

The economic curse of great powers – Is US dominance threatened?*

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Glenn Hubbard – Tim Kane:

Balance – The economics of great powers from ancient Rome to modern America

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Glenn Hubbard and Tim Kane's book published in 2013 by Simon & Schuster, entitled "Balance: The Economics of Great Powers from Ancient Rome to Modern America" examines the great empires of the past that have risen and then fallen into decline from a purely economic perspective.

The authors analyse the economic and institutional drivers behind the rise and subsequent fall of ancient Rome, the Chinese, Spanish, and Ottoman empires, Japan, the UK, the European Union and California. At the end of the book, the authors address the current situation of the United States and formulate recommendations for the US on how to avoid meeting the same fate, that is, inevitable collapse.

Although the rise and fall of great powers has been discussed by many and in many ways in the past, for instance in Paul Kennedy's 1986 book "*The rise and fall of the Great Powers*", the great powers have not been analysed from an economic perspective, giving rise to many flawed conclusions about their demise.

The authors argue that the fall of every great power was triggered by internal economic and institutional imbalance, as the weight of great powers stems primarily from their economic dominance and only indirectly from their military force or geographic size, which is more apparent to the world at large. For instance, the demise of the Roman Empire was far more attributable to its economic faltering than its excessive geographic expansion, which was long considered by many as the reason for its fall. The decline that unfolded in the 3rd century resulted from a flawed economic policy that weakened the military and rendered it unable to face Barbarian invasions.

* The views expressed in this paper are those of the author(s) and do not necessarily reflect the official view of the Magyar Nemzeti Bank.

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The flawed economic policies of great powers always stemmed from the institutional systems that enabled their rise, but were incapable of accommodating change or reacted inadequately to such change. Late or flawed reforms generally resulted from a lack of knowledge or pressure from groups interested in maintaining the prevailing institutional system. Staying on the topic of the Roman Empire, policy-makers had no means of foreseeing the negative impact of a depreciating currency on the economy, chiefly on the all-important field of commerce, as economics had not yet emerged as a discipline at the time, and inflation or mechanisms of monetary policy were simply unknown. At the time, continuously depreciating the currency seemed entirely logical and rational, generating increasingly larger volumes of tax revenue for rulers, which they used to attempt to fund the growing state and military expenditures. However, they did not (and could not) predict the long-term adverse impacts.

The aforementioned great powers all followed a similar path, encountering difficulties in reforming the institutional system that had fostered their rise, either due to a lack of knowledge or action by interest groups.

The solutions to the current issues facing the United States due to its indebtedness are not unbeknownst to politicians, but the political institutional system chooses to short-change the future to focus on short-term success, i.e. securing re-election. This institutional system will not allow political decision-makers to take steps in the near future that could lead to long-term success at the price of short-term political sacrifices.

The book asserts that the demise of the US is not imminent, as its productivity and capacity for innovation will continue to support its leading position, its economic institutions remain the best in the world, and rivals can only hope to approach its level of development. History has proven that a bout of political stagnation may render smoothly functioning institutions outdated, which could give rise to serious risk. The great powers of the past show that the US cannot eternally stay on a path of political polarisation and budget imbalance. Congress will have to make difficult decisions in the face of fiscal challenges to prevent them from becoming an even bigger issue in future.