

**Essay of  
Dr. Martin C. Wittig,  
CEO of Roland Berger Strategy Consultants**

## The world's most creative economy

Not long ago, in Detroit, an SUV hit what looked like a small dip in the road and was swallowed up by a huge sinkhole. The ground gave way after the aging water and sewage pipes below collapsed, and the car's occupants, a woman and her daughter and granddaughter, were snatched to safety by passersby. The pictures on local TV that night looked straight out of America's Funniest Home Videos – but they were anything but comic. The mud-covered car was a symbol of the nation's parlous state. If you were an American baby boomer born in 1955 or thereabouts, you spent your childhood in the backs of cars speeding along newly built interstates, surrounded by products and culture that were in demand all over the world. You watched the news, and saw John F. Kennedy narrowly averting the Cuban missile crisis and promising, in the aftermath of Sputnik, to put a man on the moon in a decade and bring him safely back to Earth. As you grew into a young adult and became interested in technology, you saw mainframe computers made by a company called IBM dominating the world markets. If you were born in 1955, you grew up convinced that this was America's century – and that century ended with the triumph of American capitalism over Soviet communism. If you were born after the Cold War, let's say in 1995 for the sake of argument, you'd have been six when the twin towers fell. You'd have seen thousands of soldiers in Iraq and Afghanistan, and when your older siblings were old enough to read the business section of the newspaper, they would have seen the collapse first of the property market and then of the banking system. General Motors, once the world's largest auto manufacturer, collapsed and was nationalized. An already high budget deficit exploded, and unemployment rose to European levels. Meanwhile, two Berkeley economists were causing a stir with their pessimistically titled book, "The End of Influence: What Happens when Other Countries Have the Money." The computer you did your homework on was made in China, and your smartphone was designed in California but assembled in China, though at least the operating system was made by Google or Apple. As the child of a baby boomer, you still couldn't use your phone in the car because the calls kept dropping: not quite as bad as disappearing into a pothole, but further evidence of America's crumbling infrastructure.

**Three keys to a comeback** America is clearly not in a good place at the moment, but it will bounce back, as it has so often in the past. I'm convinced of this for at least three reasons that are often eclipsed by the country's economic, cultural, and political decline.

### **1. Intellectual and digital dominance**

The United States is still the most intelligent and innovative nation on Earth. It wins more Nobel prizes and files more patent applications than any other country. The international university rankings are dominated by elite American institutions that lead the world in research and teaching, attracting technology clusters on a scale unparalleled anywhere else on the planet. The most important economic megatrend of the coming years will be digitalization, and America will lead the way – a fact about

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which the doom mongers are strangely silent. The internet is dominated by America, and by American companies like Google, Facebook, Amazon, eBay, and Zynga. The next digital milestones will be data matching, business analytics, and cloud computing, all dominated by American businesses that will generate much added value over the coming years. On technology and innovation blogs, everyone is asking whether the United States will invent the next iPad, though it will probably be China that builds it on cost grounds. This is bound to happen: we've already seen it with the iPad and the iPhone, and there is a revival of American manufacturing on the way in the near future.

**2. Back to making things**

China will obviously continue to play on its strengths as the workbench of the globalized economy, but the shift in production toward Asia is about to reach its peak. An American textile company, one of the first to outsource production to low-wage economies in a foretaste of globalization, is now showing what a US manufacturing renaissance could look like. The fashion label American Apparel makes high-quality garments at relatively low cost in downtown Los Angeles and, thanks to good brand management and moderate pricing, its margins and growth rates are high. The American car industry is making a comeback, and foreign manufacturers' US factories are showing impressive rates of growth. The US aviation industry is swamped with orders, and future technology with applications in many different sectors, such as wind turbines, solar thermal power stations and electric vehicle batteries, may well avoid going down the offshoring route. It's becoming increasingly clear that the world is now flat, which means that wage differentials are shrinking. Traditional geographical advantages, such as proximity to development, production, and marketing facilities, are acquiring a new importance.

**3. Demographic strengths** Europe's population is aging, and the demographic time bomb of China's one-child policy will blow up in its face during the next two decades. By 2050, according to UN forecasts, the United States will have a population of over 400 million, of whom 25 percent will be over 60. In China, more than 30% will be above this age. Americans have significantly more children than the rest of the industrialized world, and the country is still attracting young, ambitious people from all over the globe. America has the space, and it has the open-mindedness to offer them a future. For all the social and educational challenges it faces, the United States is still a meritocracy. Hard work is better rewarded than in most other regions of the world, whichever sector you're in. Ever since its creation, the idea of the United States as a risk society has become deeply ingrained in the collective consciousness: this has many drawbacks, but in terms of staging an economic comeback, they are outweighed by the advantages. If a European entrepreneur goes bankrupt, the chances are they'll apply for personal insolvency and be treated as a social outcast. In America you can file for chapter 11 bankruptcy, have your debts excused on the grounds that you at least tried to change the world, and start over.

**America will do the right thing after it's tried everything else**

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On both sides of the Atlantic, the crisis is affecting three main areas: debt, the middle classes, leadership. German journalist and America watcher Josef Joffe sums it up as follows. "In every democracy, the people have demanded more from the state than it is willing to pay, but it has still given willingly, and grown spectacularly as a result. That's why you get countries with debt ratios of 100 percent of GDP, give or take. Wherever you look, governments are dissatisfied with what they and their people have achieved." Crises unite people, building character, forcing individuals and groups into radical self-examination. Europe will not fail, but I believe the United States is better placed to achieve a political and economic comeback. Over the past four decades it has consistently contributed around 27 percent of global output, whereas Europe's share has shrunk by 9 percent. In the not too distant future, probably in 2015, China will become the world's biggest economy. But so what? The global economy is a growth model, not a zero-sum game. A prosperous China is good for the world economy, and in 2015 the average American will still be many times more productive than their Chinese counterpart. Sooner or later, China will have to resolve the contradiction between an open economy and closed political system. United States democracy is a reflection of Churchill's dictum: "You can always count on Americans to do the right thing – after they have tried everything else." As the fog of battle clears after the presidential election, there are signs that Congress will eventually be able to reach nonpartisan consensus on fundamental issues. These include massive investment in infrastructure repairs over the coming years, so that SUVs no longer fall into potholes and the country's hardware is once again as good as its software. And I don't mean computer programs: I mean the individuals from all over the world who have made America the world's most creative economy. Creativity is the ability to achieve new things. Americans are about to reinvent themselves, as they've done many times before, and they'll emerge strengthened by the current crisis.