



America's decline – Israel's trouble

YOU ECONOMISTS! *You always see the tunnel at the end of the light!* President Trump says the US economy is stronger than it has ever been. And the numbers back him up.

Numbers, *shmunbers* – America is sinking. One consequence is that Israel is in trouble. Here is why.

It is true that US unemployment was 3.7% of the labor force in October, a 50-year low. Third quarter GDP growth was 3.5%. The economic expansion is in its tenth year. Consumer confidence is strong. But there is a dark side.

There may be a stock market bubble. US stock markets have tripled in value since 2010, while all other stock markets in the world have risen by only an average of 50%. The last time such an imbalance happened was in 1999, just before the dot.com bubble burst. And before that? 1929.

US stock markets have been extremely jittery lately. Tuesday, December 4 saw an 800-point skid in the Dow Jones Industrial Average. After closing on Wednesday, December 5, for President George H. W. Bush's funeral, the stock market opened for trading on Thursday and quickly fell by 500 points, and finally closed the day with a 1,500-point tumble in two sessions.

Morgan Stanley's Ruchir Sharma has pointed out that the global economy looks as if it's at "peak America." He argues forcefully that America may at this moment be at its peak of economic and financial power – and heading downward.

US stocks have outperformed the rest of the world for a decade, and that sort of trend rarely lasts. The current recovery is now the second-longest in US history and it is due for a downturn. Interest rates are rising, corporate profit growth is slowing and budget deficits are surging. Even President Trump seems aware of the likelihood of a dip; this may be why he has been preparing the ground for it, blaming the Federal Reserve for raising interest rates.

Writing in The Washington Post, Fareed Zakaria adds, "The US government now spends \$1.4 billion a day on its debt, 10 times more than the next major industrialized country does. As interest rates rise and more

Americans reach the age of collecting Social Security and Medicare, the federal government will be unable to fund much else."

It is not only the US federal government that is drowning in debt, with a budget deficit of \$1 trillion. US companies, too, are sunk in debt they piled up during the decade-long zero-interest rate orgy. As a result, CNBC predicts that a recession worse than that of 2008 may be on the way.

According to a report by the International Monetary Fund, summarized by CNN: "Historically, peaks in corporate borrowing have been followed by recessions. In the first quarter of 2018, US companies held a total of \$29.6 trillion in debt, more than ever before. More importantly, that figure as a share of the economy is only slightly off its all-time peak in the last quarter of 2017. For almost the past decade, that debt has been essentially free, as the Federal Reserve kept interest rates near zero to spur growth.

"Companies used the money to invest in equipment and research, as well as to gobble up other companies and buy back their own stock. Now, however, interest rates are on the rise again, which could mean that owing lots of money will get more expensive. And it's not just the quantity of the debt outstanding — it's also the quality. In 2017, according to a recent note by Citibank, \$1.6 trillion in new debt issued in the United States went to borrowers with less-than-stellar credit ratings. That's the highest since the years leading up to the 2008 financial crisis, and 2018 is on track to almost match it."

It is not only government and businesses that are highly leveraged, i.e., deep in debt. Consumers, too, owe huge amounts. Total credit, including student and auto loans, is above its pre-2008 peak, according to the Federal Reserve Bank of New York. If the US economy tanks and unemployment soars, how will people pay back their loans?

There is a highly technical signal that has riled capital markets – the so-called inverted yield curve. That means, interest rates on long-term US Treasury bonds are lower than short-term rates. Normally, it is the opposite. The reason – people think a recession is coming, hence the Federal Reserve will lower fu-

ture interest rates in response. This inverted yield curve has signaled recessions in the past but it also sounds false alarms at times.

Summing it all up, The New York Times's Binyamin Appelbaum notes, "Emerging signs of weakness in major economic sectors, including auto manufacturing, agriculture and home building, are prompting some forecasters to warn that one of the longest periods of economic growth in American history may be approaching the end of its run."

General Motors recently announced it is closing five of its plants, including a large one in Oshawa, Ontario, laying off many thousands of its workers.

Is that it? A recession is coming? Recessions are a familiar part of healthy capitalism. Do you know how many recessions the US has had since World War II and then bounced back?

Yes, eleven. From 1945 to 2001, there were 10 business cycles. Recessions lasted an average of 10 months and expansions lasted an average of 57 months. The 2008 downturn was far more serious, but the US bounced back. But there is far more to the "America in decline" analysis than just the economy.

Once, there was national unity in the US. Just read the Latin slogan on US coins: *E pluribus unum*, meaning out of many, one. But this unity is long gone. And a country divided from within cannot lead the world or make peace in the Middle East or even try to. Nor can it thrive, prosper and build a future for its children.

How divided is the United States politically? Data from the Cooperative Congressional Election Studies based on validated voters tell the story.

In the November 6 election for the US House of Representatives, two-thirds of women voted Democrat, but only 50% of men. Two-thirds of those aged 18-39 voted Democrat but only 45% of those aged 65 and older. Two-thirds of college-educated women voted Democrat; and only 37% of non-college-educated men.

America is split down the middle by geography (the east and west coasts vs. the heartland), gender, age, education, income and race. And the split has grown substantially,



BRENDAN MCDERMID / REUTERS

A trader works on the floor of the New York Stock Exchange in early December

according to the same data, since the 2008 elections. Moreover, as President Trump actively runs for reelection in 2020, the toxic, abrasive them-or-us tribal politics he brings may get even worse.

The eminent Jewish historian Arthur M. Schlesinger, Jr. once wrote, in his book “The Disuniting of America”: “The new ethnic gospel’s ... underlying philosophy is that ... ethnicity is the defining experience for most Americans ... and that division into ethnic communities establishes the basic structure of American society...[This] reverses the historic theory of America as one people – the theory that has thus far managed to keep American society whole ... The historic idea of a unifying America is now in peril...”

He wrote those words in 1991. They have turned out to be prophetic, 25 years later.

Israel cannot gloat that it is doing better than America in decline. Here, too, there are dark clouds.

Prime Minister Benjamin Netanyahu defends his narrow coalition of 61 by warning that his current government is the most right-wing in Israel’s history, hence it must not be toppled. Partly as a result, 46% of Israelis believe that democracy in Israel “is in grave danger”, according to the Israel Democracy Institute, and 47% of respondents said they thought Israel’s leadership was either “quite corrupt” or “very corrupt.”

And the Israeli economy? As total tax revenues decline, the government budget deficit has climbed from a stable 1%-2% of GDP for the past three years to 3.5% at the end of

November. With elections looming, OECD experts urge Israeli leaders to restrain their spending – but pre-election populism may bring the opposite.

I can see that the US may have a problem – but why does it impact Israel?

It is pretty simple, actually. The US is Israel’s strongest supporter. We have your back, the Americans constantly tell Israeli leaders. We moved our embassy to Jerusalem. But the bigger America’s internal social and economic woes, the less engaged it is in the Middle East and the world. When Israel does need someone at its back, there may be nobody there.

Fareed Zakharia notes, “Anywhere one goes in the world these days, leaders talk about the United States’ retreat from the world stage. They note that it began before Trump. Most date it to the aftermath of the Iraq War, spanning the administrations of George W. Bush, Barack Obama and now Trump. And while the Trump administration is bellicose in its policies, especially on trade, they are all in service of a Fortress America mentality that seeks less engagement with the world, politically and economically.”

“American retreat will not produce a better world,” Zakharia warned. “It will be messier and uglier. To get a glimpse of it, look at the Middle East today. As the United States has withdrawn from its traditional role as the region’s power broker — maintaining relations with all sides and striving to achieve some degree of stability – Iran, Turkey and Saudi Arabia are all jockeying for influence.

The United States has simply subcontracted its policy to Riyadh, encouraging the Saudis’ reckless behavior and resulting in the world’s gravest humanitarian crisis, the war in Yemen, where 12 million people are on the verge of famine.”

Russia has become the dominant Middle East power. When America retreats, and when the American president declares, I am a nationalist, global chaos results.

Technion students learn the Second Law of Thermodynamics – the state of entropy (disorder) of the entire universe will always increase over time. With America in decline, this has never been truer.

Israel, an open economy, lives by trade. If the US economy slows, with China’s economy slowing, and with the European Union in turmoil over migrants, Brexit, Italy’s debts and French demonstrations, Israel’s foreign markets may decline.

But more worrisome than slowing exports is the absence of a traditional global American presence to bring stability, order and democratic values to the world.

Many in the US and abroad loathe Trump. They should not, however, gloat when he leads America into global decline and isolationism. A world with a declining America is chaotic, violent and troubled. It is a world fraught with huge challenges for Israel. ■

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