TWO

Dumb As We Wanna Be

German engineering, Swiss innovation, American nothing.

—Advertising slogan used on a billboard in South Africa by Daimler to promote its Smart "forfour" compact car

How did we get into this fix?

The answer involves more than just the mispricing of risk and the fudging of ethics. Speaking as an American, I would say that we got here as a result of a period of excess, slough, and loss of focus by the baby boomer generation that reached its nadir during the period of American history from 11/9 to 9/11.

November 9, 1989, was the day the Berlin Wall fell, which heralded the collapse of the Soviet Union, America's only real global military and ideological competitor. The years to follow were as schizophrenic as any in American history. It was a period of enormous innovation around personal computers, fiber optics, and networking, in which America produced many of the tools that I later described as flattening the world. And yet the fact that we also lost our main geopolitical competitor in this period made us a little complacent, a little fat, a little dumb, and a little lazy. The events of September 11, 2001, brought on another fit of American schizophrenia. On the one hand, those events pulled us together as a nation, for a while, and on the other hand they disconnected us from the world and from some of our core instincts as a nation. September 11 knocked us off our game, prompted us to pull in, to export more fear than hope, to build walls rather than windows, and to devote enormous amounts of money and energy to homeland security rather than nation-building at home.

On balance, I suspect this period from 11/9 to 9/11 will be remembered as a period of triumph for American ingenuity but a period of crisis for the American spirit. We stood astride the world with unrivaled power, yet in many ways we lost our focus, we lost our groove; we binged on credit and carbon and lost touch with some of the bedrock values that made our nation wealthy, powerful, respected, trusted, and inspiring to others. You know how sometimes you have a friend who, over just a few years, puts on a lot of weight and you say to yourself, "Wow, she really let herself go." That was America after the end of the Cold War. Lots more gadgets and much bigger houses, but we really let ourselves go . . .

Kurt Andersen described this period well in his *Time* essay:

> In the early 1980s, around the time Ronald Reagan became President and Wall Street's great modern bull market began, we started gambling (and winning!) and thinking magically . . . It's as if we decided that Mardi Gras and Christmas are so much fun, we ought to make them a year-round way of life. And we started living large literally as well as figuratively. From the beginning to the end of the long boom, the size of the average new house increased by about half. Meanwhile, the average American gained about a pound a year, so that an adult of a given age is now at least 20 lb. heavier than someone the same age back then. In the late '70s, 15% of Americans were obese; now a third are . . . Delayed gratification itself came to seem quaint and unnecessary. So what if every year since the turn of the century the U.S. economy grew more slowly than the global economy? Stuff at Wal-Mart and Costco and money itself stayed super cheap! Even 9/11, which supposedly "changed everything," and the resulting Iraqi debacle came to seem like mere bumps in the road. Even if deep down everyone knew that the spiral of overleveraging and overspending and the prices of stocks and houses were unsustainable, no one wanted to be a buzz kill.

Our parents, God bless them, were indeed the Greatest Generation. They fought and sacrificed so that Americans, men and women, could live free of tyranny from abroad—by defeating fascism in World War II and Communism in the Cold War—and so that their fellow citizens of whatever color, gender, and creed could live with full freedom at home thanks to the civil rights and women's rights movements. Hardened by the deprivation imposed by the Great Depression and inspired by the heroism required to simultaneously defeat Germany and Japan in a world war, they were indeed a special cohort. As my friend John Dernbach, an environment expert at Widener University Law School, said to me one day, "When my mother's parents died, their only son, my uncle Jim—whose B-17 was shot down over Germany in the spring of 1945 and who lived to tell the story—had this statement put on their gravestone: 'They gave their today for our tomorrow.' My maternal grandparents were hardscrabble people—they knew war, poverty, and unemployment firsthand. Yet that statement on their gravestone speaks volumes about the values we seem to have lost." Indeed, the members of the Greatest Generation, while they did not decry the wealth they generated, tended to shun excess. The Greatest Generation believed in hard work, saving to make a down payment on a home, and paying a mortgage, and raised both their children and their standards of living according to those core values. Generally speaking, they ate what they killed and lived within their means.

That certainly described my parents and many others in our Minneapolis neighborhood. Our parents' generation had to be the Greatest Generation "because the threats they faced were real, overwhelming, immediate, and inescapable—the Great Depression, the Nazis, and the nuclear-armed Soviet Communists," said the Johns Hopkins foreign policy expert Michael Mandelbaum. "That generation was ready to fight the Korean War and mobilize for the Cold War, precisely because it had been through the Depression and World War II. That generation understood how bad things could get."

Alas, though, we, their children, the baby boomers, took that freedom and ran with it, presiding over an amazing age of technological and financial innovation but also incredible excess. We have turned out to be that "Grasshopper Generation"—we let loose the locust in us all and in the process we ate through a staggering amount of our national wealth and our natural world in a very short period of time, leaving the next generation a massive economic and ecological deficit. As Kurt Andersen put it, "The grasshopper is the embodiment of the baby-boomer generation's profligate and hedonistic approach to economic life." Sure, we had our heroic moments in the 1960s with the antiwar and civil rights movements. Those were big initiatives that spanned the Greatest Generation and the baby boomers. And, post-9/11, we launched quixotic campaigns to bring democracy to Afghanistan and Iraq, the costs of which have been huge and the outcomes uncertain. But for the most part, our adult years, *as a generation*, were devoted not to great national goals, like putting a man on the moon or expanding freedom, but instead to more private preoccupations and consumption. Everyone was encouraged to save less, borrow more, and live beyond their means—whether it was poor people who were plied with subprime mortgages or rich people who were plied with time slots on NetJets. And the globalization of finance, which enabled Americans to use the savings of the Chinese, combined with the "innovations" in financial services, enticed many more people to live beyond their means, without any sense of the risks involved. MIT's best engineers went to Wall Street to design derivatives rather than to Detroit to design cars or to NASA to design rockets. Getting rich quick from a dot-com IPO or the flip of a house, making money from money rather than from creating new goods and services, became the order of the day for too many Americans. As Jeffrey Immelt, the CEO of General Electric, put it in a speech (June 26, 2009) to the Detroit Economic Club entitled "An American Renewal," "Throughout my career, America has seen so much economic growth that it was easy to take it as a given. We prospered from the productivity of the information age. But we started to forget the fundamentals, and lost sight of the core competencies of a successful modern economy. Many bought into the idea that America could go from a technology-based, export-oriented powerhouse to a services-led, consumption-based economy—and somehow still expect to prosper."

Indeed, there was a sense after the end of the Cold War that we were somehow "entitled" to live large—as large as we wanted, without regard to the consequences for the financial realm or the natural realm. The world was our oyster—and we ate it.

All these trends really ramped up after the end of the Cold War, when we lost our main competitor. You had to be serious when facing a nuclear-armed foe like the Soviet Union, with a holistic competing ideology to our free-market system. Every good company or university or newspaper needs a competitor. *The New York Times* is better because of *The Washington Post* and *The Wall Street Journal*. What would Harvard be without Yale? Microsoft without Apple? Competitors keep you sharp. But with the disappearance of the Red Menace, we lost our main competitor, and with it we lost some urgency and edge as well. It made us complacent and lazy, observed Fareed Zakaria, author of *The Post-American World*.

At the same time, the election of Ronald Reagan in 1980 ushered in an age in which we told ourselves that we did not have to sacrifice anymore for a better way of life. Reaganism, which coincided with the slow erosion of America's mortal enemy, ushered in a period of our history in which more and more public officials denigrated government and offered painless bromides for prosperity. The market was always right. Government was always wrong. The market was the solution. Government was the problem. And any policy proposal that involved asking the American people to do something hard—to save more, pay higher taxes, drive more fuel-efficient cars, study longer—fell into a new zone: "off the table." The age of sacrifice was over. Reacting to the Vietnam War, the failure of the Great Society to end poverty, the cynicism of Watergate, and the hyperinflation and geopolitical fecklessness of the Jimmy Carter years, Reagan argued that excessive government regulation and taxes threatened the American way of life and that the country's economic prowess needed to be unshackled. There was a lot about Ronald Reagan and Margaret Thatcher's parallel free-market economic policies that made sense when first introduced. We and others in the West did need to unlock more talent, energy, and entrepreneurship, which had been bottled up in our economies thanks to overregulation of certain market sectors and government ownership of key industries. And that loosening the Reagan-Thatcher revolution inspired around the world did lead to more wealth creation, albeit unevenly, as well as to technological innovation and global collaboration. Let us not forget how many tens of millions of people in India and China alone escaped poverty as a result of the deregulation of their financial markets and their movement to more market-based economics and the lowering of global trade barriers. As Niall Ferguson, the Harvard University historian, noted in an interview with *Barron's* (June 1, 2009): "Deregulation can't be all bad because lots of good things happened in the world economy after 1980."

But all good things have their limits, and we crossed some. Reagan's revolution swung America to another extreme—which led not only to what turned out to be imprudent deregulation in the financial sector, but also to a culture of excessive leveraged risk-taking at both the corporate and individual levels. The fiscal prudence our parents learned from the Great Depression gave way to a gambler's mentality and the celebration of get-rich-quick. My *New York Times* colleague, the Nobel laureate Paul Krugman, argued in a column (May 29, 2009) that

> Reagan-era legislative changes essentially ended New Deal restrictions on mortgage lending—restrictions that, in particular, limited the ability of families to buy homes without putting a significant amount of money down. These restrictions were put in place in the 1930s by political leaders who had just experienced a terrible financial crisis, and were trying to prevent another. But by 1980 the memory of the Depression had faded. Government, declared Reagan, is the problem, not the solution; the magic of the marketplace must be set free. And so the precautionary rules were scrapped. Together with looser lending standards for other kinds of consumer credit, this led to a radical change in American behavior. We weren't always a nation of big debts and low savings: in the 1970s Americans saved almost 10 percent of their income, slightly more than in the 1960s. It was only after the Reagan deregulation that thrift gradually disappeared from the American way of life, culminating in the near-zero savings rate that prevailed on the eve of the great crisis. Household debt was only 60 percent of income when Reagan took office, about the same as it was during the Kennedy administration. By 2007 it was up to 119 percent.

Indeed, the Reagan era lasted far too long for our own good. Reagan, though, at least raised some taxes when the consequences of his actions for the government's balance sheet became inescapable, and he was willing to tolerate a recession to cure inflation. As Joshua Green noted in a review of Reagan biographies in the January/February 2003 *Washington Monthly*, "One year after his massive tax cut, Reagan agreed to a tax increase to reduce the deficit that restored fully one-third of the previous year's reduction. (In a bizarre bit of self-deception, Reagan, who never came to terms with this episode of ideological apostasy, persuaded himself that the three-year, $100 billion tax hike—the largest since World War II—was actually 'tax reform' that closed loopholes in his earlier cut and therefore didn't count as raising taxes.) Faced with looming deficits, Reagan raised taxes again in 1983 with a gasoline tax and once more in

1984, this time by $50 billion over three years, mainly through closing tax loopholes for business." George Bush Sr. also raised taxes, as did Bill Clinton, to keep the federal budget from ballooning out of control. Clinton, in particular, also benefited from the "peace dividend" of lower defense spending after the end of the Cold War.

George W. Bush, however, took Reaganism to its logical extreme—and beyond. Empowered by majorities in the House and Senate, and the temporary national mandate given him in the wake of 9/11, George W. Bush radically lowered taxes and kept them low, and, instead of reaping a peace dividend, undertook two extremely expensive wars that he refused to pay for with new taxes. He made up the difference by getting the Chinese to lend us their savings. It marked the first time America has cut taxes during a war, an act of utter fiscal recklessness. During George W. Bush's presidency, the U.S. national savings rate plummeted to near zero, and consumer debt climbed from $8 trillion to $14 trillion. In essence, under George W. Bush, the traditional Republican Party disappeared in the early twenty-first century; America no longer had a party truly dedicated to fiscal responsibility. We had a government that basically banned recessions. In his book *The Price of Loyalty*, Ron Suskind relates a story of how George W. Bush's treasury secretary Paul O'Neill was making the case at a White House meeting that the country could not afford another round of tax cuts and tried to warn Vice President Dick Cheney that growing budget deficits could undermine the economy, but Cheney cut him off. "You know, Paul, Reagan proved deficits don't matter," he said. They don't matter as long as the economy is growing fast enough to absorb them and keep them relatively small, but when it isn't, living year after year beyond your means matters a lot.

As the Cold War receded further and further into our rearview mirrors, a kind of "dumb as we wanna be" attitude took over our political elite, a mood that said we can indulge in petty red state–blue state catfights, can postpone shoring up our health care system and our crumbling infrastructure, can postpone transforming our energy systems, can postpone addressing immigration reform, can postpone fixing Social Security and Medicare or dealing comprehensively with our environmental excesses—as long as we want. Partisan divides all but guaranteed that we could not solve any of these big multigenerational problems anymore, and post–Cold War lassitude told us we didn't really need to care. Add to all this a permanent presidential campaign, a twenty-four-hour cable news cycle that encouraged short-term tactical responses by both parties to anything the other said, and, lately, a blogosphere that can instantaneously ignite forest fires of passion or indignation—sometimes bogus, sometimes real—capable of tying politicians in knots, and you had a prescription for acting and thinking small. It became political suicide for any politician to advocate what every responsible person in the country knew we needed—higher taxes, lower spending, and a reduction in entitlements. "America and its political leaders, after two decades of failing to come together to solve big problems, seem to have lost faith in their ability to do so," observed the *Wall Street Journal* columnist Gerald Seib. "A political system that expects failure doesn't try very hard to produce anything else."

The underlying attitude on so many big issues became: We'll get to it when we feel like getting to it, and it will never catch up to us, because we're America and we have no competitors.

9/11

And then came 9/11. What happened after that day could have and should have been our wake-up call. The country was ready to be enlisted for a great national rebuilding. We were ready to be a new Greatest Generation. We were ready for a "Patriot Tax" on gasoline that could have been our generation's victory garden to help make us independent of the very people who had attacked us. And when the bugle sounded we heard the call: "Go shopping."

As things turned out, the terrorist attacks on September 11, 2001, only encouraged our loss of focus, diverting enormous energy, money, and attention to the war against al-Qaeda and installing security equipment in every airport, train station, and federal building, as opposed to rebuilding our air travel, railroad, and government infrastructure. I was caught up in this post-9/11 insecurity as much as anyone. So I understand and sympathize with those who were responsible for the nation's security—after a surprise attack on our financial center and our military headquarters—insisting that we put up that extra wall or barrier to entry. We did need to react, we did need to tighten our borders, we did need to improve our intelligence, we did need to retaliate, we did have real enemies who wanted to wreak havoc on our country. But we also needed to rebuild our country. It is all about finding the right balance, and we got out of balance after 9/11. We are not, and surely must never become, the

"United States of Fighting Terrorism." Don't get me wrong, I am happy to go through as many metal detectors as the experts say we need whenever I fly out of Washington, D.C.—on one condition: that on the other side of the last metal detector is a great project worthy of the innovative and inspirational prowess of the United States of America. Let us never forget: *They* are the people of 9/11. *We* are the people of 7/4. We are the people of the Fourth of July. That is my national holiday—not 9/11. I weep for all who died that day. We must honor them, learn from their loss, and protect ourselves from a repeat. But we must never let that terrible day define us—especially now.

But just when we needed to be investing in our homeland to make possible a new America of 9/12, we overinvested in homeland security, looking backward at 9/11. We built a higher fence around a decaying infrastructure—and the cracks have started to show. I was particularly troubled by the sudden collapse of the bridge on Interstate 35W in my home state of Minnesota, because it was a bridge I'd crossed hundreds of times in my youth. But that was just the tip of an iceberg.

In December 2008, I visited Hong Kong. One day I went out to Kau Sai Chau, an island off the city, where I stood on a rocky hilltop overlooking the South China Sea and talked to my wife back in Maryland, static-free, using a friend's Chinese cell phone. A few hours later, I took off from Hong Kong's ultramodern airport after riding out there from downtown on a sleek high-speed train—with wireless connectivity that was so good I was able to surf the Web the whole way on my laptop. Landing at Kennedy Airport a day later from Hong Kong was like going from the Jetsons to the Flintstones. The ugly, low-ceilinged arrival hall was cramped, and access to a simple luggage cart then cost $3. The next day I went to Penn Station in Manhattan, where the escalators down to the tracks are so narrow that they seemed to have been designed before suitcases were invented. The disgusting trackside platforms look as if they have not been cleaned since the Nixon administration. I took the Acela, America's sorry excuse for a bullet train, from New York to Washington. Along the way, I tried to use my cell phone to conduct an interview with someone in Washington, D.C., and the call was dropped three times within one fifteen-minute span. All I could think to myself was: If we're so smart and powerful, why are other people living so much better than we are?

Maybe the reason is that we're not as smart as we used to be. Warren Buffett once famously quipped that "only when the tide goes out do you find out who is not wearing a bathing suit." Credit bubbles are like the tide. They can cover up a lot of rot. In our case, the excess consumer demand and jobs created by America's credit and housing bubbles masked not only our weaknesses in manufacturing and other economic fundamentals, but something worse: how far we had fallen behind in K-12 education and how much it is now costing us, according to a study by the consulting firm McKinsey & Co. (April 2009) titled "The Economic Impact of the Achievement Gap in America's Schools."

In the 1950s and 1960s, McKinsey noted, the United States dominated the world in K-12 education. We also dominated economically. In the 1970s and 1980s, we still had a lead, albeit smaller, in educating our population through secondary school, and America continued to lead the world economically, albeit with other big economies, like China, closing in. Today, we have fallen behind in both per capita high school graduates and their quality. Consequences to follow. For instance, in the 2006 Program for International Student Assessment, which measured the applied learning and problem-solving skills of fifteen-year-olds in thirty industrialized countries, the United States ranked twenty-fifth out of the thirty in math and twenty-fourth in science. That put our average youth on par with those from Portugal and the Slovak Republic, "rather than with students in countries that are more relevant competitors for service-sector and high-value jobs, like Canada, the Netherlands, Korea, and Australia," McKinsey noted. Actually, our fourth graders compare well on such global tests with, say, Singapore. But our high school kids really lag, which means that "the longer American children are in school, the worse they perform compared to their international peers," said McKinsey.

Maybe it is good, then, that American kids are also in school only six and a half hours a day, or 32.5 hours a week. "By contrast," *The Economist* reported (June 13, 2009), "the school week is 37 hours in Luxembourg, 44 in Belgium, 53 in Denmark and 60 in Sweden. On top of that, American children do only about an hour's worth of homework a day, a figure that stuns the Japanese and Chinese."

There are millions of kids who are in modern American suburban schools "who don't realize how far behind they are," said Matt Miller, one of the McKinsey experts. "They are being prepared for $12-an-hour jobs—not $40 to $50 an hour."

And way too many of those who did have the brainpower we need had their IQs diverted to financial engineering. As Jeffrey Immelt put it in his June 26 speech: "You know something is wrong when a mortgage broker is pulling down $5M a year while a Ph.D. chemist is earning $100K. Average real weekly wages have declined since 1980, meaning that we have been unable to provide a rising standard of living for the majority . . . In 2000, the U.S. had a positive trade balance of high-tech products. By 2007, our trade deficit of the same products reached $50B. We have already lost our leadership in many growth industries, and other new opportunities are at risk." Vivek Wadhwa is a senior research associate at the Labor & Worklife Program at Harvard Law School and an executive in residence at Duke University. He is also an entrepreneur who founded two technology companies. In an essay in *BusinessWeek* (November 14, 2008), he noted that "when I joined the Pratt School of Engineering at Duke University in August 2005, more than one-third of the masters of engineering management students from the outgoing class told me they were taking jobs in financial services. From the class of 2007, 22% went into finance." Fortunately, he noted, the 2008/9 market meltdown has shifted those numbers back in favor of real engineering. Still, the damage has been done.

Remember: a dollar is a dollar is a dollar. A dollar made from a hedge fund is worth the same as a dollar made from manufacturing, a dollar made from a kickback, a dollar made from selling services, or a dollar made from innovation. People are always adjusting their imagination and entrepreneurial energy to where the best opportunities lie, or, to put it more crassly, to where the most money can be made the most easily. Beginning in the 1980s, and lasting right up to the Great Recession, we created an economy where an increasing number of people made their money the easy way. It was easier to flip a house than to save money for a bigger one, and it was a lot easier to make money by flipping bonds than by investing in the underlying innovation of new manufactured products and services that the bonds were originally designed to finance.

The Real Reason for the Great Recession

When you add all this up, you start to see that the Great Recession was not just the product of financial chicanery, subprime mortgages, and ethical breakdowns. They were all huge drivers, to be sure. But there is actually a deeper problem that is the root cause: a certain connection between educational achievement, hard work, and prosperity got broken. We became a subprime nation that thought it could just borrow its way to riches—that promised the American dream with nothing down and nothing to pay for two years. We didn't need to upgrade our public schools or massively increase our funding of basic research to propel new industries—at a time when the world was getting flat and technology was enabling more people than ever to compete, connect, and collaborate with us. No, the bank around the corner or online would just borrow the money from China and lend it to us—with a credit check no more intrusive than the check you get at the airport when they make sure the name on your airline ticket matches the one on your driver's license.

While our parents' generation earned the American dream by leveraging their own hard work and education, the Grasshopper Generation tried to secure the American dream with financial leverage—by borrowing more and more money and making bigger and bigger bets with it. You saw it with investment banks, which earned incredible returns in their good years by leveraging thirty to one, and you saw it with consumers who bought homes out of line with their incomes. When you secure a mortgage for a $400,000 home on a $25,000 income, with little or nothing down, you are leveraging every bit as wildly as Merrill Lynch was.

I attended a lecture by Michelle Rhee, the chancellor of the District of Columbia public schools, in Aspen, Colorado, in the summer of 2009. Just before the lecture started a man came up, introduced himself as Todd Martin, and whispered to me that what Rhee was about to talk about—the decline of public school education in America's biggest cities and the need to reform it—was the real reason for the Great Recession. I told him that jibed with my own thinking and that he should send me his thoughts, which he did. I think they hit the nail right on the head.

"This education failure is the largest contributing factor to the decline of the American worker's global competitiveness, particularly at the middle and bottom ranges," argued Martin, a former global executive with PepsiCo and Kraft Europe and now an international investor based in Dallas. This loss of competitiveness has weakened the American worker's production of wealth, precisely when technology brought global competition much closer to home. So over a decade the American worker has maintained his or her standard of living by borrowing and overconsuming vis-à-vis his or her real income. When the Great Recession wiped out all the credit and asset bubbles that made the overconsumption possible, it left many American workers not only deeper in debt than ever, but out of a job and lacking the skills to compete globally.

Here's why, says Martin:

> "America Inc." is the sum collection of all our businesses and all our workers. Each worker is just like a business, selling his or her services to another business. America Inc. has an income statement and a balance sheet. Most of the fuss lately has been around the balance sheet—debt, assets, write-downs, foreclosures, net worth, capital adequacy, etc. But the income statement feeds the balance sheet, and that is where America Inc.'s underlying problems lie. Prosperity at the worker and business level is determined by what we can produce times what we can sell it for, less what it costs us to produce. Today, that means vis-à-vis global competitors. Over the last three decades we have seen, and abetted, the fall of Communism, the emergence of new huge functional economies, and within them the emergence of hundreds of millions of increasingly competent workers who are absolutely delighted to produce what the American middle and lower classes can at a fraction of the price. Technology—the Internet, fiber optic communications, hardware, software, distribution systems—has not only enabled dramatically greater global competition for the average U.S. worker, it has actually forced American employers to shift sourcing—if they don't go to the lowest cost, then their competitor will, and they will be forced out of business. This has eroded the earning power and jobs of American workers; particularly those whose skills are overpriced [relative to] global competition. This is a massive problem for the U.S. economy, as those same workers consume 70 percent of GDP. If they have a problem with their productive competitiveness, wage growth, and keeping their job [in the face of] increasingly tougher competition—and they clearly do today—then the entire economy—America Inc.—has a problem growing. The problem only gets "cured" when the decline in worker competitiveness reverses, i.e., we have enough jobs which are worth $40+ an hour [compared to] global alternatives. This requires a turnaround in the productivity of U.S. education—in fact we must improve faster than China et al. are improving, and we must shift/churn our economy

> to producing products, services, and jobs which can't be produced cheaper elsewhere. This is very likely to be a combination of a knowledge economy, knowledge products, knowledge jobs, and knowledge workers produced by a dramatically better education system. Technology and innovation will likely be at the root of all of these businesses. This clearly is going to take decades of focused effort led vigorously from the top to both enable this innovation and dramatically improve the skills of American workers; most fundamentally via fixing education at all levels.

Our parents' generation mortgaged their future so our generation could get educated. In too many cases our generation mortgaged its future to buy homes we could not afford and possessions we did not need. Our parents said higher education is the key to the American dream. Too many in our generation said getting a cheaper subprime mortgage—with the money behind it actually borrowed from China—was the key to the American dream.

So the biggest danger America faces today is not so much that it will suddenly nosedive as a country. The danger is that it will undergo a gradual but very real erosion of its strengths and assets as a society. We will slowly choke off the immigration that is our lifeblood of new talent, slowly give up our commitment to free trade, slowly allow the budgets for research in science to decline, slowly let our public schools slide into mediocrity, and slowly let a well-educated generation give way to one without the problem-solving skills to thrive in today's world. The danger, said *Newsweek*'s Fareed Zakaria, "is that it will be just slow enough so we can be complacent and in denial about it." Things will just go along and go along, until we wake up one day and look around and find that as a country we really have fallen behind.

Energy as a Metaphor

I can think of no better example of America's lack of sustained focus to take on a big challenge than the way we dealt with our energy crises over the last thirty-five years. It is a sad but highly revealing tale. In the wake of the 1973–74 Arab oil embargo, the Europeans and Japanese responded by raising gasoline taxes and, in Japan's case particularly, by launching a huge drive toward energy efficiency. France invested especially heavily in nuclear energy as a state project, with the result that today France gets 78 percent of its electricity from nuclear plants, and much of the waste is reprocessed and turned into energy again. Even Brazil, a developing country, launched a national program to produce ethanol from sugarcane to make itself less dependent on imported oil. Today, between Brazil's domestic oil production and its ethanol industry, it doesn't need to import crude oil.

America's initial response was significant. Urged on by Presidents Gerald Ford and Jimmy Carter, the United States implemented higher fuel economy standards for American cars and trucks. In 1975, Congress passed the Energy Policy and Conservation Act, which established corporate average fuel economy (CAFE) standards that required the gradual doubling of passenger vehicle efficiency for new cars—to 27.5 miles per gallon—within ten years.

Not surprisingly, it all worked. Between 1975 and 1985, American passenger vehicle mileage went from around 13.5 miles per gallon to 27.5, while light truck mileage increased from 11.6 miles per gallon to 19.5—all of which helped to create a global oil glut from the mid-1980s to the mid-1990s, which not only weakened OPEC but also helped to unravel the Soviet Union, then the world's second-largest oil producer.

So what happened next? Did we keep our focus on the long term? No. After the original congressional mandate of 27.5 miles per gallon took full effect in 1985, President Reagan, rather than continuing to increase the fuel economy standard to keep reducing our dependence on foreign oil, actually rolled it back to 26 miles per gallon in 1986. Reagan also slashed the budgets of most of President Carter's alternative energy programs, particularly the Solar Energy Research Institute and its four regional centers, which were just getting off the ground. Reagan's White House and the Democratic Congress also teamed up to let the tax incentives for solar and wind start-ups lapse, and several of these companies and their technologies, which were originally funded by American taxpayers, ended up being bought by Japanese and European firms—helping to propel those countries' renewable industries. Reagan even stripped off the solar panels Carter had put on the White House roof.

They were eventually given away to a college in Maine, which later sold them in an online auction to history buffs. The Associated Press story (October 28, 2004) about that auction recalled: "The 32 panels were put on the presidential mansion during a period [when] the country was reeling from the effects of an Arab oil embargo. After calling for a nationwide campaign to conserve energy, President Jimmy Carter ordered the panels erected in 1979 to set an example for the country, according to the White House Historical Association. The solar heating panels were installed on the roof of the West Wing, but removed during Ronald Reagan's presidency in 1986, after the energy crisis and worries about dependence on foreign oil had subsided."

In backing away from fuel economy standards, Reagan apparently thought he was giving America's then sagging domestic oil and auto industries a boost. The result: We quickly started to get readdicted to imported oil. While the Reagan administration was instrumental in bringing down the Soviet Union, it was also instrumental in building our current dependence on Saudi Arabia.

The Reagan administration was an environmental turning point in another way. We forget, because it was so long ago, that there was a time when Washington had a bipartisan approach to the environment. It was a Republican, Richard Nixon, who signed into law the first wave of major environmental legislation in the United States, which addressed our first generation of environmental problems—air pollution, water pollution, and toxic waste. But Reagan changed that. Reagan ran not only against government in general but against environmental regulation in particular. He and his interior secretary, James Watt, turned environmental regulation into a much more partisan and polarizing issue than it had ever been before. It has been so ever since. (One noteworthy exception: It was Secretary of State George P. Shultz's team that enthusiastically negotiated the Montreal Protocol on Substances That Deplete the Ozone Layer—a landmark international agreement designed to protect the stratospheric ozone layer that shields the planet from damaging UV-B radiation.)

In 1989, the elder Bush's administration at least moved the fuel economy standard back up to the 1985 level of 27.5 miles per gallon. It also passed substantial improvements in building standards and new appliance standards, introduced a production tax credit for renewable energy, and elevated the Solar Energy Research Institute to the status of a national institution as the National Renewable Energy Laboratory. But after Bush liberated Kuwait from Saddam Hussein, and oil prices went back down, he did nothing strategic to liberate America from dependence on Middle East oil.

When the Clinton administration came into office, it looked into raising fuel economy standards further, just for light trucks. But to make sure there would be none of that, Congress, spurred on by the Michigan congressional delegation—which was a wholly owned subsidiary of the Big Three automakers and the United Auto Workers—literally gagged and blindfolded the government when it came to improving mileage standards. Specifically, Congress inserted a rider into the fiscal year 1996–fiscal year 2001 Department of Transportation appropriations bill that expressly prohibited the use of appropriated funds for any rulemaking by the National Highway Traffic Safety Administration to tighten fuel economy standards for American cars and trucks—thereby freezing the whole process. Congress effectively banned the NHTSA from taking any steps to improve mileage standards for American cars!

This move blocked any mileage improvements until 2003, when the younger Bush's administration made a tiny adjustment upward in the mileage standard for light-duty trucks. In 2003, even China leaped ahead of the United States, announcing fuel economy standards "for new cars, vans and sport utility vehicles to get as much as two miles a gallon of fuel more in 2005 than the average required in the United States, and about five miles more in 2008" (*The New York Times*, November 18, 2003). Only in late 2007—thirty-two years after Congress ordered mileage improved to 27.5 miles per gallon—did America once again act. It moved the U.S. fuel economy standard up to 35 miles per gallon—roughly where Europe and Japan are already—by 2020. That's eleven years away.

One result of all this nonsense, according to a study by the Pew Foundation, was that in America "the average car and truck sold at the end of the [1990s] went about a mile less on each gallon of gas than it did 10 years earlier." All this had a direct effect on our oil consumption—and on our foreign policy. According to Amory Lovins, the experimental physicist who heads the Rocky Mountain Institute, if the United States had continued into the 1990s to conserve oil at the rate it did in the period from 1976 to 1985, thanks in large part to the improved mileage standards, it would no longer have needed Persian Gulf oil after 1985. "When Reagan rolled back CAFE standards," said Lovins, "it was the equivalent of 'undiscovering' one Arctic National Wildlife Refuge's worth of oil. It wasted as much oil as is believed to exist under the Refuge."

Meanwhile, the 1979 accident at the Three Mile Island nuclear power station ended any hopes of expanding our nuclear industry. Then Detroit introduced the sport-utility vehicle and successfully lobbied the government to label these as light trucks so they would not have to meet the 27.5 miles per gallon standard for cars, but only the light truck standard of 20.7. So we became even more addicted to oil. When I asked Rick Wagoner, the last chairman and CEO of General Motors before it declared bankruptcy, why his company didn't make more fuel-efficient cars, he gave me the standard answer: that GM has never succeeded in telling Americans what cars they should buy. "We build what the market wants," he said. If people want SUVs and Hummers, you have to give them what they want. (Toyota was always eager to point out that it doesn't talk about "the market" but about many markets, and tries to build something for each of them. As a member of that part of the market that wanted to get good gasoline mileage and not spend time on car maintenance, I appreciated that. Had GM done more of that, it might have noticed that my end of the market was growing larger every year.)

But what the Detroit executives never told you was that one big reason the public wanted SUVs and Hummers all those years was that Detroit and the oil industry consistently lobbied Congress against raising gasoline taxes, which would have shaped public demand for something different. European governments imposed very high gasoline taxes and taxes on engine size—and kept imposing them—and guess what? Europeans demanded smaller and smaller cars. America wouldn't impose more stringent gasoline and engine taxes, so American consumers kept wanting bigger and bigger cars. Big Oil and Big Auto used their leverage in Washington to shape the market so people would ask for those cars that consumed the most oil and earned their companies the most profits—and our Congress never got in the way. It was bought off for more than two decades.

These were the years the locust ate—brought to a filling station near you by a bipartisan alliance of special interests, with Democrats supporting the auto companies and their unions and Republicans supporting the oil companies, while the groups representing the broad national interest were marginalized and derided as part of some eco-fringe. That is "dumb as we wanna be." When the public is engaged, as it was after 1973, when people were waiting in lines for gasoline, it can override the entrenched interests of the auto and oil lobbies. But the minute—and I mean the minute—the public takes its eye off the ball, those special interest lobbyists barge back into the cloakrooms of Congress, passing out political donations and calling the shots according to their needs, not the nation's. What was good for General Motors was not always good for America, or even for General Motors, but few Democrats or Republicans in high office were ready to lead the country on a different energy path. In the end, after protecting General Motors for so many years from pressures to innovate around mileage and energy efficiency, they protected General Motors right into bankruptcy.

Contrast this with how one small European country, Denmark, behaved after 1973. “We decided we had to become less dependent on oil,” Connie Hedegaard, Denmark’s minister for climate and energy, explained to me. “We had a huge debate on nuclear, but in 1985 we decided against it. We decided to go instead for energy efficiency and renewable energy. We decided to use taxation, so energy was made relatively expensive and [therefore] people had an incentive to save and do things in their homes to make them more efficient . . . It was a result of political will.”

Premium gasoline in Denmark in 2008 was about $9 a gallon. On top of that, Denmark has a CO_2 tax, which it put in place in the mid-1990s to promote efficiency, even though it had discovered offshore oil by then. “When you get your electricity bill you see your CO_2 tax [itemized],” the minister said. Surely all of this killed the Danish economy, right? Guess again. “Since 1981 our economy has grown 70 percent, while our energy consumption has been kept almost flat all those years,” she said. Unemployment remained low. And Denmark’s early emphasis on solar and wind power, which now provide 16 percent of its total energy consumption, spawned a whole new export industry.

“It has had a positive impact on job creation,” said Hedegaard. “For example, the wind industry—it was nothing in the 1970s. Today, one-third of all terrestrial wind turbines in the world come from Denmark. Industry woke up and saw that this is in our interest. To have the first-mover advantage, [when we know] the rest of the world will have to do this, will be to our benefit.” Two of the world’s most innovative manufacturers of enzymes for converting biomass to fuel—Danisco and Novozymes—also come from Denmark. “In 1973 we got 99 percent of our energy from the Middle East,” said Hedegaard. “Today it is zero.” I know: Denmark’s a small country and it is a lot easier to make change there than across a huge economy like ours. Nevertheless, it’s hard to look at Denmark and not see the road not taken.

George W. Bush’s tenure was the perfect capstone to this abdication of any serious attempt to grapple with America’s energy excesses. The younger Bush came into office bound and determined not to ask the

American people to do anything hard when it came to new challenges, particularly on the issue of energy consumption. On May 7, 2001, then White House spokesman Ari Fleischer was asked the following question at the daily press briefing: "Does the President believe that, given the amount of energy Americans consume per capita—how much it exceeds any other citizens in any other country in the world—does the President believe we need to correct our lifestyles to address the energy problem?"

Fleischer responded: "That's a big no. The President believes that it's an American way of life, and that it should be the goal of policy makers to protect the American way of life. The American way of life is a blessed one."

Fleischer went on to add that of course the president encourages energy efficiency and conservation, but he reiterated that the president believes "the American people's use of energy is a reflection of the strength of our economy—of the way of life the American people have come to enjoy." And that was not going to change.

Robert Hormats, the vice chair of Goldman Sachs (International), notes in his book *The Price of Liberty*—about how America has paid for its wars since 1776—that George Washington, in his farewell address, warned against "ungenerously throwing upon posterity the burden which we ourselves ought to bear." But that is exactly what we, the Grasshopper Generation, were doing.

Donald Rumsfeld, George W. Bush's defense secretary, once answered a U.S. soldier who asked him why he and his comrades were sent to battle in Iraq without proper equipment—"You go to war with the army you have, not the army you might want or wish to have at a later time." In too many ways, Rumsfeld's answer applied to the whole country. We were behaving as if we thought we could just march into the future with the government we had, not the one we wanted to have or needed to have.

My fellow Americans: We are not who we think we are. Our political system seems incapable of producing long-range answers to big problems or big opportunities. We are the ones who need a better-functioning democracy—more even than the Iraqis and Afghans. We are the ones in need of nation-building. It is our political system that is not working. I believe that the main force propelling Barack Obama to the presidency was an unstated but widely shared intuition by many Americans that we had lost our groove as a country, and to get it back we needed a president who could bring out the best in us again. There was a widespread understanding that we could not just march into the future with the government we had, because, as the French poet Paul Valéry famously said, "The trouble with our times is that the future is not what it used to be." The age we are entering is at once much more dangerous than it looks and much more opportune than it looks. To thrive in this age, America will have to be at its best. And to be our best we now need nation-building at home.

When I think of our situation, I am reminded of the movie *The Leopard*, based on the novel of the same name by Giuseppe Tomasi di Lampedusa. It is set in nineteenth-century Italy, at a time of enormous social, political, and economic turmoil. The main character is the Sicilian prince Don Fabrizio of Salina (played by Burt Lancaster). Don Fabrizio understands that he and his family will have to adapt if they want the House of Salina to retain its leadership in a new era, where social forces from below are challenging the traditional power elites. Nevertheless, Prince Salina is bitter and uncompromising—"We were the leopards, the lions; those who take our place will be jackals and sheep." The wisest advice he gets comes from his nephew Tancredi (played by Alain Delon), who marries a wealthy shopkeeper's daughter from the new moneyed middle class, and along the way cautions his uncle: "If we want things to stay as they are, things will have to change."

And so it is with America. Alas, we are not just the people we've been waiting for. We are the people we have to overcome. We have been consuming too much, saving too little, studying too laxly, and investing not nearly enough. And our political institutions are also the institutions we have to overcome. As long as our political system and Congress and Senate seem incapable of producing the right answers to big problems, as long as our politicians can only behave like Santa Claus and give things away, and never like Abraham Lincoln and make the really hard calls, the greatness that America is capable of will elude it in this generation.

Have no doubts. The era we have entered is one of enormous social, political, and economic change—driven in part by the Market and in part by Mother Nature. If we want things to stay as they are—that is, if we want to maintain our technological, economic, and moral leadership, and a habitable planet, rich with flora and fauna, leopards and lions, and human communities that can grow in a sustainable way—things will have to change around here, and fast.