavily in state-sponsored research and development, not just military but other kinds of semimercantalist things. Industrial policy was absolutely enshrined.

Britain knew it was utterly confident – they read *The Economist* in those days as well – that it had the right ideology to deal with the system. Economics is not a zero-sum game. Others, by putting up a drawbridge or maintaining a high drawbridge to trade are only harming themselves. And therefore, it continued along the path that it was on. And, you know, remember, this is 30 years, in fact, if we – if we're taking 1900, after the United States has become the largest economy in the world.

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MR. ROTHKOPF: Just – by the way, just as a tip to everybody, from doing my book and listening to Ed and reading Ed's book and doing a little bit of research, you never really need to go back into a deep archive of *The Economist* or the British press; you only need to own any 30-year period, and the same editorials get reused over and over again in every other 30-year period from about the South Sea island bubble in 1720 onward. (Laughter.)

MR. LUCE: The lag between economic predominance – economic decline or economic rise and military decline and military rise is great – and political power. And in 1870, as I say, very shortly after the Civil War, the United States overtook Britain to become the largest economy in the world. But it wasn't until the early 20th century that Britain's naval global supremacy, military global supremacy was challenged and then surpassed. This is a 40-year lag.

Now if you look at the numbers today, America has roughly half the world's military punch – an extraordinary preponderance that is a reflection, I think, of the half the world's economy America used to have in the post-Second World War era. But if you look at the trends – and here the *Economist* – I do frequently agree with the *Economist*, but there's an *Economist* – a very widely cited *Economist* study of Chinese defense spending trends and American defense spending trends. And it – by 2020, '21, '22, we have roughly equal budgets.

China now spends about \$120 billion a year, if you believe its official numbers. If you take the more plausible forecast, it's closer to 200 billion (dollars). America is roughly generous now – 600 billion (dollars) – but falling. China is increasing; just the other – six weeks ago announced its budget for next year, 11 percent increase in defense spending. The U.S. is keeping it flat, essentially. I think there was some spin there to show an 8-percent cut, but that was from a generous baseline. But essentially if you – if you just project these trends out – not very far; eight, 10 years – then we have a matching military budget.

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Now American will no doubt have far more cutting-edge military technology. It will be superior and continue to be superior in many forms. But I think what's interesting – and I won't – I won't return again to the British parallel – I think what's interesting is that if you look at how – not just how Britain perceived itself in the 1890s but how everyone else



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perceived itself in the 1890s, it was seen as – it was seen as having a pretty much indefinite predominance. And it was just a few years that it flipped. And then of course Pax Britannica and the whole world system fell flat on its face in 1914.

So even the assumptions about America's geopolitical and military – continued military superiority over its nearest rival, China – even these, I think, are to be treated with great caution. Things are changing quite quickly. And my concern – and then I'll let Ian come back – my great concern is that the political system here is not just incapable at the moment of dealing with the economic sinews that go into building a national security – a strong national security. It's also incapable of adapting to the new diplomatic realities. America is less capable of imposing its will on the world than it used to be. That will increasingly become true. But it's no more capable, I think, of persuading the world to follow American leadership than, in many senses, it was under the Bush era.

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And what chances would you give of the Senate enacting any of the treaties that America has helped negotiate, that others have signed – the Comprehensive Test Ban Treaty, the U.N. Law of the Sea, the U.N. small firearms trade, ban on mines – I mean, mention any number of international conventions that the U.S. has originated, negotiated and brought up to its conclusion that it's failed to sign, and then ask what the probability is that America will embrace these conventions. Very, very, very low. You need two-thirds in the Senate. Do you really think the Senate is going to change its composition?

Exceptionalism is a problem in the American mindset. It's another lagging indicator, along with military power – or exemptionalism. America exempts itself from laws that it negotiates, it originates.

MR. ROTHKOPF: As The New York Times article about President Obama and drone strikes today emphasizes or emphasized.

MR. LUCE: Very well – very clear. And exemptionalism is going to impose an increasingly high cost on America's ability to persuade others to lead – to follow, rather. Its soft power will suffer.

I've gone on – I've rambled a bit too much.

[00:24:23]

MR. BREMMER: I think I'm more balanced on this.

MR. ROTHKOPF: Balanced than –

MR. BREMMER: Than my friend. I – not that you're imbalanced; I'm not trying to – (laughter) – I'm not trying to say that. But I'm (implying ?).

MR. ROTHKOPF: We'll come to – there'll be questions later, and you can all judge whether Ed is unbalanced or –

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MR. BREMMER: Look, I mean, I can make a very strong Ed argument that American exceptionalism is dead. I can do that. I can do Guantanamo. I can do Abu Ghraib. I can do 2000 elections; Bush-Gore. I can do Katrina – lack of follow-up and lack of capacity. I can do the deficit. I can do 2008 financial crisis. I can do Madoff. I can do WorldCom. I can do Enron. That's a lot of stuff.

MR. LUCE: Long list.

MR. BREMMER: Lot of stuff. I could do a long list that says that that's actually not true. I can look at quality of life and the fact that over 50 percent of Chinese millionaires want to live in the United States and nowhere else in the world; not in China. I can look at, you know, something like Mr. Chen; again, you look at – again, China, the United States. And he didn't – he didn't go to the German consulate. He went to the American Embassy. These guys all go to the American Embassy. Why? Because we can do something for them; because human rights – at the end of the day, the United States is seen as the country that actually matters.

[00:25:23]

I could look at the U.S. dollar – we've talked about that already – and the markets. I can look at what happened after the tsunami in Indonesia, American boots on the ground. I mean, other countries were prepared to do stuff; China was not. China was, like, \$2 million after a week, and embarrassed by everyone else. And they boosted it to 8 (million dollars). Toyota did more than that in Indonesia – not Japan; Toyota. OK. And you know, the United States made an enormous difference on the ground there. And I think it reflected very well on us.

I can look at Gates. And I look at philanthrocapitalism. I look at another wonderful Economist writer, Matt Bishop, who talks about what Americans are capable of doing. And you know, if you're in Africa and you benefit from the Gates Foundation, it sounds like America to you, even though it doesn't necessarily come at the behest of the American Embassy. I can look at Facebook and Google and Twitter. I can look at unconventional gas and oil. I can look at biotech and nanotech and entrepreneurship and all the rest. In other words, I can give a list that also looks like the United States is doing OK.

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I don't have a strong interest in making an argument in favor of one of those lists or the other. But I am interested in how the rest of the world perceives the United States and what the U.S. can and can't and will and won't do.

And you know, a couple of things that I heard you say at the end – you said America can't persuade the world as much anymore. I think you're right. I think much of the world no longer needs as much persuading. And that is a very important counterpoint. The United States may not be able to impress its – the strength of its democracy on a whole bunch of Asian allies. A whole bunch of Asian allies are begging for the United States to play a more significant role, because they are worried about China.

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Look at America's allies around the world. You look at Japan and the Philippines, you look at Australia and Singapore; you look at Canada. Who are China's allies in Asia? Who are their allies? Not who works with them; who are their allies?

MR. LUCE: North Korea. (Chuckles.)

[00:27:14]

MR. BREMMER: That's even a stretch. I mean, it's a problem. When a country is – and again, I don't hold this against the Chinese. They're poor; they are facing challenges that are exponentially greater than the challenges faced by any developed state. We all want them to succeed through those challenges, and they must focus much more domestically in restructuring their entire political and economic system. That virtually requires an ideology that supports the Chinese state "über alles." And I think that is a serious problem for every other country in the region.

And so you have Burma – even Burma, it's turning towards the United States and saying, do more. We want you guys in here, please. Never mind what you hear from the Indonesians and the Aussies and the Singaporeans and the Japanese and the Philippines and the rest. Now, you can't do that in the Gulf, because in the Gulf you'll get whacked by the Arab street if you do. But as we saw from WikiLeaks, you can do it privately in the Gulf if you're a government leader for many of these countries, and they do.

So at the same time that the United States has somewhat less proactive credibility, we have a world system that is going to be a lot more interested in pulling from the U.S. Now, I take your point on American spending compared to China. And certainly Chinese spending on the military is going to pick up. How much more of Chinese military spending must they devote to ensuring that China stays together compared to what the United States spends? How much more much (ph) they spend on monitoring Internet traffic within China – which is incredibly labor-expensive, and that labor's getting more expensive.

How much more must they move increases in the People's Liberation Army and move it instead towards folks that are, you know, sort of special police that are specifically trained and better than almost anyone in the world to be able to actually very effectively repress their own citizens were demonstrations to exist? That – we have to put those numbers in. We have to put those numbers in. And you know, when we talk about Chinese projections in 10 and 20 years, I can't do straight-line projections. Niall Ferguson does that in "Civilization," does these killer apps and straight-line projections for China. I like Niall, but not as much as Ed. No, that's not – don't go there. (Laughter.)

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But the point is – the point is that, I mean, you know, China – the level of volatility in Chinese projections over the next 10 years is breathtakingly greater than that of – on any other major economy in the world. I'm not prepared to make a strong bet that they're going to be able to spend that kind of money in 10 years' time. I'm not prepared to make the bet that that government's going to exist in the same form it does. It might; it might not. And I

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think their domestic challenges are vastly greater. I think that's going to stop them from having the kind of global counterweight to the United States.

Final point, saying that, you know, the United States can't get it done politically – and here I'm much more sympathetic than I am on the comparisons to China. But you know, when the financial crisis hit in the United States, Bush and a dysfunctional Congress moved pretty quickly. And so did Obama, despite a lack of political background or experience. And I suspect that if we were to experience, God forbid, another crisis of that level of challenge to the United States – of a Greek level, an Italian level, a Spanish level of challenge to the United States – I suspect we would get our act together. That's a horrible way to govern, but I suspect we'd get our act together.

[00:30:27]

The problem is – I see the real problem in the United States is not gridlock. The problem is not special interests. The problem is that we have a system that really has been constructed to not do very much and move only incrementally, precisely because we want the government not to take these decisions. The government that governs least governs best. And that increasingly doesn't work, given the quickness of the evolution of the global economy and the shifts in the geopolitical environment.

But again, we are – this is not urgent for us. I don't believe it is. And because it's not urgent, we look worse. You kind of wish it was a little more urgent. It's kind of like climate change. How many more global summits do we need to have before we realize we should just stop doing global summits, right? We should do something smaller.

On trade, we're starting to get this joke. We can't do global trade, so we're looking at TPP. I like TPP. Some people don't like it, Trans-Pacific Partnership, right? But at least it's smaller. It's more definable. It's like-minded countries. That implies that the Americans are starting to get the joke on the fact that we're not going to do U.S.-led global institutions. We're going to do small institutions with like-minded countries. And I think that we will eventually move there on monetary policy and on environment and on cybersecurity and on economic statecraft and a bunch of things. But we're unlikely to do it until we're pushed much harder. And I – (inaudible) –

MR. ROTHKOPF: But isn't that not a G-zero world?

MR. BREMMER: What?

MR. ROTHKOPF: Isn't that a G-something world?

[00:31:46]

MR. BREMMER: It will be. Yeah. I think we'll get there. I think we're not there now.

MR. ROTHKOPF: For me, listening to this conversation, I hear some discordance due to the sort of angle of attack on the issue. So to the – you know, Ed talks about the

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early 20th century in Great Britain and talks about how they viewed things, and then that things changed over a 40-year period, and that there were fairly substantial changes even over a 10- or 15-year period. When you make your lists and say, well, we're like this and we're like this, well, I could say, well, that's – you could have made those lists in 1900 in Great Britain. But the salient part of his argument is how the lists may change over the course of the next several years.

[00:32:26]

And similarly, when you make an analysis about China and you say, well, their army has to be forced inward, or they don't have a global network of allies like we do – you know, one question that comes to my mind is, well, in the new power structure of the new world, why do they have to adopt the form of power that we've adopted? They've been doing pretty well recently simply by not acting, or by occasionally banding together with other countries and being an impediment to action, or by taking advantage of the fact that the United States is looking inward and that a void has been created even without their taking any action. So some of it seems to me to be perspective-driven and time frame-driven.

And similarly, you say we're in a G-zero world now, but that the frustrations of that are likely to lead us to look for a new G – a G-X world – or perhaps multiple recombinant G-Xs that come out there. But I'm wondering what's your take on that?

MR. LUCE: Just – I mean, I want to make clear, I don't – I'm not expecting China to replace the U.S. as the superpower or the hegemon. It's neither something I predict or would consider to be an attractive scenario. Having said that though, ever since, you know, I came to political consciousness in – or consciousness of the world beyond Britain's borders, in the '80s when I was a student, China's implosion, its collapse has been predicted. And it hasn't happened.

And during that period – of course you've had Tiananmen Square, of course you've had gross human rights violations. But during that period, broadly speaking, China's gone from being a totalitarian country to being an authoritarian country, which is a very big transition indeed. And over the same period, its neighbors – many of its neighbors, at any rate, South Korea included, Taiwan, of course some of the Southeast Asian countries – have gone from being authoritarian to being democratic – again, without great ruptures, without great bloodshed or meltdowns politically. Those are what we expect in the Middle East, Latin America, Africa. It's not necessarily the model we should be expecting in East Asia.

[00:34:36]

Now, China could be about to implode. That – I mean, you can never rule these scenarios out. But I think to portray it as a monolithic country that is not adapting to the world around it and not understanding how the world around it sees it I think – I think is to sort of downplay just how intelligently China has managed its rise so far. And I think it would be a big bet to assume it will cease to be intelligent in the near future.

And I think it would be a pretty big bet to assume that in spite of Obama's best efforts – you know, he's made some mistakes, but generally this has been – he's picked up

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the best from Bush's second term and made more of it. In spite of Obama's best efforts, it's going to be increasingly difficult – with the political climate you have, with the political system you have and the Californiaization of American politics – to generate the kinds of consensus you were used to during the Cold War, the kind of bipartisan foreign policy that did give America real heft in terms of its reach internationally.

[00:35:41]

And so I think, you know, there are – there are two assumptions here you're making. One is that China is crap and will remain crap. And the other is that America isn't so crap and will remain not so crap. I would challenge you on both of those. (Laughter.)

MR. ROTHKOPF: Somebody is tweeting that – (laughter) – right here as the summary of –

MR. LUCE: That's the last day I write for the FT. (Laughter.) I'm using – I'm using bad language.

I'll stop at that. I just wanted to make that, OK, China – (inaudible) –

[00:36:05]

MR. ROTHKOPF: OK, let me say one thing before you respond here.

MR. BREMMER: Yeah.

MR. ROTHKOPF: We're – you know, I don't want to have one of these discussions where we, like, talk among ourselves for an hour and a half and then you're allowed in for 15 minutes. I would like to get everybody in the audience in sooner, OK? So I'm going to let Ian respond. I may have one follow-up, and then I want to open it to you. Just – the ground rules are: Keep it to be a question, and keep it fairly short. But if we do that, then we can talk for 30, 40 minutes among everybody in the room if we have a good, constructive conversation. I'd rather do that; I think it'd be more interesting for everybody.

Anyway, go ahead.

[00:36:39]

MR. BREMMER: So I liked that last rejoinder. I thought it was really good. I generally think that China, from a global perspective, is comparatively crap. I accept that. (Laughter.)

MR. : Fair enough.

MR. BREMMER: And – but I think they do, too. I mean, this is the issue, is they understand –

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MR. ROTHKOPF: We are elevating the discourse here, folks. (Laughter.) Just hope you feel (bad ?). And Ian's next book: A Zero-Sum Crap World – (laughter).

[00:37:04]

MR. BREMMER: They know. I mean, the World Bank puts out this report, says fundamentally they have to restructure away from state capitalism, as their labor gets much more expensive and their capital will as well. They know that. But what you're asking them to do very differently from the last 34 years – you're asking them to fundamentally restructure their economic system in a way that goes against their own elites, in ways that goes against their consensus policymakers. That's something that – what they've done in the last 34 years has been follow a very consistent policy set, very incrementalist, very gradualist, in a global environment that's been very supportive of them doing so.

We now have a global environment that's becoming much less supportive of them doing so. We have a global economic environment that's likely to be much more volatile.

MR. ROTHKOPF: Which country are you talking about, China or the U.S.?

MR. BREMMER: China. I'll get to U.S.

MR. ROTHKOPF: No, but I was just – (inaudible) –

MR. BREMMER: That's a great point.

MR. ROTHKOPF: – that exactly what you are saying could be said about the United States.

MR. BREMMER: Except that the impact of the United States not getting it right is – look, you've got the – you had the “Occupy Wall Street” movement. I mean, it doesn't matter that much. The average American is much more capable of tolerating things they don't like. The fact that the average American doesn't support globalization doesn't stop Obama or Romney from moving ahead on free trade, because it – you know, strong elite interests are so overwhelmingly powerful lobbies in the United States.

MR. ROTHKOPF: They've done squat on free trade.

MR. BREMMER: We're not doing much on free trade, but we still support, generally speaking –

MR. ROTHKOPF: A little bit like crap. (Laughter.)

[00:38:22]

MR. BREMMER: OK, fair enough. But I was on – the point – I was – I was really – I think that our – I agree more with where Ed is on the United States than I do with him on China. This is the real point. If I'm going to make a strong counterargument to you, it's that I believe not that China's going to fall apart; I don't believe that. In fact, I think China

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can last along this line much longer than most economists do because of the political resilience in their system and the ability of them to just throw more money at things that don't work over the long term. They're going to make it more and more and more unsustainable. They can handle that. They can handle a larger and larger bubble. But that's going to make them much more inward-looking. It's going to cause much more challenge.

On the U.S. front, I tend to agree with you that, you know, the trajectory is not promising in making so many of these decisions. But what I would say is the level of U.S. resilience is so high, it's benefited from so many privileges in the global environment – not least of which that all the architecture that's out there – even if it doesn't work very well, is still American standards – that frankly, you can live through a lot of this stuff.

[00:39:27]

And so if you put those two things together, it brings me less in the – people in five years' time are going to be starting to –

When I read your book, it – I felt like I was – I wasn't disagreeing with any of the facts or the baseline analysis in the book. But I felt, coming away from the book that in five years' time I should probably make strong bets against America. I wouldn't do that. In five years' time, I think I'd be still making very strong bets in favor of America. And in part, that really comes from the global environment, not from the American environment.

MR. LUCE: You would be making those bets in terms of economic rate of return. For example –

IAN BREMMER: Well, not just rate of return. But I think that we're moving from an environment where growth was critical – when life gets much riskier, you pay less attention to growth. Emerging markets will get hit by that. You pay more attention to political stability. You pay more attention to resilience. Japan looks a lot better in my model, right? I mean, I know their population's going nowhere. I know they're not growing. I also know they just had the worst year since Nagasaki and Fukushima. They have no nuclear power being generated and yet the country is fine. I think a lot of investors will be more comfortable in that kind of an environment in the next five, 10 years. And so I think that fundamentally benefits the United States.

MR. LUCE: Yeah, I think a lot of these trends – I mean, I'm having difficulty totally disagreeing with you here, so let me just pick randomly – (laughter) – something to disagree with. I think you mentioned quite rightly that when Chen Guangcheng or any other human rights activist in China, or indeed in other countries in the world, they go to the American Embassy, not the Chinese, or the German Embassy.

[00:41:00]

But I put a different perspective to you. My wife works for the World Bank and there's recently been this controversy about who would replace Bob Zoellick as the World Bank president. Of course, this is the job in America's gift: America only has 17 percent of the share, but of course it's quid pro quo with Europe, which gets the IMF managing



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director job – first managing director job – and America doesn't want to break this. And the Obama administration has quite understandable short-term political considerations, as it always does and as it always will, namely it's better to send an American up to Capitol Hill to ask for a new underwriting for World Bank – for the next round of World Bank funding – and therefore it's the pragmatic thing to do. But it's actually in the context to have chosen an American who wouldn't have made a shortlist in a meritocratic world, as impressive as Dr. Jim Kim is, over Ngozi, a Nigerian, who would have made a shortlist in any meritocratic world, for the short-term political considerations, understandable though they are, at a time when China is supplanting the World Bank across Africa and in bits of Latin America, and in South – parts of Indochina, and all sorts of regions in the world where China's largesse is very, very visible.

[00:42:29]

You know, here's a really interesting example. China has embassies in four Caribbean countries where the U.S. does not have diplomatic representation. Direct – in four Caribbean countries. Under your nose. They are building long-term diplomatic infrastructure, not just looting commodities. There is a sort of looting – a sucking-up of commodity effect, not sort of, there is –

DAVID ROTHKOPF: Well there's an interesting sort of corollary, just to throw it into the middle of your discussion, which is whereas Chen went to the U.S. Embassy, those countries, when they're looking for money, aren't going to the U.S. They're going to the Chinese.

MR. LUCE: Right, that's –

MR. ROTHKOPF: So, you know, the U.S. may hand out certain kinds of values, but the Chinese have the checkbook at the moment and are handing out other kinds of things that people are going –

MR. BREMMER: I don't know if I would call it largesse.

(Cross talk.)

MR. ROTHKOPF: It's all self-interest –

MR. LUCE: Largesse is probably the wrong term –

MR. ROTHKOPF: But markets are about coinciding self-interest. They're not about –

[00:43:22]

MR. LUCE: But if America was, I think, deploying this kind of pragmatism with which we rightly associate it, but decreasingly with which we associate it, then Obama would have muscled through a meritocratic appointment to the World Bank. He would have said, "We need to make this multilateral institution legitimate." Re-legitimize it, de-marginalize it, make it relevant again, make it meritocratic, give up this small American bragging right of having the presidency of the World Bank in exchange for a larger punch of American

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sovereignty, which is to legitimize and revitalize the multilateral institutions. I see none of that going on. None of it.

MR. ROTHKOPF: Well, look. I mean, the reality is this. We can stipulate – you guys may want to argue with it – we can stipulate, though. The notion that somehow this president has stepped away from exceptionalism is indefensible. We’ve just moved to “closet exceptionalism” or “exceptionalism lite,” but, you know, it’s arguable that this administration, through the covert wars that have been gaining a lot of publicity, has actually violated the sovereignty of more countries more times, you know, simultaneously, than any other administration, you know, in the world. Doesn’t mean it’s the wrong thing to do. We can have a separate debate about that. You know, there are certain ethical issues that are raised by it. But whether it’s the World Bank or whether it’s U.S. foreign policy and covert interventions into other countries, taking out terrorists without due process, the United States is still behaving by its own rules.

[00:44:56]

MR. BREMMER: And, you know, I think this is the crux of a really important debate. Because I think you’re identifying something that’s very important, which is that Obama is trying to occupy a middle ground that doesn’t really exist anymore. I fundamentally agree with that. We’ve had a world of U.S.-led global institutions. It’s gone.

Now, where I think I disagree with you is your notion that that means that the U.S. should go the global route. That implies that creating the G-20 was the right thing to do. I think that’s wrong. I think you have two choices when you have U.S.-led global institutions. You can either have U.S.-led institutions that aren’t global or you can have global institutions that aren’t U.S.-led. The former is a viable outcome, and it’s probably a more workable outcome for the United States. In other words, you know, you let in a Nigerian head of the World Bank and then all rules are gone, right? It’s not going to be an American forward, it’s going to be others, you’ve got on a slippery slope, you’re going to have more voting rights, it’s going to represent the whole world, the World Bank will be increasingly global. It will therefore not represent or reflect the political values and the economic values of the United States and its allies in terms of conditionality and how you imply money and all the rest. Is that going to lead to a workable World Bank when the Chinese development bank will absolutely reflect Chinese values –

[00:46:09]

MR. LUCE: Ngozi is actually a highly reputable –

MR. BREMMER: I’m with you. I’m with you. I’m absolutely with you. I’m not saying that the problem was with that appointment. The problem was the idea that these institutions – the idea of creating a G-20.

MR. ROTHKOPF: Wait a second. Is what you’re saying that the only way that you can have leadership in international institutions is if the United States is the leader?

Mr. BREMMER: No, I wouldn’t say that. What I’m saying –

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MR. ROTHKOPF: Well how do you have – I mean, couldn't other countries assume the role? After all, you know, in x-thousand years of world history, the United States has only been the leader in these international institutions for roughly a century or less.

MR. BREMMER: That's true –

MR. ROTHKOPF: So couldn't somebody else step up?

MR. BREMMER: What I'm suggesting is that in this environment, where you have a large number of countries that are economically powerful, that are fundamentally different in their values and in their preferences and their priorities, your ability to get meaningful agreement is negligible at a global level. So when I think about the G-20 – you know, I put together my book, and right at the beginning I have this conversation with the former Canadian Prime Minister Paul Martin, who created the G-20. And he said, "Look, we were Canada. We had a choice. We were – we had a first-class ticket on a sinking ship. We needed to replace it for any ticket at all on a global boat." And that implies that the G-20 was going to work. I don't think that the G-20 as a formulation was ever going to get these countries together to make them move the ball on any meaningful issue.

[00:47:41]

MR. ROTHKOPF: But what's to say – and then we'll open this up to questions – but what's to say that we can't do what we've done through most of history in international affairs, and that's move into a balance of power world where you've got a number of powers who ally themselves together when it suits them and doesn't when it doesn't, and that the substance of diplomacy is getting as many of those people onto your team as you can?

[00:48:01]

MR. BREMMER: I hope that that is the direction that we'll move. What I'm suggesting is that what we've had for a short period of fairly exceptional time, a global environment that was led by the U.S. with like-minded allies. That is no longer with us. The world has moved on. It's been moving on for 30 years. The proximate cause was 2008 financial crisis. Now we need something else. I suspect that the way it will eventually move – and there are lots of potential scenarios – is the one you just described, where you'll have a bunch of like-minded countries – they'll be different depending on the issue. It might not be the U.S. leading climate – in fact, it probably won't be; it might well be the Europeans – and the like-minded countries might not even include the U.S. on that one issue. But in this environment, where we're moving suddenly from G-1 plus to G-0, your questions of how you're going to get anything done are not about, "Let's go find some other group of countries to run this institution." It's the institutions that we had, how do we make them functional? And that's where I think that the United States still running the World Bank actually makes sense. That's how a G-7 meeting is more useful if Putin stays at home. And I mean, look, you had --

(Cross talk.)

MR. BREMMER: -- Syria and Iran, where the Russians are actively not helpful, and then you've got Afghanistan and Europe, where the Russians are actively not playing a role.

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What were we discussing at the G-8 summit where the Russian participation was going to be in any way forthcoming or useful? I think that we've gotten ourselves into trouble with a lot of global summitry that's going to spend time without getting anything done, and we need to get back to smaller, more like-minded institutional arrangements where we can at least move the ball a bit. That will evolve, but it's not going to evolve tomorrow.

[00:49:43]

MR. ROTHKOPF: Can I ask you one quick question before we open it up here? Ensuring that there are enough questions out there. You are not just the author of this book or writing columns about the United States in the FT now, but you wrote a great book on India. A really terrific look at India. Here you have the world's largest democracy. Whatever size G- we end up with, they're probably in it. Certainly they're a critical power in the region and in Asia and in counterbalancing China and in a host of other issues. We've seen them play a very big role in trade. We've seen them play a very big role in climate. We've seen them play an important role with regard to Pakistan. We will see them play the critical role with regard to Indian Ocean-related issues. How would they listen? You know, if this discussion were taking place among a group of Indian leaders, what do you think their response would be to this debate?

MR. LUCE: Well, I'd like to say they would agree entirely with everything I've been saying, but I think India is in a very inward-looking period. I mean, at the best of times it's – since the moral nonalignment starts – it took during the Cold War – you know, ceased to be irrelevant and it wasn't hugely relevant during the Cold War, to be honest – India is, you know, been tending to its economic growth. And the sort of traditional foreign policy issues you expect from India that restrain it, keep it tethered to its neighborhood – namely Pakistan/China – remain the key points of Indian foreign policy; I think they also remain the key points of overlap in terms of interests with the United States. Pakistan in the short-term, China in the longer term.

[00:51:29]

Where India departs from the talk in the U.S. is over this natural alliance between the U.S. and India. I think India fears greatly that India is going to be, you know, the first line of defense against a rising China on behalf of the United States, and it does not want to be shoehorned into that role. It does not want to be an informal treaty alliance with the United States. It wants this cooperation to be ad hoc and sub rosa. It's not going to fit into the sort of global lieutenant role that, you know, we're used to with the –

(Cross talk.)

MR. ROTHKOPF: Well, in that respect it's quite interesting because a lot of the emerging powers would prefer not to be locked in to treaty relationships and like their role as free agents, and are frankly more comfortable with their role as free agents. And you've seen that whether it's in the behavior of Brazil working with Turkey with regard to Iran, or with India in this case, or with China and Russia playing different roles in these cases and so forth. So that's a characteristic of this new world.

MR. LUCE: And – I mean, those interests where the U.S. and India's, you know, are confluent, are, you know, matched by where they diverge. I mean, you mentioned trade.

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You mentioned climate change. I mean, India, in both the Copenhagen and Doha, was very much on the opposite side of the table, critically so with Doha, which I think is dead as a dodo. And so, you know, the idea there is going to be a sort of re-confecting of the sort of NATO world with India as a key part of it – which you do hear from people on the Romney side of the debate – McCain, of course, talked about setting up a league of democracies. You know, I can't imagine any democracies in any meaningful neighborhoods like the Indian one ever joining that league because that would immediately put them in formal alliance against China, thereby perhaps self-fulfilling some of the behavior you fear from China.

[00:53:21]

So, you know, I think we are moving what I fear is not a China-dominated world. I don't think that's going to happen. I don't think China is ever going to emulate the United States as being an attractive universal model for others to aspire to or want to emigrate to. What I fear is, again to use historical analogy, is power vacuum. It is a G-0 world, I guess is now the way of putting that, which is that there isn't a global hegemon like the United States shaping the liberal international order, and that this new medievalism – to use another but now defunct phrase from another think tank down the road – that a world of balance of power where there isn't one leader is not a safe situation. History doesn't lend much confidence to that scenario. That's what concerns me, and that's why I would like to see – to sort of branch off into a hopelessly naive and idealistic scenario – I would like to see a lot more sustained thought from America about how it should refurbish the multilateral world in order to accommodate the changes that are happening and mesh China within it. That's what I would like to see. America ensuring it is the final hegemon. And that, as I say – I'm going to stop myself – sounds hopelessly naive in this context. But it's still something worth stressing. America is the only country still capable of doing that.

MR. ROTHKOPF: Well first of all, this block of messages, this avenue is devoted to the hopelessly naive. But that, you know, it does leave us a lot of avenues to focus on here. You have the overall discussion in which – you know, Ed's assertion is that the U.S.'s position in the world is relatively crappier – (laughter) – and Ian's assertion that the U.S. is relatively less crappy than everybody else. We also have a debate about whether you can have leadership in the world without a hegemon, which of course is an interesting question. History has some answers to that.

What I'd love to do is get, you know, a bunch of questions over the course of the next half hour. There in the back. And Tara, I guess, you have a microphone?

MS. : Yes.

Q: Thank you. I'd be interesting to hear Mr. Luce's –

[00:55:52]

MR. ROTHKOPF: Could you guys identify yourselves when you speak?

Q: Sure. My name is Marc Breslow, and I'm a vice president at a group called Council for a Strong America, which is a children's advocacy group. But I'd be interested in

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Mr. Luce's assessment of the Chinese demographic trajectory and how you think that will play into this scenario, both on the political and economic scale that you described earlier?

MR. LUCE: I'm not really an expert in Chinese demographics. I mean, I'm – I guess I – what you're referring to is the fact that it is now – it's going to experience a deteriorating worker-retiree ratio. I – you know, the fact is we need to rebalance the world economy, as all of you know well, and as my colleague Martin Wolf, I think, puts exceptionally well in the op-ed pages of the FT. And that involves both increased investment and decreased consumption in the United States and the mirror image of that in China. China needs to consume more. Now when you got more people retiring, you've got fewer people saving, more people spending.

So this shouldn't necessarily, if well managed, necessarily be a problem. And the premature aging of what people of – Martin Wolf, in fact, has referred to as – a premature superpower. And if China can manage that transition by going with the grain of its changing demography, I don't necessarily see a problem. But as I say, Chinese demography is not an area of – you know, that I know that much about, so I'll stop at that point.

MR. ROTHKOPF: Ian, do you have a comment on that?

[00:57:30]

MR. BREMMER: Just that – I mean, it's certainly the crunch really starts to hit the folks that I've been looking at around 2018, 2020. And you're right; it would facilitate consumption-led economy. It has to move away from manufacturing heavy economy for export towards the developed world, but of course that is – that and infrastructure development is precisely what they've been doing for years and years. And their leaders have been enriching themselves not only as a system, but personally with that model. And so you're asking them to change the single thing that is hardest for them politically to actually do. I suspect they're going to experience real challenges with that.

So it is – but if you ask me, is demographics the thing that keeps me up at night on China? It's not. The thing that keeps me up at night on China is WikiLeaks. Things that keeps me up at night is the idea of, you know, millions and millions of documents that actually expose the way that their engineers and billionaires who run their country actually do talk to each other – and that gets known by the Chinese people, that would be a disaster.

[00:58:33]

In United States, that was not a disaster. We knew all the stuff already. In China, I think, you get purges, you get executions. I mean, I think – and that's the – that's the gentlest possible assertion. This is a country that requires a level of control of information at the very top in order to stay with its present political system. I think that gets radically more dangerous over time. I'm not Gordon Chang; I don't see the coming collapse of China last year or in one year or in five years.

But I think that you have to admit the volatility around Chinese expectations is exponentially greater than that of any other country we talk about. So when I ask where I'm

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going to invest, where I'm going to make a bet, if I'm a country thinking about how much I want to get into bed with a different country or strategically align myself with a country, I'm going to worry about the level of volatility, not the fact that they're going to blow up, but just that we just don't know.

[00:59:23]

MR. LUCE: But if you want to make a bet – make a bet that has high risk. You could collapse, you could make a fortune. I'd still bet, if gambling is – I mean, this is – I'm being semantic here, but I'd –

MR. BREMMER: I wouldn't.

MR. LUCE: – I'd bet on higher returns from China. I mean, China, you know, is going to overtake the U.S. economy at some stage in the next 10 years – 10, 15 years.

MR. BREMMER: Risk-adjusted return.

MR. LUCE: Risk-adjusted return, maybe. But you – to assume that won't happen is to assume that the American worker will remain four times as productive as the U.S. (sic; Chinese) worker indefinitely. That's just not going to happen.

MR BREMMER: So let's say – just a quick point. Let's say I'm Canada, OK? And I'm thinking about how much of a bet I want to make long term instead of energy relations and the rest of the U.S. I want to make a bet on China. Making a 10 or 20-year bet on China, if you're Canada, requires saying yes to three things: number one, that China is going to continue to succeed in the way that you and I have just been talking about; number two, that this – that China succeeds and they allow the Canadians to continue to benefit in the same way from this success over time and don't strip it away in a very uncertain legal environment; and number three, that the Canadians are going to be allowed to make that bet by the United States, which increasingly will likely see themselves in a greater level of competition with the Chinese. Those are three bets. The Canadians have to say yes to all three. I think there are a lot of countries around the world that have to say yes to all three bets if they really want to bet long-term on China. I don't think it's just a question about them succeeding –

[01:00:48]

MR. ROTHKOPF: But look, the reality is no country has to bet only on China, just like no country – company has to invest or has to bet only in one stock. And there's a lot of upside in China and there's a lot of reason to think that even if there are setbacks, that there will be net growth over the long term and opportunities for growth within this evolving society. So that – you know, that argues against those things.

So I just want to add one other point with regard to the demographic question that has to do with the fact that we view things in the context of the current paradigm, but large amount of our talk about China has to do with the large labor force. But what's happening in China now is akin to what's happening in the U.S., which is adding mechanization and

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productivity to labor force is creating the possibility that China may become too mechanized, too automated and too productive faster than they want to and faster than they can absorb a lot of these people in the workforce that was the big assumption. And they may end up with the crisis that we're facing about super productive or, you know, more productive societies. And that could create also kind of unrest in some of the problems that are associated of the type that Ian's talking about.

Next question. In the far back there, also. Why do people in the front have no questions? (Laughter.)

MR. : There is one here.

[01:02:14]

Q: Could I bring the question back – John – Jack James (sp), from Johns Hopkins – could I bring the question back to Mr. Luce's book about the United States? And Mr. Bremmer, you rattled off a whole number of issues that you said could be for America. Very few of those were political. And I wondered if both of you could answer one question.

Given the gridlock, Mr. Luce, that you've described, and of course it came out in Mr. Ornstein and Tom Mann's book just recently – again, does it make any difference who wins in November?

MR. LUCE: Yes, it does. I'd agree with Ornstein and Mann. But I don't think it does as much as you might be expecting me to say it would. I think that the likelihood is if Obama is re-elected that the Republicans will keep control of one of the two houses on Capitol Hill nevertheless, and that we might well, given the fact that Romney has been perceived by many tea partyers as not the real thing – as not actually drinking from the pure ancestral faith – as evidence from their mindset that they've strayed once again into a moderate and being punished for it, and therefore would double down on the tea party antiques we've seen over the last couple of years.

[01:03:25]

I would share entirely – for me it's not a brave thing to say, but I think for Mann or Ornstein it is a relatively brave thing to say. There's a – there's a catechism in this town that people like to keep chanting which is a bipartisan evenhandedness, however much we know in reality there might be an asymmetry. I think we – most of us know that Mann and Ornstein are absolutely correct, that there is a real imbalance. And yet our language keeps gearing us towards this balanced catechism that apportions blame equally. And that affects think tanks, it affects the media; it affects everybody.

And so I applaud them for saying that, and I agree with them. But I would emphasize the point, it matters just as much, if not more, what happens to the Republican Party internally, this great – a democratic party – oldest in the Western world by one measure, not in its name – as – has – is in a period of celebrating "Know-Nothingness." And that is a profoundly disturbing block to pragmatic action in this country. So I applaud Mann and Ornstein, and I generally agree with them.



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MR. BREMMER: So I mean, look, I clearly don't think that Simpson-Bowles comes close to passing in either an Obama or a Romney regime. I think that there will certainly be some significant domestic differences on things like tax policy if Romney comes in, but I don't think these are going to be fundamental to the way we think about U.S. trajectory in the way that we wrote our books.

I do think that the level of dislike for Obama among America's CEOs is surprising to me. It is not 100 percent, but it's over 90 (percent). And I think that the level of optimism and enthusiasm you will see from those people on CNBC – and not just Fox – and in the Wall Street Journal and, you know, frankly just in everywhere they talk at Chamber of Commerce rallies and the rest will actually cause a market spike, even though we don't see significantly different policies if Romney actually wins. I think that's meaningful; I actually do. I think that there really has been a partisan split in industry in a way that typically they go with the winner. Most of them know that Obama's at least 50-50 at this point – except that doesn't matter; they don't want him. That's interesting.

[01:05:39]

On the foreign policy side, I don't know if you guys saw today that Trump said that he doesn't talk to Romney about birtherism, but he actually talks to him about China – which, from my perspective, is a much more scary prospect – (laughter) – because Trump is legitimately insane on this issue, right? I mean, that's not as witty as what George Will said a couple days ago, but I can't beat George Will.

You know, Romney says that if he becomes president on day number one, he's going to declare China a currency manipulator. That's clearly not true. But you know, Guantanamo's still open as well. I don't buy this stuff.

I think that on foreign policy, on China, there's no meaningful shift between the two leaders. On Iran, there's no meaningful shift between the two leaders. On Saudi, there would be. And on – and probably on the GCC generally, because the oil CEOs really do have strong connections with the leaders of those countries. Obama really doesn't have a connection with the oil lobby in this town or in the United States. And I think that that hurts, and I think it really has affected particularly the way Saudis think about the U.S.; I think that matters. But leaving aside that relatively – I mean, it's not a small issue, but –

MR. ROTHKOPF: Israel?

[01:06:46]

MR. BREMMER: I mean, Obama – look, clearly Netanyahu would love to see anyone but Obama in. But do I really think that Romney would play radically differently to Israel given where the country is right now? I think that U.S. relations with Israel right now are comparatively – they're pretty good. I mean, on security issues, we're exchanging all the information we have historically. Clearly on cyber, we're coordinating very significantly, maybe we'll find out as of today even more significantly with that latest attack.

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You know, so at a personal level, yeah, Israel relations would improve. I think Israel's problems right now are so much bigger than the United States'. This is – I would not want to be them. That is a job I don't want right now.

MR. ROTHKOPF: Right here. Oh, good. I'm glad to see all these hands. Let's go – we'll rapidly go through discussing –

[01:07:33]

Q: John Veroneau; Covington and Burling. "The Scale of Shale;" the FT did a story on – so I'd be curious of both your views about the significance of the shale findings and our apparent move to energy independence, and what consequences that will have economically and geopolitically.

MR. ROTHKOPF: Let's try to keep the answers to, like, a minute each so we can get as many of these people in.

MR. LUCE: The major windfall – how America exploits its windfall remains to be seen. And I've – it's obviously good in terms of – (inaudible) – energy independence. And it's certainly good in terms of the attractiveness of producing things in the U.S., or some kinds of things in the U.S., because the feed-in price is going to be lower. Whether America more strategically exploits this windfall and becomes, you know, a leader again in terms of global climate change talks is something that would concern me over and above all the other implications of that issue put together. And I – that's yet to be seen. And I kept it short.

MR. BREMMER: We don't do industrial policy well in this country. But I mean, a new, relatively under-regulated sector that provides jobs and money that's likely to be captured by corporates, U.S. is going to make a lot of money off of that. I don't – the environmental lobby might get royally screwed in 10 or 20 years' time, but in terms of what I think is likely going to happen, sure.

I mean, I was just with the Japanese ambassador for lunch today. And one of the things he wanted to talk to me about was the excitement that their government has for – since they're not doing any nuclear power anymore – can't even get one reactor back open – is, you know, shale revolution and being able to import gas from the United States. A lot more countries are going to be looking at the United States as the place that they can have a more strategic economic relationship. That's great for us.

[01:09:16]

MR. ROTHKOPF: And which country in the world has the largest predicted shale reserves?

MR. : Is it China?

MR. ROTHKOPF: China.

MR. BREMMER: It does, yeah.

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MR. ROTHKOPF: China, by quite a bit. It – yes.

Q: (Inaudible) – export control consultant. And let dysfunction take place in spades; the tax cuts expire – all of them. The estate tax exemption goes from 5 million (dollars) back to 1 million (dollars). We then – the government has the resources to revive WPA and CCC so the unemployment rate goes way down to 4 percent. So the recession technically comes back into force. But is that really decline? We've taken – the people who need the help would be relieved. The unemployed would be put back to work. What's wrong with that?

MR. ROTHKOPF: Wouldn't catastrophe be great, Ed? (Laughter.)

[01:10:12]

MR. LUCE: Yeah, well, I mean, as people have observed, all that we need to do to fix the U.S. deficit national debt problem is for Congress to do nothing. But I do think a double-dip – a willed – self-willed, self-inflicted double-dip recession is not a good – I mean, there was irony in your question, so I suspect you would agree with me. A recession is not a good thing following on from a non-wealth-producing recovery from the point of view of most Americans. We're three years into this recovery. We've got the next jobs number on Friday. We've had two months of sort of jobs not doing much more than keeping pace with population growth. We've now had a dropout from the American labor force that's brought the labor force participation rate down to European levels. So we've got a big structural problem that didn't used to exist in this high-turnover market.

I think to add – and we've had, on top of all of this, three years of recovery in which the median income has fallen. Remember the last business cycle, '02 to '07, it fell from the beginning to end for the first time ever. We're seeing more of that in this so-called recovery. To add a recession into that is something I wouldn't wish for. I don't think it would be good for – not just people's pocketbooks, but it wouldn't be good for the politics.

MR. BREMMER: One of the things that – I mean, we – I would never wish for a recession, but what kills me is that we wasted the one we had. We had such a great opportunity with that recession to make real changes, and we had an extraordinary president that had huge support, first black president in history and an incredible speaker and hugely intelligent, fluent on virtually every topic, doesn't embarrass us at home or internationally. And as soon as he thought the recession was over, boom; let's do health care, which may get overturned, some of it, in the next month – extraordinary opportunity that was wasted, in my view.

[01:12:03]

And I do think that a lot of people ideologically take – I mean, Paul Krugman all the time in The New York Times is talking about how if we just did stimulus – we just get it right; we just did stimulus. And it's like, well, OK, but what country are you talking about in terms of the actual allocation of this money and how we'd actually use it, and how much would be wasted? I mean, you know, you can't do ideology on one side and practical on the

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other side and pretend that they both come together seamlessly. They don't. And that's the challenge I have with that question.

MR. ROTHKOPF: Let's go – OK, over here.

[01:12:35]

Q: I'm Tom Reckford with the World Affairs Council. Most of the discussion has, understandably, been about the U.S. and China. What about Europe? For the EU, it's obviously been a horrible year. What are the prospects for the European project over the next 10 years, and what about Germany? No – there's really been no mention of Germany. Is it ever going to be the kind of leader that some expect it to be?

MR. ROTHKOPF: Just for everybody's timekeeping, although we have from 6:00 to 8:00 blocked for this, typically what we try to do is end a little bit – 7:30, 7:35, something like that. So we've got about 15 minutes to go.

MR. LUCE: OK. I'll follow Ian on all this.

MR. BREMMER: OK, sure.

The – I think Germany is providing real leadership, but when the Germans talk about leadership, that strikes them as arbitrary, right? The Germans, when they think about leadership, they're talking about within a system of institutions, rules. It's a very different kind of leadership than the one the American – exemptionalist leadership that we've been talking about. And so as a consequence, you don't get as much from Germany qua Germany outside of them trying to, you know, work their way towards a eurozone that is more capable of not producing such crises as we've just experienced.

[01:13:57]

I think that the eurozone remains more or less intact in the next five to 10 years. I think that the architecture will improve, though incrementally. I think growth will be low. It's more muddle-through than any of us could have imagined when all of this started, but they're going to keep going along those lines.

But I also think that the ability for the Germans to be flexible is greater than people appreciate. They're pushing the Greeks very, very hard right now until the elections happen. Once the elections happen and the Greeks actually vote in a government that will support the second bailout but not to the same degree, perhaps, as Papademos did, then the Germans will sit down and start to negotiate with them. They're not going to vote in SYRIZA. It's not going to happen.

And furthermore, I think that the Spaniards, the Portuguese – they have governments that are committed to austerity, they have strong parliamentary majorities right now, and they're doing much better than their opposition. If you were Merkel and you asked her honestly, in the last two years, have you gotten more done with the periphery than you would have expected when you started this process, I think she'd have to honestly say yes. And that should give us reason to be a little bit less pessimistic than we're seeing right now in the markets.

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MR. ROTHKOPF: ECB says to Spanish banks, go jump in a lake. We talked about – or you talked about the fairly good reaction in the U.S. in 2008 to the crisis. But I don't know anybody in Washington who thinks that if a Spanish bank goes out, takes out a big European bank, takes out Morgan Stanley or some big American bank that there would be any movement towards bailing out an American bank or stopping the bleeding like there was with the TARP program in 2008. So even if the Germans solve a German problem – solve a Greek problem or stop the public sector side of these problems, isn't there a possibility that the private sector side of these problems and the interconnectivity and the opacity ends up causing something that could be quite destabilizing at the moment?

MR. LUCE: Yeah, I mean, I agree entirely with Ian that in '08 when the challenge was posed to America, it did exactly what was necessary. You know, but it didn't smell nice, but it was what the Walter Bagehot book specified you should do in a meltdown.

But then when you look at the – that was the firefighting side. If you look at the architecture side, Dodd-Frank I don't think is that impressive a reform. And I think that Spanish scenario – clearly, Lehman Brothers is the lesson from '08 – is don't let these big banks fail. And I don't think these banks that have become, fortunately (sic), bigger than they were before '08 in the United States – I don't think we would be allowed to – they would be allowed to fail.

[01:16:31]

The paper I would look at from Europe is one by a central banker at the Bank of England called Andrew Haldane, and it's called "The Doom Loop." And – (chuckles) – sorry, I know I've got a reputation now for being a pessimist, but Andrew Haldane takes the gold medal. And the doom loop is that, you know, '08 was essentially the precursor to the really big bubble, which we've seen being flirted with here and in Europe in the last few years, which is the sovereign bubble, the mother of all bubbles, the ultimate bubble, because once you get a "too big to fail" on that scale and you've got Congress voting three or four times no before it can be arm-twisted into voting yes and you've got the Fed's balance sheet where it is, then I don't think we can be so sanguine that another '08 comes along – what Secretary Geithner calls a once-in-a-century flash flood, but which Andrew Haldane talks about something far more imminent. Then I think Europe and the U.S., sadly, are in the same boat. And I'm not as optimistic about Europe as Ian.

[01:17:33]

MR. ROTHKOPF: Well, in fact, Europe –

MR. LUCE: I hope Ian is correct and that this is all hypothetical.

MR. ROTHKOPF: But Europe, in fact, in this – in this particular set of issues, Europe, the United States and China all have people questioning the quality of the assets in their central banks –

MR. LUCE: Right.

MR. ROTHKOPF: – and if, in fact, the assets in those central banks are overvalued or vulnerable in ways that seem certainly, clearly the case in Europe. But a lot of – you

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know, beyond the central bank – a lot of Chinese banks have assets based on commodity prices that may not stay where they are – you’ve actually got a pretty rocky situation sitting on top of a pretty lousy foundation, right?

[01:18:15]

MR. BREMMER: What we have is – to take a step back, is a world of enormous amounts of inward-lookingness compared to five or 10 or 20 or 30 or 40 years ago. As you see, it’s been going around the world, in India and China and the United States and Europe and Japan. I mean, all of the countries that you would hope would be able to – one or two of them picking up a little bit of steam – OK, you can talk about Turkey and the role it’s had in the Middle East. That’s been a good story. You can talk about Brazil and them being a little bit more responsive and international and statesmanlike. That’s a good story. You can talk about expansionist Russia. That’s a bad story. But at least they – hey, they’re looking outside their regular borders. But I mean, this is – this is a story that, when you start adding up all the pieces, that’s when I become so negative about the idea that we’re soon going to have this global multilateral balancing. I don’t see the global part of it. I see the multilateral balancing part. I don’t see the global part.

MR. ROTHKOPF: It seems clear that we’re in a period where there’s a lot of inward looking without a great deal of insight resulting from it.

Another question. OK, way in the back, just to have a little geographic distribution here.

Q: Yes. Good afternoon, Mr. Luce, Mr. Bremmer. I have a question –

MR. ROTHKOPF: Can’t hear.

[01:19:27]

Q: Oh, sorry. My name is Andres Fidro (ph). I’m a graduate student –

MR. ROTHKOPF: Still don’t think the microphone is working.

MS. : (Off mic.)

(Laughter).

Q: OK. My name is Andres Fidro (ph). I’m a graduate student at the University of Maryland School of Public Policy. And I have a question relating back to when you were talking about whether the United States is in decline and a question about American education policy. Mitt Romney made a speech about his education plan recently. There’s debate over student loans. What do you think the American – or what the United States needs to do to enhance itself in international competitiveness? What types of education policies are needed for that? And which – let’s say, which presidential candidates do you think offer the better plan?

[01:20:08]

MR. ROTHKOPF: OK. We’re going to have two more questions after this.

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MR. LUCE: I'm not hugely impressed with Romney's plan. Not yet particularly impressed with the results of Race to the Top, although I think it's still early days. But if you look at the Department of Education's own numbers, which I did shortly after watching "Waiting for 'Superman,'" charter schools on average do not outperform public schools. If you look at The Gates Foundation – and Bill Gates, who I interview quite extensively in my book, has made a bet on teacher evaluation – on getting proper methods to work out who's a great teacher and who isn't. It doesn't look like the billions of dollars he's now spent on that is actually producing any great breakthrough. I'm sure it's producing incremental insights here and there.

[01:20:57]

And what is the solution for education? It's a very, very tough one. It's not something that, you know, brings you results in two or three years. The charter school that's on a non-unionized, harder-working environment that includes school on Saturdays, that relies on young graduates being paid essentially Bangladeshi wages, which of course they don't accept for too long. And it's not a very sustainable model. And I think being de-unionized – I don't know, look at Germany. Look at Finland. These have the strongest outcomes in the world at the K-12 level and they're fully unionized. Look at the worst states in America in the South – Alabama, Louisiana. They're totally de-unionized. I think the union issue is a red herring. I do think teacher accountability is very important, though.

MR. ROTHKOPF: But those countries don't mind having a national curriculum.

MR. LUCE: Those countries don't mind –

MR. ROTHKOPF: Right? And the unions here oppose that, so there is a bit of a tension.

MR. LUCE: Yeah, there are lots of complexities. I think you identified the right subject. There's no quick and easy solution, but it's definitely one of the absolute, core areas America should be debating. And it's good that Romney's brought out a plan.

MR. ROTHKOPF: Why not solve the problem – help solve the problem quickly: make exempt the first \$100,000 of teacher income – to increase their salaries quickly.

[01:22:21]

In the middle, here.

Q: (Inaudible) – from American University. You think that the U.S. will go off the fiscal cliff starting in January 2013? Will that then get a recession? We may get our debt- and deficit-following order, or do we just kick it a couple years down the road and have bigger problems?

MR. ROTHKOPF: That question calls to mind the Roadrunner cartoons and Wile E. Coyote off the cliff running as though he were still on the cliff. (Laughter.) So, you know, are we in a Wile E. Coyote moment –

MR. BREMMER: I don't think we are. I think we are on ground that is shakier and shakier, but we are still on ground. But we are still running pretty fast, right? That's the

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issue. So I'm sure – I think that there will be more talk about deficit reduction, but I don't think we're heading for a fiscal cliff. I actually would expect that either under – under either a Democrat or Republican regime, we would see some continuation or delay on the tax expiration. I don't think they're simply going to let it go. And that's something you would say, well, automatically, you know, you – clearly, the president would want to make sure that you get that cash. Not so simple.

I think, the – you know, who benefits more in that environment will be an interesting question. Clearly Romney's going to be focused much more on the higher earners as well as on the corporate tax, and I think, you know, Obama's going to be much more across-the-board on the way he's looking at it. But no, I don't think it's a fiscal cliff, and I also have very low – well, I have limited expectations for what is going to be done in 2013.

[01:24:01]

Interestingly, if you are a corporation right now – I think corporations largely agree with me on this – and I've gone around, I've talked to a lot of clients. A year ago, a lot of big U.S. corporates had enormous question marks about where the U.S. economy was going, what the regulatory and the tax environment was going to be, and how they should invest as a consequence. They don't now. They have much more comfort for the next two years. Things are probably going to look more or less like they look right now. That level of certainty gives it – makes it easier for them to make their plans. That is actually what we're seeing right now in corporate America.

MR. ROTHKOPF: Go ahead.

Q: Hugh Greist (ph), THIS for Diplomats. One of the things that's bothered me in the last election – last two elections – is the use of the Citizens United ruling, and how we've allowed very few people with a lot of money to make a lot of impact on the elections. We had Soros in the 2008 election – and 2010, when the Citizens United passed, flooding. And now we have the new American agenda. Mitt Romney going to get advice from a guy who's filed for four bankruptcies on how to run the economy. Is there something in the air there that just doesn't seem reality to –

MR. BREMMER: Want to take this first?

MR. ROTHKOPF: Their ad will probably say that turning to somebody with bankruptcy experience is just what we need, but – (laughter).

MR. : (Off mic.)

[01:25:35]

MR. LUCE: I'm not sure I can add that much. I mean, I think – but David's book about the public and private, "Power, Inc.," is the go-to book for this. And towards the end you make, I think rightly, great emphasis on the Citizens United ruling. And the fact that corporate power continues to grow in American politics, and that more particularly the ability of a few wealthy individuals to have ever-greater sway is just another feature of what you're seeing in terms of the outcomes in the real economy – which, you know, is a zero-



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sum economy in many respects, for most Americans. The top are getting all the growth, and that's translating into political power.

And I don't think you need to be a Democrat or a Republican, a socialist or an Adam Smith follower to agree with this. I don't think should be an ideological issue. It is deeply worrying when you see signs of an oligarchy in the democracy that is most rightly celebrated in the world for trying to design, you know, a balance between the people and the natural aristocrats, et cetera. A republic first and a democracy second, that has been designed this well, should be a cause of great alarm for people of all ideological disposition, that a very small number can have so much greater sway than they used to be able to have.

[01:26:58]

MR. ROTHKOPF: That's worth noting that Adam Smith would agree with you.

(Cross talk).

MR. LUCE: Yeah; he would agree fully.

MR. ROTHKOPF: He's being abused in how he's being invoked at the moment. You want to –

MR. LUCE: Fully agree; fully agree.

[01:27:07]

MR. BREMMER: Well, look. I think that's what's a little bit surprising – maybe shouldn't be surprising – you guys, a lot of you probably saw that New York Times Sunday magazine piece, the interview by Adam Davidson, who's wonderful, the “Planet Money” guy, of the guy from Bain Capital. And what's interesting about folks that are – I mean, the billionaires that you know, David and I, and I assume Ed as well, have had, you know, a lot of occasion to meet over the last years – is that almost none of them think that they have enough influence. (Laughter.) I mean, they truly believe that they need more influence because they would run the country better. They would lead to much smarter decision-making if only – they really believe this.

I mean, I've never met an American billionaire who doesn't say this. And once you really start talking to him – there aren't many women – and I think that one of the most disturbing things – one of the most discomfiting trends – if there's one thing that would put me in the mind of the declinist side in Ed's book, it would be the ability for small numbers of Americans to increasingly capture the regulatory and policy environment in the United States.

And we see this in key sectors of the U.S. economy. We don't see it in all the sectors of the U.S. economy. We don't see it in technology, in my view, because the sector's too diffuse and there's too much creative destruction. That's a great thing. That's one of the reasons why it's one of the most exciting sectors in the U.S., and thank God for it.

But when I think about finance, when I think about energy, when I think about where automotive has been, and when I think about a lot of these super PACs now, I mean, this is a problem that's going to grow. And it will disenfranchise large numbers of

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Americans who ultimately will say, why are we supporting all of these policies that benefit these guys but don't benefit us?

That's horrible. Because globalization really benefited Americans; globalization benefited the world's largest multinational corporations who really wanted to have access to global consumer markets and labor markets and the rest. But the "quid pro quo" there is that the U.S. government has to invest to ensure that the people at the bottom half of the economy see a piece of that growth, because if they don't then they're not going to support that globalization. And that's the bargain that we have struck and not lived up to. We have a long time before it's going to hurt us, because the power's very entrenched and because relatively disenfranchised Americans are still perfectly comfortable and they're not starving – and, you know, life isn't bad for them. But over time, if anything really collapses the American dream, that would be the thing I would focus on.

[01:29:37]

MR. ROTHKOPF: Yeah, but the success of American corporations is not the same as the success of the United States of America. And the argument that it – that those things are closely aligned, which has been very popular for several decades, is increasingly open to question.

OK. You – your hand popped up, so you're going to get the last question. And I hope you see that as the great responsibility it is. Three microphones are converging on you. (Laughter).

Q: The argument that government is the enemy of prosperity seems like it's going to be part of the American political landscape for the foreseeable future. Normally, that's made in terms of returning to an earlier time in American history. But is there any place around the world you can point to, to think about how this would look if it were ever to some extent implemented in the United States?

(Laughter.)

MR. BREMMER: Bhutan – (laughter).

MR. ROTHKOPF: Bhutan focuses on happiness. They've been a world leader in that regard.

MR. BREMMER: They have.

[01:30:45]

MR. ROTHKOPF: This argument that government is the enemy of prosperity actually doesn't go back in history because it never occurred in U.S. history. Canals, railroads, the Internet, the highway system, the birth of the IT sector, all public-private partnerships, the foundations of American history. The fastest-growing countries in the world right now are countries that have a larger participation of government in their economies than the United States economy does.

So we look outside, look to Northern Europe, look to other parts, look to entrepreneurial small states – Singapore, Israel, the United Arab Emirates. You may not like

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their democracy, you may not like some other elements of their policies. But there more examples that you can point to with government actively involved in the economies where the economies are doing well than you can the opposite.

[01:31:51]

Sorry, this was a debate for them, but if you're going to ask the last question about the subject of my book –

Q: Yeah.

MR. ROTHKOPF: – and I'm the moderator, I would – (inaudible, laughter) – you're going to end up with an answer from me. Look, these guys may answer other questions after we've ended here, but I hope you will all join me in thanking Ed and Ian for a great and lively discussion. Thank you. (Applause.)

(END)