

"The prosperity of China or that of India represents opportunities for the US"

NIALL FERGUSON British historian and Harvard University professor

"Washington is Starting to Look Like Delhi"

An erudite scholar, acclaimed author and the William Ziegler Professor of Business Administration at the Harvard Business School, British historian Niall Ferguson wears several hats. At the *India Today* Conclave, Ferguson spoke on "American Decline: Myth and Reality". On the sidelines of the Conclave, *BT*'s CHAITANYA KALBAG, RISHI JOSHI and MANU KAUSHIK caught up with Ferguson for a free-wheeling interview. Edited excerpts:

On whether the US is in decline: I think there are two issues which are quite separate. One is the rise of the East and the South and that is a good thing. And so any relative decline, if it just means India or China is growing

rapidly, is not something Americans should complain about. The prosperity of China or that of India represents opportunities for the US. But the issue that is of greater concern is that the US has internal problems that it is not grappling with well, and these are impacting its long-term prospects. I think the biggest is probably the fiscal crisis because the cost of entitlements like social security and medicare is already greater than the cost of the entire military establishment. Until I see signs that American politicians are serious about the reform of medicare, social security and the tax system I will be pessimistic.

On the problems of the US and Indian democracies: Washington was starting to look a lot like Delhi but to some degree Delhi is also starting to look like

Washington. And that convergence tells you what is going wrong in the US more than what is going right in India. The problem of corruption in American politics is one that has to be addressed more openly. The reality is that the financial crisis exposed the dangerous levels of overlap between the financial institutions and political institutions to the point of near absurdity. It appeared as if the treasury department had become a subsidiary of Goldman Sachs. I think there is a similarity there with India. I think the other critical similarity is that political vested interests in both systems stand in the way of structural reform.

On why the US is the leader in innovation: Many people doing innovation in the US are not American born. They came to the US because Harvard, Stanford are still the ideal locations in terms of clusters of talent. If you want to take a really cutting edge idea from the laboratory into the market, the US is still the best place. India's elite educational institutions just don't seem to be doing quite as much in terms of commercial spin-offs as their American counterparts. The Chinese are furiously trying to create clusters around their top universities on the American model. They are very shameless about copying what's good.

On the state of the global economy: I think it's really way too early to declare victory over the crisis because the US housing market is still in the doldrums. If you look at unemployment the official figure is understating it.

And inflation is also edging up in ways the official data doesn't capture. The trouble is that people base their judgments of the US economy based on the US equities market, not realising that S&P 500 companies are doing well not because the US economy is recovering but because there is sustained growth in Asia, there is sustained growth in Brazil and so on. If you actually look at the companies focused on the US consumer, it is still pretty fragile.

On the Japan crisis: The trouble is that Japan isn't that well set up to deal with this problem. It is not a society which has a lot of unskilled labour. Japan is going to struggle with the reconstruction work with the workforce that it has. I actually think the bigger question is about Japanese government bonds and the additional borrowing that would clearly be needed. When you get to the point of reconstruction work, my sense is Japan will need to attract capital into the reconstruction process. It is going to push up Japanese interest rates. Think of the German unification as an analogy. The West Germans suddenly had the cost of East Germans to handle and the effect was to push up German rates quite substantially. And I think it seems a likely story in Japan for the second half of this year. ♦

Longer version of interview at www.businesstoday.in/conclave-interviews

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