

During the second half of the 20th century, the United States became the world's leading power both militarily and economically. While we still have a commanding position in world leadership, our prominence is eroding in the 21st century. The global economy has changed the way the world operates.

The decisions we make here in the United States can no longer be focused solely on their importance to us alone. That includes the choices we make in all endeavors: governmental, military, industrial, scientific, educational, labor management, environmental, and even religious. The ethnocentric attitude we developed after WWII that "what's good for the U.S. is good for the world" weakens us in a global economy. To be successful in the 21st century requires an understanding of the factors that transformed everyday international trade into the global economy. Making decisions today is a far more complicated process. Input and results are globally intertwined. Innovative thinking is crucial for success in all matters in today's world.

In 2005, Thomas Freeman declared that "the world is flat" in his book by that title. He was not describing a new geography but telling us technology had leveled the knowledge horizons that previously separated nations and continents. People around the world now learn what is happening with each other almost instantly. Totalitarian governments can no longer shield their citizens from the basic freedoms enjoyed in

continued on page 12

The decisions we make here in the United States can no longer be focused solely on their importance to us alone.



Global Economy

The Importance of Innovation

by Pete Barile



Video Lecture:
<http://goo.gl/FcJlTh>

many other countries. Consumer-oriented lifestyles of the Western Hemisphere are the new standard to want and to have in developing countries. Breaking news from financial centers around the world is reported 24 hours a day by the likes of CNN, BBC, and CNBC, especially on the Internet. New York's position as a key financial center now suffers from its position in the 24-hour business day. As a country we are at the end of the 24-hour day, which starts at the International Date Line west of us in the Pacific Ocean. Thus breaking world business and financial news is reported in other financial centers before we in the U.S. even wake up. The explosion of instant knowledge is part of the global economy, but there are other factors that define it and control it for better or worse.

Politicians often run campaigns on promises to create jobs by bringing manufacturing back to the U.S. What they fail to understand is that no one ever voted in a free election to close the furniture or textile industries or other businesses in the U.S. We did not vote with an "X" in a box, but we voted with our dollars. Personal finances are a major influence on how we think and act in the U.S., and that is the same for most people around the world. When mass marketers and even higher-end retailers offered lower prices for consumer goods, we rushed to their stores. Within a few years many U.S. manufacturers went out of business. The fact that these products came from offshore sources, primarily China and the Far East,

When mass marketers and even higher-end retailers offered lower prices for consumer goods, we rushed to their stores. Within a few years many U.S. manufacturers went out of business. The fact that these products came from offshore sources, primarily China and the Far East, did not matter.

did not matter. Prices ruled. Sure, we blamed China after the fact, but it was too late. We became addicted to lower prices. Even if we are willing to again accept higher prices for U.S.-made goods, our manufacturing infrastructure has been disassembled, so a rapid return of U.S. production and jobs is not feasible. Where industry has returned it is more automated to meet world competition, requiring far fewer employees than before the global economy drove business offshore.

China, with 1.3+ billion people, became a major factor in the global economy in the 21st century. The population is not the sole contributing factor. Per capita consumption and infrastructure requirements

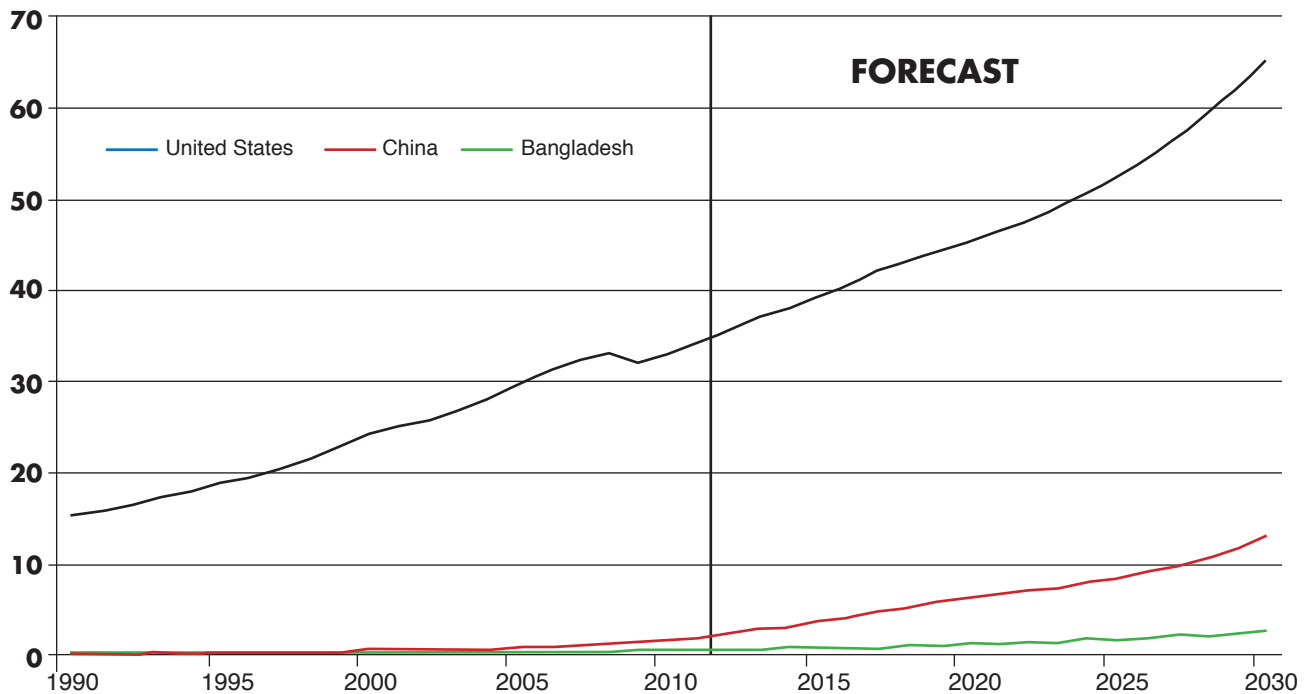
for China and its industries developed simultaneously at a speed and level never experienced in the world's history. Remember how the U.S. championed democracy and capitalism over the "evils" of communism? We emphasized the importance of a strong consumer economy, never thinking communism and capitalism could coexist. China, for the first time in history, combined both into one society and entered the 21st century as if shot out of a cannon.

Chinese leaders, educated in the benefits of a capitalist environment for an export-focused economy, were not encumbered by the bureaucracy and multiple regulations we in a democratic society placed on ourselves over the second half of the 20th century. In less than two decades, China built the infrastructure of a modern nation while promoting a capitalistic business climate. China creates a new millionaire almost daily and adds billionaires to its ranks annually. Capitalism flourishes at a historic rate within a communist government. Is the U.S. wrong to be concerned about the environment and people's rights when growth conflicts with progress? We can argue whether our path is right or wrong, but we cannot deny what is happening. What are we going to do about it? The thought processes that served us well in the second half of the 20th century are out of tune with the global economy of the 21st century.

Few could have predicted the rapid rise of China in the 21st century. There was no historical precedent.

Private Consumption per Capita

Thousands, U.S. dollars



Sources: Economist Intelligence Unit, Federal Reserve Bank of Atlanta calculations

However, there were signs in the last decades of the 20th century that our leadership role in the world based on military strength and a consumer-driven economy might have weaknesses. During the 1960s our military might and political powers were not enough to prevent a communist takeover in the small, distant land of Vietnam. We led our allies to victory in WWII by drawing on our natural resources from within our own borders, yet by 1970 we had to import fuel and suffered a blow when Saudi Arabia cut off supplies in 1974. Our automotive industry failed to foresee the future impact when the first Japanese cars came ashore in California in the 1970s. We entered the 21st century with only three U.S. auto-

mobile manufacturers remaining of the many serving our market at the end of WWII. Two had to be bailed out of bankruptcy by our government. It took a financial disaster to change the thinking of a whole U.S. industry and return it to a competitive level in the global economy. Other industries have suffered similar fates because they did not adjust to the global economy.

Population growth alone is not an adequate indicator of influence on the global economy. Various oil crises since the 1970s have been resolved by finding new sources, but ultimately the supply is finite as is the supply of all of the world's raw materials. Even something as basic as potable water for personal

and agricultural use is now an issue in many regions. In our "world is flat" global economy, the per capita consumption of goods and services is critical. As third-world populations learn what we in the Western Hemisphere have, they are demanding more. China, with a population of 1.3 billion, provides reason alone to study the impact of major changes in per capita consumption levels. Today a person in China uses three times the goods and services per capita as does a person in Bangladesh, while we in the U.S. use 35 times the per capita rate of Bangladesh. The Chinese population is just waking up to a consumer-driven culture.

continued on page 14

In 2012 it was announced that China had registered its billionth cell-phone user. That number is nearly three times the population of the U.S. Fifteen percent of the Chinese population is licensed to drive. Not all have a car, since many drive a bus, truck, or taxi. In the not-too-distant future, the percentage of drivers will grow to 20 percent. That five-percent increase in China alone will require another 65,000,000 vehicles, equal to the total production of vehicles in the U.S. over four to five years. Now add in televisions, dishwashers, and all the other accoutrements of our standard of living, and see what the impact will be on the finite supply of materials.

Turn again to China as an example of a country that leaped from ancient times into the 21st century. The U.S. and Europe had over 100 years to develop the infrastructures that support our economies, including our vast system of landline phones, roads, and airports. Many are now showing their age and sometimes fail us. China, without this history, installed country-wide cellphone systems in a matter of years. Its airports, ocean ports, and train lines, all new since the beginning of the 21st century, are among the most efficient and modern in the world. Multiply that fact by the awakening of India and other nations in the Far East, and extrapolate the impact on world supplies of materials, financial resources, and the pressures on governments to meet the demands of citizens. The global

More efficient use of the world's raw materials is critical to extending their benefits for mankind. Integrating third-world economies into the 21st century must be done with care and forethought so as not to cause undue harm to world economies and the environment but still satisfy the desire for a better lifestyle for those people.

economy has fostered a new world order and requires new thinking to survive and address conflicts as the gap between consumption levels and available resources becomes ever smaller.

In a global economy we no longer live in a vacuum. Even decisions made in small-town America will affect or be affected by the global economy. A fresh and innovative approach must be incorporated into every decision our leaders make in all fields of endeavor. We have a difficult hurdle to overcome in our own society. As a voting public

we are not willing to support those leaders who propose solutions for the long term. We want answers to today's problems today. We believe tomorrow's crisis will be for others to solve. This philosophy is detrimental to us as individuals and as a nation. Innovative thinking is not just a matter of success for the 21st century but a matter of survival.

Our youth must learn what is happening in the world and be better trained in the interdisciplinary nature of one's actions. More efficient use of the world's raw materials is critical to extending their benefits for mankind. Integrating third-world countries into the 21st century must be done with care and forethought so as not to cause undue harm to world economies and the environment but still satisfy the desire for a better lifestyle for these people. Religious and political conflicts that separate nations must find peaceful resolutions. The global economy makes weapons of war almost as available as consumer goods. In the global economy terrorists and peaceful nations alike have access to the same technologies. A few can wreck the destruction that used to take armies.

Innovation in the 21st century is not just something for developing new consumer products but critical at all levels of endeavor in a world driven by the global economy. This must be the challenge we put before our youth as they prepare themselves to lead us well into the 21st century. ■

Pete Barile is the president of Daniel Paul Chairs.



Pete Barile discusses the history of the development of the global economy and the many challenges it presents.