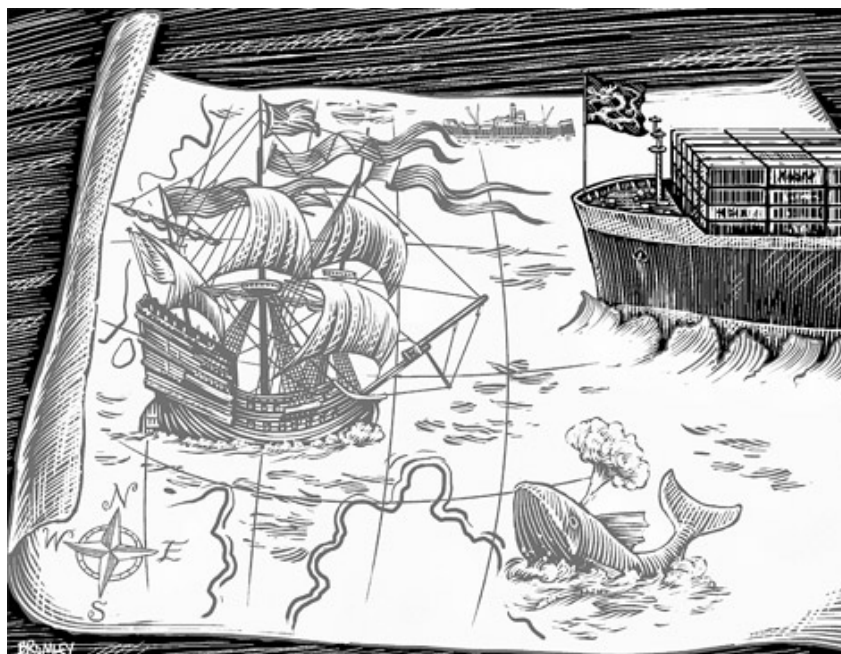


The decade the world tilted east

By Niall Ferguson

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I am trying to remember now where it was, and when it was, that it hit me. Was it during my first walk along the Bund in Shanghai in 2005? Was it amid the smog and dust of Chongqing, listening to a local Communist party official describe a vast mound of rubble as the future financial centre of south-west China? That was last year, and somehow it impressed me more than all the synchronised razzamatazz of the Olympic opening ceremony in Beijing. Or was it at Carnegie Hall only last month, as I sat mesmerised by the music of Angel Lam, the dazzlingly gifted young Chinese composer who personifies the Orientalisation of classical music? I think maybe it was only then that I really got the point about this decade, just as it was drawing to a close: that we are living through the end of 500 years of western ascendancy.

“Western Ascendancy”: that was the grandiose title of the course I taught at Harvard this past term. The subtitle was even more bombastic: “Mainsprings of Global Power”. The question I wanted to pose was not especially original, but increasingly it seems to be the most interesting question a historian of the modern era can address. Just why, beginning in around 1500, did the less populous and apparently backward west of the Eurasian landmass come to dominate the rest of the world, including the more populous and more sophisticated societies of eastern Eurasia?



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My subsidiary question was this: If we can come up with a good explanation for the west's past ascendancy, can we then offer a prognosis for its future?

Put differently, are we living through the end of the domination of the world by the civilisation that arose in western Europe in the wake of the Renaissance and Reformation – the civilisation that, propelled by the scientific revolution and the Enlightenment, spread across the Atlantic and as far as the Antipodes, finally reaching its apogee in the age of industry and empire?

The very fact that I wanted to pose those questions to my students says something about the past 10 years. I first began to teach in the US because an eminent benefactor of New York University's Stern school of business, Wall Street veteran Henry Kaufman, had asked me why someone interested in the history of money and power did not come to where the money and power actually were. And where else could that be but downtown Manhattan?

As the new millennium dawned, the New York Stock Exchange was self-evidently the nodal point of a vast global economic network that was American in design and largely American in ownership.

The dotcom boom was ending, to be sure, and a nasty little recession ensured that the Democrats lost the White House just as their pledge to pay off the national debt began to seem almost plausible.

But within just eight months of becoming President, George W. Bush was confronted by an event that emphatically underlined the centrality of Manhattan to the western-dominated world. The destruction of the World Trade Center by al-Qaeda terrorists paid New York a hideous compliment: for anyone serious about challenging the American global order, this was target number one.

The subsequent events were exhilarating. The Taliban overthrown in Afghanistan. An "axis of evil" branded ripe for "regime change". Saddam Hussein ousted in Iraq. The Toxic Texan riding high in the polls, on track for re-election. The US economy bouncing back thanks to tax cuts. "Old Europe" – not to mention liberal America – fuming impotently.

If Napoleon had been, in Hegel's phrase, "the Zeitgeist on horseback", then Arnold Schwarzenegger, the action-hero turned governor of California, was the Zeitgeist behind the wheel of a Hummer. Fascinated, I found myself focusing on empire, in particular the lessons of Britain's empire for America's.

As I reflected on the rise, and probable fall, of America's empire, it became clear to me that there were three fatal deficits at the heart of American power: a manpower deficit (not enough boots on the ground in Iraq), an attention deficit (not enough public enthusiasm for long-term occupations of conquered countries) and above all a financial deficit (not enough savings relative to investment and not enough taxation relative to public expenditure).

Back in 2004 I warned that the US had imperceptibly come to rely on east Asian capital to stabilise its unbalanced current and fiscal accounts. The decline and fall of America's undeclared empire might therefore be due not to terrorists at the gates nor to the rogue regimes that sponsor them, but to a fiscal crisis at home.

The realisation that the yawning US current account deficit was increasingly being financed by Asian central banks, with the Chinese moving into pole position, was, for me at least, the eureka moment of the decade.

When, in late 2006, Moritz Schularick and I coined the word "Chimerica" to describe what we

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saw as the dangerously unsustainable relationship between parsimonious China and profligate America, we had identified one of the keys to the coming global financial crisis.

The illusion of American hyperpuissance was shattered not once but twice in the past decade. Nemesis came first in the backstreets of Sadr City and the valleys of Helmand, which revealed not only the limits of American military might but also, more importantly, the naivety of neoconservative visions of a democratic wave in the greater Middle East. And it struck a second time with the escalation of the subprime crisis of 2007 into the credit crunch of 2008 and finally the “great recession” of 2009. After the bankruptcy of **Lehman Brothers**, the sham verities of the “Washington Consensus” and the “Great Moderation” were consigned forever to oblivion.

And what remained? By the end of the decade the western world could only look admiringly at the speed with which the Chinese government had responded to the breathtaking collapse in exports caused by the US credit crunch, a collapse which might have been expected to devastate Asia.

While the developed world teetered on the verge of a second Great Depression, China suffered little more than a minor growth slow-down, thanks to a highly effective government stimulus programme and massive credit expansion.

It would of course be ingenuous to assume that the next decade will not bring problems for China, too. Running a society of 1.3bn people with the kind of authoritarian planned capitalism hitherto associated with the city-state Singapore (population 4.5m) is fraught with difficulties. But the fact remains that Asia’s latest and biggest industrial revolution scarcely paused to draw breath during the 2007-09 financial crisis.

And what a revolution! Compare a tenfold growth of gross domestic product in the space of 26 years with a fourfold increase in the space of 70. The former has been China’s achievement between 1978 and 2004; the latter was Britain’s between 1830 and 1900. Or consider the fact that US GDP was more than eight times that of China’s at the beginning of this decade. Now it is barely four times larger – and if the projections from Jim O’Neill, Goldman Sachs’ chief economist, prove to be correct, China will overtake America as soon as 2027: in less than two decades.

What gave the west the edge over the east over the past 500 years? My answer is six “killer apps”: the capitalist enterprise, the scientific method, a legal and political system based on private property rights and individual freedom, traditional imperialism, the consumer society and what Weber probably misnamed the “Protestant” ethic of work and capital accumulation as ends in themselves.

Some of those things (numbers one and two) China has clearly replicated. Others it may be in the process of adopting with some “Confucian” modifications (imperialism, consumption and the work ethic). Only number three – the Western way of law and politics – shows little sign of emerging in the one-party state that is the People’s Republic.

But does China need dear old democracy to achieve enduring prosperity?

The next decade may well answer that question. Then again, it may take another 500 years to be certain that there really is a viable alternative to western ascendancy.

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