America Didn't Decline. It Went Global.

Sean Starrs[*], *PoliticoMagazine*, February 24, 2014

We've been obsessing over the decline or persistence of American power for more than three decades now. The latest example is a Gallup poll out Monday showing rising dissatisfaction with the United States' standing in the world — but it all started with a wave of declinism in the 1980s, set off by the rise of Japan. Then the doom and gloom suddenly vanished amid the triumphalism of the 1990s, which transformed the United States into the world's only superpower. After the Sept. 11 attacks and the invasion of Iraq, many thought "empire" was a better moniker, with the United States apparently able to reshape world order virtually at will. And then just a few years later — poof! — declinism returned with a vengeance, with American power supposedly crashing like the latest Hollywood reality queen. China supplanted Japan as a hegemon on the rise, and the biggest global financial crisis since 1929 — emanating from the United States itself — was allegedly the final nail in the coffin of the American century.

But really? Is it really possible for American power in the world to flip-flop so wildly over the decades? Surely, the economic underpinnings of national power run deeper than that? And throughout these waves of conventional wisdom over the decades, there have always been contrarians, including in the present. So how is it possible for commentators to look at the same data and come to completely opposite conclusions?

The answer is that people are debating the wrong data, especially today. The traditional way of conceptualizing national power is to look at so-called national accounts — most of all gross domestic product, but also balance of trade, national debt, world share of manufacturing, etc. — relative to other nations or the world. So when Japanese GDP was rising rapidly from the 1960s to the 1980s, people equated this with the rise of Japanese economic power. This made sense in the era before globalization, when production was largely contained within national borders and firms would export their goods and services to compete abroad. So when made-in-Japan radios began flooding the American market in the 1960s, this was reflected not only in increasing Japanese GDP and exports but also in the increasing capacity of Japanese firms like Sony to outcompete American firms like RCA.

But in the age of globalization, as the world's largest transnational corporations now have vast operations across the globe, this equation between national accounts and national power begins to break down. China, for example, has been the world's largest electronics exporter since 2004, and yet this does not at all mean that Chinese firms are world leaders in electronics. Even though China has a virtual monopoly on the export of iPhones, for instance, it is Apple that reaps the majority of profits from iPhone sales. More broadly, more than three-quarters of the top 200 exporting firms from China are actually foreign, not Chinese. This is totally different from the prior rise of Japan, propelled by Japanese firms producing in Japan and exporting abroad.

In the age of globalization, then, the rise of Chinese national accounts could actually reflect the power of foreign transnational corporations, and we cannot know simply by looking at national accounts. Another example is the Chinese auto market, which has exploded to become the largest national auto market in the world since 2009. But again, in the age of globalization, this does not at all mean that Chinese firms are world leaders in automobiles. In fact, Chinese firms can't even compete within China, let alone abroad. There are more than 100 Chinese auto firms, and despite decades of state subsidies and protection, their combined market share in China is less than 30 percent. Foreign firms, dominated by General Motors and Volkswagen, make up the rest. This is totally different from the days when the

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Japanese and South Korean auto markets emerged, as the rise of their national markets reflected the rise of their national auto firms (Toyota, Honda, Hyundai, etc.), establishing a strong base from which to compete abroad.

So we can no longer rely on national accounts to determine national power. Rather, we have to investigate these corporations themselves to encompass their transnational operations — for which national accounts (conceived in the 1920s) are wholly inadequate. Once we analyze the world's top transnationals, a startling picture of economic power emerges. For one thing, national accounts seriously *under*estimate American power, and seriously *over*estimate Chinese power.

So this is what I do in my research, some of which is published in *International Studies Quarterly*[1]. I analyze the world's top 2,000 corporations as ranked by the *Forbes* Global 2000, organize them into 25 broad sectors and then calculate the combined profit shares of each nationality represented. The extent of American dominance is stunning. Of the 25 sectors, American firms have the leading profit share in 18, and dominate (with a profit share of 38 percent or more) in an astounding 13 of these sectors — more than half. No other country even begins to approach this American dominance across such a vast swath of global capitalism. Only one other country, Japan, dominates a single other sector (trading companies), which happens to be one of the smallest of the 25. By contrast, American firms particularly dominate the technological frontier, including a whopping 84 percent of the profit share in computer hardware and software (despite China becoming the largest PC market in the world in 2011), 89 percent of the health care equipment and services sector and 53 percent of pharmaceuticals and biotechnology. Perhaps most surprisingly, American dominance of financial services has actually *increased* since the 2008 Wall Street crash, from 47 percent in 2007 to an incredible 66 percent profit share in 2013. In short, despite almost seven decades of increasing global competition and the rise of vast regions of the world (most of all East Asia), American transnational corporations continue to dominate the pinnacle of global capitalism, a phenomenon that national accounts miss.

This is not to deny that China's rise has been extraordinary, but we have to go beyond national accounts to understand what's going on. Basically, China's economy has a two-tier structure: One tier is state-dominated and closed to foreign (or even private Chinese) competition, and the other is more or less open. In many of the latter sectors, American firms already dominate, so in this sense the rise of China actually *increases* American power and influence as these companies become increasingly embedded in Chinese society. As for the nationally protected sectors, China has risen rapidly mainly in those sectors that are state-dominated (banking; construction; forestry, metals and mining; oil and gas; telecommunications), but these sectors are largely contained within Chinese borders, and their Chinese state-owned enterprises don't compete with American transnational firms abroad (oil and gas being a notable exception).

But if we now live in the age of globalization and these companies operate all over, then can we really count them as *American* power? Yes, because they are still ultimately owned by American citizens — of the top 100 U.S. transnational companies, on average more than 85 percent of their shares are owned by Americans. Thus, an incredible 42 percent of the world's millionaires are American (as opposed to 4 percent Chinese), and more than 40 percent of the world's household net worth is based in America. That the global share of U.S. GDP has declined to less than a quarter since the 2008 crash simply reveals how global American corporate power has become.

But this also drives increasing inequality in the United States, one of the defining issues of our age, from Occupy Wall Street to "The Hunger Games" to President Barack Obama's 2014 State of the Union address. This is because the top 1 percent own 42 percent of Big Business, and as the latter increases its global power, so too does the wealth of American asset-owners — and thus inequality. But we cannot understand this fact without rethinking national power in the age of globalization, and understanding that U.S. power hasn't declined — it has globalized.

[1] Sean Starrs, « American Economic Power Hasn't Declined—It Globalized! Summoning the Data and Taking Globalization Seriously », *International Studies Quarterly* (2013) 57, december