



Book When Giants Fall

An Economic Roadmap for the End of the American Era

Michael J. Panzner
Wiley, 2009

Recommendation

Books about the future usually mix and match four broad categories: The present is great or awful, and the future will be great or awful. This book builds on the awful end of today's economic problems. Michael J. Panzner reinforces the seesawing anxiety some people already feel about America and the future by contending that these dreary times will almost certainly worsen. People have been selling books about America's demise for decades and maybe one of them will be right someday, but this one is pretty dire. *BooksInShort* admires Panzner's diligence and hard work, but notes that he offers few, if any, mitigating beds of roses to brighten his forecast. Instead, he blends generally negative economic, ecological, demographic and geopolitical news to project a downward trend that would scare even the most daredevil economic rollercoaster rider. Trends that harm America are likely to injure many other nations also, so some positive, mutual pushback seems inevitable, though Panzner cites instead how other nations would benefit from a weaker U.S. Given the reporting on negative trends and dangers he amasses to explain his pessimism, it would be no wonder if Panzner is depressed. If he's right, there will be plenty of depression to go around.

Take-Aways

- As America's economic might falters, its global military power will also decline.
- The U.S.'s waning dominance will invite other nations to fill the resulting power void.
- Rising populations worldwide may outstrip natural resources, breeding hunger and disease.
- Heightened regional interests threaten local wars that could spread into a global conflict.
- High levels of national debt magnify the negative impact of economic destabilization.
- Globalization's painful dislocations have energized the deglobalization movement.
- To protect your own interests, consider commodities that don't have massive energy requirements as potentially good investments.
- Change your lifestyle now so you can conserve what you earn and consume less.
- Think of ways your business can find raw materials and resources in waste products.
- Plan on surviving future natural disasters without government help.

Summary

When Economic Structures Fall Apart

America has been spending more than it can afford for several decades. The dollar is sinking in value and the U.S.'s ability to borrow in order to fund its voracious consumerism may be hitting its limit. Wars in Iraq and Afghanistan have spurred the rise of anti-Americanism in every corner of the globe. America's industrial might has moved overseas, and its hopes of replacing that with a knowledge economy are evaporating as China and India crank out increasing numbers of engineers and businesspeople.

“For many Americans, the years ahead will be nothing short of a modern Dark Ages, where each day brings forth fresh anxieties, unfamiliar risks and a deep sense of foreboding.”

Countries now feel comfortable moving out from under the American umbrella and seeking their own places in the international sunshine. The Russian bear is out of

hibernation and projecting its power onto some of its former satellites. The Middle East is changing and America's role is under pressure from nations that supply the world with much of its oil. Western countries do not want America to harm their national economic stability by doing something that sends the price of energy skyrocketing even higher. Nations want to seek their own self-interests and act on their own aspirations. As America continues to demonstrate a lack of strength and a weakening ability to deal with various global ills, the U.S. may find that its days as the lone superpower are waning.

Disasters Everywhere

More than 200 years ago, political economist Thomas Malthus predicted that rising populations would inevitably lead to food and resource shortages, constrained standards of living, and eventual famine, disease and mass death. While the world has avoided the general catastrophe he predicted, today's increasing population figures, and the exploding standards of living in countries like India and China, are putting unprecedented pressure on natural resources, energy and food production. As governments wrestle with supplying crucial resources, they must balance survival issues with concerns for the environment and sustainable forms of business.

“Americans...will have to get used to a ‘new normal,’ where only those who are flexible, open-minded, resilient and fully prepared for the worst will be able to survive, let alone come out on top.”

Some resources, such as oil, seem to be in significant decline, while other energy resources, such as coal, may be too ecologically harmful to use. Many countries that require more clean energy are adopting nuclear power, but environmentalists reject it because of the ecological problems involved in handling the waste it produces. Natural Malthusian disasters, such as Hurricane Katrina and the 2004 Indian Ocean tsunami, have done devastating, widespread harm to population centers. The damage was not only the loss of life and local infrastructure, but also the impact on the local and global economies.

Widespread Violence

Regional conflicts are on the rise. Pakistan and India have brandished nuclear weapons over Kashmir. North Korea threatens Asia and the world with its new nuclear and missile capabilities. Russia has invaded portions of its neighbors' lands as it tries to reclaim superpower status. China is rapidly building its military capacity and continues to threaten Taiwan. The U.S. has proven the limits of its military reach, which has emboldened other rising nations to try to gain power and influence rather than being subservient to the U.S. or any other major power.

“Mankind is being forced to come to terms with a new reality: the end of the age of abundance.”

Rising violence is a threat in many nations. For example, *The New York Times* reported that the increasing cost of rice spurred “food riots in Guinea, Mauritania, Mexico, Morocco, Senegal, Uzbekistan and Yemen.” The immigration of ethnic minorities is causing major shifts in the makeup of European nations, which now face riots, car burnings, bombings and religious violence (as well as electoral defeats) as these groups demand more accommodation. For instance, ethnic conflict has led to “Xenophobic attacks on immigrants in...Italy.” In some countries, this internal conflict signals a power-structure realignment, while in others it threatens existing governments. External forces pursuing their own gains underwrite and inflame the troubles in many nations. The U.N. has proven utterly ineffective in dealing with these conflicts, letting local hot spots fester despite the danger that they could set fire to the entire globe, again unleashing the disaster of world war with an even more devastating impact than in the past.

Money Devalues

The problem with borrowed money is that it has to be repaid. Nations around the world, especially the U.S., have borrowed so much money that debt greatly magnifies the effect of any hiccup in the world economy. China holds nearly \$2 trillion in American debt and hundreds of billions worth of debt from other nations. While these countries have been financing consumerism with borrowed Chinese money, China has been using their spending to finance its industrial, urban and military expansion.

“Rising budget and trade imbalances have transformed the United States from the world's largest creditor to its largest debtor.”

Nations that try to repay such debts by printing money to build up their currency supplies will suffer domestic inflation. Meanwhile, China and Russia are putting forward ideas for a new global currency. This could end the U.S. dollar's long reign as the world's default reserve currency. That would be disastrous for America. If the U.S. reduces its appetite or budget for foreign goods and energy, supplier nations will lose their major market. China also has been increasing its economic espionage efforts and building its capabilities for electronic warfare. For instance, *The Financial Times* reported that China's “military hacked into a Pentagon computer network in June [2007] in the most successful cyber attack on the U.S. Defense Department.” It said China is capable of mounting disabling computer assaults and has already “penetrated the networks of U.S. defense companies and think-tanks.” If China felt threatened or decided to exercise power on behalf of its interests, it also could cause devastating economic consequences in other nations. By provoking economic destabilization against strategic targets and choosing its timing carefully, China could set itself up to take actions – such as annexing Taiwan – that other nations would be unable to counter.

Deglobalization

Free global trade was all the rage from the 1980s to the end of the 1990s, when its supporters in the old industrial nations lost faith in it as their factories closed. Some people claim that the traditional economics of Adam Smith and David Ricardo no longer apply because the world has changed. People supported the old industrial system when it provided their communities with jobs and economic growth, but they are understandably less enamored with it when the economic result is shuttered factories and exported jobs that land in China and India.

“Instead of an established world order, it will be a global free-for-all.”

Yet, protestors in both India and China are railing against the impact of globalization and industrialization, which have torn apart their traditional way of life, divided their families, and destroyed their local forests, streams and vistas. To quell such unrest, governments are reinstituting trade restrictions, and regulating business and construction more than they have in recent decades. People are more interested in protecting what they have than they are in accepting less for themselves in the name

of some vague, overall betterment. Deglobalization is gathering energy. That division will affect the economic future of people around the world. The flatter, more connected world is going to suffer new fractures and end up with fewer connections.

Factionalization

As America's power and authority dwindle, other forces will fill the void, including an unstable mish-mash of smaller countries vying for influence, nongovernmental organizations acting like governmental institutions and international corporations using various institutions to protect their interests. The world will divide into hot zones with regional leaders dominating local conflicts. From Central America to South America, the Middle East, Kashmir, Tibet and the Korean peninsula, the future will see a mix of leaders trying to establish and maintain power, or a stew of popular movements trying to overthrow established regimes. The resulting network of clashing interests will inevitably bring down existing authority, and replace it with some transformed version of power – or with chaos.

“The intersection of crime, politics and economics is just one of the many factors that will undermine stability and spawn an upsurge of economically debilitating violence in the years ahead.”

The world will be more divided than it has been in a century or longer, with several centers of economic and military might. The U.S. will play a much smaller role than it has in living memory. As China grows stronger and richer, it may acquire the final distinction of a truly global power by becoming the target of more popular protests and increasing numbers of terrorist attacks. Its businesses and investors will have to operate under entirely new rules.

New Scarcity

Unstable times create many new opportunities, but entrepreneurs will have to pay very close attention and be ready to act on a moment's notice. You can make lemonade when reality hands you lemons, if you can identify the right opportunities. Invest in equipment that will help you maximize your return on labor and use your limited resources efficiently. For instance, many businesses are generating new goods by transforming waste products into raw materials. Rethink how you package your products, how you ship them and how you market them. As people and businesses make do with less, you will have to compete even harder for consumer dollars in a more regulated marketplace with less free capital available to fund expansion. Businesses will have to manage in ways that allow them to function despite unexpected, sudden disruptions in global supply chains and markets. These new constraints don't mean that doing business successfully is impossible; it just means that you have to be smarter and tougher.

“As...the existing geopolitical order continues to crumble, hearts and minds will close along with borders. Nationalistic stirrings will...overwhelm the integrative spirit of the past several decades.”

Optimism about the future and U.S.'s prominent role in it is embedded in the American mindset and very difficult to alter. However, the flood of global change is washing away the national foundation that has always generated success and prosperity. America cannot stop the rise of China and India, its strongest competitors for available resources and markets. America's indebtedness and constrained growth prospects portend a much more limited future for it and its companies. Just as the U.S. swept into Europe and Asia in the 20th century, other nations now will sweep up industries and markets the U.S. can no longer dominate.

A Personal Path through the Mess

To benefit from this global growth, invest outside of the U.S. For instance, Canada offers an easy, relatively safe, superior investment opportunity. Avoid areas that could suffer unrest because of religious strife. Today's business world requires you to be much more sensitive to politics and variable time horizons. The idea of buy-and-hold with no further consideration is over. U.S. equities may be poor investments for years to come as companies struggle with red ink and many bleed to death. Be cautious about fixed payout investments because inflation may follow recent increases in government spending and the supply of money. Commodities may be promising, but avoid companies on the wrong side of the energy, regulatory and ecology equation.

“[Expect] a world in which working hours are climbing, pay and benefits are falling, opportunities are disappearing, and growing anxiety about what each day will bring is a disheartening fact of life.”

To get through the coming years and decades of instability, develop your survival instincts. Don't follow the crowd, because you could all end up in the slaughterhouse together. Preserve your capital; save more of your earnings. Spend less. Use less energy. Get out of debt. Consider moving into an urban area with mass transportation and a sound infrastructure to meet your daily needs. Commuting to work in your car and returning to a big, suburban house is likely to become a luxury you can no longer afford.

“People will adjust lifestyles, approaches and attitudes to a new scheme of things. Mankind will be ready, once again, to move forward, toward better times for all.”

Start making these changes now before they are forced upon you. Family and social ties are likely to become more important. Build them now, so you can rely on them when you need them. Government is not a substitute and you won't be able to weather the future alone. Leisure pursuits may become a thing of the past because people may need several jobs just to get by. You may experience things that have been unthinkable throughout most of America's history, such as famine, drought, epidemics and environmental collapse. You will need a plan for coping with each new problem without help from the government. Plan on living in a world where the motto is, “Every man for himself.”

About the Author

Michael J. Panzner has worked for 25 years for major firms, such as HSBC, Soros Funds, ABN AMRO and others, in the New York and London stock markets. He is a faculty member at the FT Knowledge/New York Institute of Finance. He is also the author of *Financial Armageddon*.