

# A TACIT THOUGHT

## WEEKLY INSIGHTS AND VIEWS

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Is America in decline?

A lot of ink is spilled in the press talking about America's relative decline and the coming China century. Whilst there can be no doubt that China will play an increasingly important role on the world stage, people tend to forget that China has demographic and debt problems of its own and a history that is actually rather introspective.

Despite the best efforts of Mr Trump, evidence of US decline is everywhere to be seen except in the statistics.

US firms have an unrivalled capacity to monetise Research and Development (R&D) and they do a lot more of it than rival international firms. According to a recent survey by the OECD, the "club of rich nations," US firms spend something approaching 6% of net sales on R&D. That is more than double the rate of research funding in both Japan and Europe. Equally, US firms turn that R&D into cash far more efficiently than their international counterparts. European and Japanese firms generate free cashflow of just a bit more of net sales whilst the US enjoys a rate of free cashflow closer to 7%.

In terms of financial efficiency and focus on shareholder returns, the US shows no sign at all of relinquishing its leadership.

Moreover, in a development reminiscent of the "gilded age" of the Vanderbilts and Rockefellers, the US is home to the bulk of the world's "superstar" companies. The top 10% of superstar companies have a combined market capitalisation greater than the bottom 90%; most of them are US companies and most of them are found in Silicon Valley.

What's also interesting is that whilst capital investment has largely held up in the West, rates of capex have been falling in the Emerging markets and are now falling into line with developed averages. The world needs less capex and more consumer spending and this trend bodes well for capital efficiency in those EM markets but, of course, firms have to renew their capital stock to produce goods and services in the future so this declining EM trend will serve to help developed market competitiveness including that of the US.

If there is a dark cloud on this US horizon, it is arguably not Mr Trump who is likely to little more than a painful footnote when the history books are written, but in competition regulations. The world authorities are clearly lagging substantially the global aspirations of these superstars and global networks tend toward global monopoly. A network is incrementally more valuable the more people use it.

The multi-billion Euro fine served on Google this week by the EU should be seen in this context. The freewheeling days of network entrepreneurs are probably behind them. Nevertheless, if you are looking for innovation, investment, disruption, and commercialisation, the raw statistics still tell you to, "Go West, young man!"

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