# Would You Invest in America?

## *Time Travel, Institutional Change and the Investor's Rutter*

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### 1. The 1965 Thought Experiment

Imagine the year is 1965. You are an international investor with capital to commit for the long term. You face two choices. In Asia, you must invest in either Singapore or Ceylon, as Sri Lanka was then known. In Africa, you must choose between Botswana and Zambia. You cannot split the investment. And you know nothing about what happens next.

Start with Asia. Ceylon looks the stronger choice. It has an established parliamentary system, an experienced civil service and relatively high levels of education. Tea, rubber and coconut generate valuable export earnings. Singapore looks far less secure. It has just separated from Malaysia. It is tiny, with few natural resources and almost no domestic market. Unemployment is high. Housing is poor. Communal tensions are serious. Its future as an independent state is uncertain. **Ceylon or Singapore?**

Now turn to Africa. Zambia also looks promising. It has just gained independence and possesses one of Africa's great mineral assets: copper. The mines provide exports, foreign exchange and government revenue. Zambia has infrastructure built around the mining industry and relatively high income by regional standards. Botswana offers much less. It is landlocked, sparsely populated and very poor. Infrastructure is limited. Government revenue is small. Administrative capacity is weak. The diamond discoveries that will later transform the economy have yet to do so. **Zambia or Botswana?**

We know what happened. Our investor does not. It is easy to look backwards and find early signs of the future we already know. The harder task is to recognise them before the future has happened. Yet the investor was not entirely blind. Singapore had a strategic port, an educated population, a commercial tradition and an administrative base on which to build. Its government was already focused on employment, housing, public administration and investment. Botswana had little economic strength, but traditions of consultation and restrained political leadership offered clues about how the new state might develop. Ceylon and Zambia presented the reverse problem. Their advantages were real. So were their vulnerabilities. Ceylon faced growing state intervention and distributional pressures. Zambia depended heavily on one commodity and faced the political challenges that often accompany mineral wealth.

None of this made the future predictable. Singapore and Botswana could have failed. Ceylon and Zambia could have done better. The evidence available in 1965 could reasonably have supported different conclusions. That is the point. Where a country stands and where it is heading are not the same thing. Current conditions matter. So does the institutional framework a country has inherited and built. But investors also need to ask how that framework is changing. These questions do not predict the future. They help investors judge direction.

Now change the experiment. Our investor is transported sixty-one years forward. The year is 2026. A fifth country is added: the United States. At first, this looks much easier. America is rich, productive and technologically advanced. It has deep financial markets, leading companies and universities, a large domestic market, substantial natural resources and the world's dominant international currency. Behind these strengths stands an institutional framework built over more than two centuries. But there is no history book from 2040. Today's strengths are clear. What happens next is not.

*Knowing only what you can know in 2026, would America's institutional trajectory change what you invest in—and the price and terms you require?*

## 2. Institutional Framework, Institutional Change and Trajectory

The 1965 choices reveal a simple problem. Investors can observe where a country stands more easily than where it is heading. Countries inherit an institutional framework built over decades: the legal system, public administration, political institutions, regulatory capacity and the formal and informal rules that shape economic behaviour. They also inherit broader capabilities, including human capital, infrastructure, financial depth and business know-how. The two interact, but they are not the same. Both take time to build. Both can persist after the forces that created them begin to change.

Douglass North described institutions as the "rules of the game" that shape incentives and behaviour. An important implication is path dependence. Countries do not recreate their institutions each morning. Laws, organisations, administrative capabilities and political conventions are inherited from the past. But inheritance is not destiny. Institutions can strengthen, weaken and adapt. The distinction that matters to the investor is between institutional framework and institutional change. The framework tells us what a country can absorb. Institutional change tells us whether that capacity is being strengthened or depleted.

**BOX 1 — WHY INSTITUTIONAL FRAMEWORKS MATTER**

Institutional frameworks—rule of law, property rights, impartial and credible governance, and regulatory and administrative capacity—shape the incentives and expectations that underpin sustainable growth. Credible institutions provide predictable rules, reduce policy and contract risk, and support long-term investment by limiting fears of expropriation, arbitrary enforcement or sudden policy reversal (North, 1990).

Weak or politically biased institutions can have the opposite effect. They increase uncertainty, distort incentives and encourage resources to flow towards political access and rent-seeking rather than productive investment. Over time, these effects can become self-reinforcing: firms and investors adapt their behaviour to the credibility and fairness of the institutional framework, while investment and growth outcomes feed back into institutions themselves (Acemoglu, Johnson and Robinson, 2001; Rodrik, Subramanian and Trebbi, 2004).

The implication for investors is important. A country's institutional framework helps determine its capacity to generate and sustain economic and social progress. Institutional change tells us whether that capacity is being strengthened or weakened.

A mature and effective institutional framework matters for more than investment. It helps societies convert resources, skills and technology into sustainable improvements in living standards. Effective states provide public goods, enforce rules, deliver services and make collective choices. Impersonal institutions constrain the ability of powerful groups to capture economic opportunities. Good institutions do not guarantee growth or equity. But sustained development becomes much harder without them.

Institutional change and economic outcomes need not move together. A capable civil service can continue to function while political pressure increases. Courts can retain expertise while their independence is tested. Companies can continue to benefit from skills, infrastructure and commercial networks built over decades. The reverse also applies. Institutional reform in a weak country may take years to produce better outcomes. A strong framework can mask deterioration. A weak framework can mask improvement.

The economic mechanism is straightforward. Institutional change affects expectations and incentives. These affect investment behaviour, which in turn affects economic outcomes. Dixit and Pindyck explain an important part of the chain. When uncertainty rises and investment is difficult to reverse, waiting becomes more valuable. Investors may delay projects, demand higher returns, shorten investment horizons or favour assets that are easier to exit. Aggregate investment need not fall immediately. Its character may change first.

Confidence therefore matters. Institutional credibility is often built slowly but can be damaged quickly. Once investors question whether rules will remain predictable, or whether the same rules will apply to everyone, behaviour can change before the effects appear in GDP, profits or markets. But the process can also reverse. Courts can resist pressure. Elections can produce correction. Governments can change policy. Administrative capability can be rebuilt. Strong economic performance can provide resources and political space for institutional repair.

Condition tells us where a country stands. Institutional change helps us judge where it may be heading. We need both.

The Investor's Rutter provides the framework for doing this. It organises country analysis around four dimensions—Endowments, Enablers, Context and Outcomes—and then asks how changes in those dimensions affect the sector, company or project, and ultimately the investment itself. Its purpose is not to predict the future, but to organise, test and revise investment judgement as the evidence changes.

**3. Back to the Future: America 2026**

Return to our investor. The year is 2026 and the fifth choice is the United States. America remains one of the world's richest and most productive economies. It is at the frontier of technological innovation. Its companies and universities are global leaders. Its financial markets are unmatched in scale and depth. The dollar remains the world's dominant international currency. The country has a huge domestic market, abundant natural resources and a skilled workforce. Few countries have accumulated comparable advantages.

The institutional framework is equally important. The constitutional system has survived for more than two centuries. Power is dispersed between the federal government, states, Congress and the courts. A mature legal system supports contracts and property rights. Companies, universities, financial institutions, the media and civil society provide further centres of capability and influence. These strengths have survived wars, depressions, political crises and profound social change. The starting position remains exceptionally strong.

But aggregate strength tells only part of the story. America is also characterised by substantial inequalities in income, wealth, educational opportunity, health outcomes and political influence. These matter beyond distribution. Persistent inequality can weaken mobility and trust, contribute to political polarisation and increase the influence of concentrated interests over public policy. None of this is new to the United States. The question for the investor is whether the balance is changing sufficiently to alter incentives, policy or economic outcomes.

The same test applies to the relationship between economic and political power. Wealth has always influenced American politics, and businesses have always sought access to government. That alone says little about institutional trajectory. The more relevant question is whether political access is becoming more important to economic advantage, and whether economic advantage in turn increases the ability to influence public decisions. If that interaction becomes persistent, competition can become less impersonal and policy more dependent on political proximity. The issue is not whether America has become an oligarchy. It is whether the rules governing access, competition and public authority are changing in ways that matter to investors.

State capability presents another test. Institutions must constrain power, but they must also enable government to function. Can the public administration retain expertise? Can regulators operate consistently? Can government implement policy effectively? Can the political system make difficult choices and sustain them? And can it reconcile competing claims on public resources without progressively reducing its room for manoeuvre?

Fiscal policy provides an obvious example. Persistent deficits do not by themselves demonstrate institutional weakness. Governments may rationally borrow during recessions, wars or periods of high-return investment. The harder question is whether the political system retains the capacity to reconcile expenditure, taxation and borrowing when circumstances require it. A persistent inability to make those choices would eventually become more than a fiscal issue. It would tell us something about institutional capability.

The pressures on America's institutional framework can therefore be stated more precisely. Is presidential discretion expanding relative to established constraints? Are expertise, continuity and professional independence in public administration being maintained? Does the rule of law remain predictable and impersonal? Does political access increasingly affect regulation, procurement, tariffs, subsidies or enforcement? Can the political system reconcile competing claims on public resources? And are inequality, polarisation and declining trust making those tasks more difficult?

None of these questions proves irreversible institutional deterioration. The countervailing forces remain formidable. Courts can constrain executive action. Congress retains substantial constitutional authority. States possess their own powers and resources. Elections can change governments. The private sector, universities, media and civil society remain powerful and decentralised. Federalism creates duplication and conflict, but also institutional redundancy. Pressure on one part of the system does not mean control over the whole. Institutional pressure can itself generate correction.

Nor does continuing economic strength settle the question. America's accumulated capabilities can support strong outcomes even if parts of its institutional framework come under pressure. Companies can continue to innovate. AI can attract extraordinary investment. Capital markets can remain deep. The dollar can remain dominant. Strong institutions provide resilience precisely because they are difficult to dismantle. But that resilience can also delay the point at which institutional change becomes visible in economic outcomes.

**Fiscal Capacity and the Treasury Market**

The Treasury market provides one place to test the interaction between institutions and economic outcomes. US national debt has reached $40 trillion and fiscal deficits have remained around 6 per cent of GDP in recent years. The existence of large deficits does not itself tell us whether institutional capability is weakening. The more useful question is how the political system responds as the costs and constraints associated with those deficits increase.

America retains exceptional financing capacity. Its capital markets are deep, the dollar remains the world's principal reserve currency and Treasuries remain the benchmark global safe asset. But financing capacity and financing terms are different things. If investors become more sensitive to fiscal, inflation or policy uncertainty, the adjustment may appear not as an inability to borrow but as a higher price for doing so.

There are signs that this distinction deserves attention. The composition of Treasury demand has changed. Foreign official institutions and the Federal Reserve historically provided substantial relatively priceinsensitive demand. Private investors now account for a much larger share of the market and are more sensitive to valuation. This does not mean Treasury demand is disappearing. It means that the yield required to attract that demand may respond more readily to fiscal conditions, inflation expectations and policy uncertainty.

Recent Treasury-market developments therefore provide an Outcome to observe rather than a verdict on US institutions. Higher long-term yields may reflect many things: inflation expectations, monetary policy, geopolitical uncertainty, supply, changing investor composition or a higher term premium. The Rutter does not require us to select one explanation prematurely. It asks whether the evidence begins to form a pattern.

The institutional question lies behind the fiscal numbers: **do persistent deficits represent deliberate and sustainable policy choices, or increasing difficulty in making and sustaining the choices required to change course?** The answer cannot be inferred from the deficit or the bond market alone. It must be tested through subsequent policy, market behaviour and economic outcomes.

America therefore presents the mirror image of the 1965 problem. Singapore and Botswana appeared weak, but an investor might have looked beneath their starting conditions for evidence that important capabilities and institutions were strengthening. America begins from exceptional strength. The investor must look beneath today's performance for evidence about direction.

The question is not whether America's institutions are failing or whether current pressures will prove temporary. Those are conclusions the evidence must establish. The investor's question is narrower: are institutional constraints and state capability becoming stronger or weaker, and does the system retain its capacity to correct itself when tested?

These questions cannot be answered by assertion. We need evidence—and we need to identify in advance what evidence would strengthen, weaken or reverse our judgement.

## 4. Testing Institutional Change

How would an investor distinguish institutional change from political turbulence? No single indicator can do it. Governance indices help, but they combine data with judgement and often move slowly. A confrontation between institutions may signal deterioration. It may instead demonstrate that checks and balances are working. Four tests are particularly useful.

### BOX 2 — HOW WOULD WE KNOW?

Detecting meaningful institutional change is difficult. Reform may be formal in law but not operational in enforcement, budgets, staffing or dispute-resolution capacity. Evidence must therefore go beyond changes in laws or institutional design.

Three areas are particularly important: (i) changes in de facto constraints, such as court effectiveness, contract enforcement and regulatory practice; (ii) shifts in policy credibility and consistency across political and economic cycles; and (iii) changes in incentives, reflected in corruption, administrative impartiality and regulatory discretion.

Cross-country institutional indices provide useful background, but they have limits. They often blend perceptions, change slowly and may themselves be influenced by economic performance (Kaufmann, Kraay and Mastruzzi, 2010). The answer is to triangulate. Start with the formal change: what has happened to laws, institutional mandates, appointments, budgets or formal constraints on authority? Then test implementation: are court decisions enforced, contracts honoured, regulators acting consistently and public agencies retaining the capacity to perform their functions? Finally, examine behaviour: are firms delaying or shortening investment, moving capital or activity, demanding greater protection, or becoming more dependent on political access? None is decisive alone. Convergence across these signals—and persistence over time—provides stronger evidence that institutional trajectory has changed.

No single indicator settles the question. The stronger the convergence across independent signals—and the longer the change persists—the stronger the evidence that the institutional trajectory has changed.

The first test is **persistence**. Does a political or institutional shock pass, or does it leave something behind? Courts may face pressure. What matters is whether they retain independence, their decisions are obeyed and their authority survives. Governments may seek greater control over public institutions. The question is whether administrative capability and independence survive. Political norms will sometimes be breached. What matters is whether the breach remains exceptional or becomes accepted practice. Resilience is demonstrated by recovery. Erosion by persistence.

The second test is **impartiality**. Governments change taxes, regulation, tariffs and spending priorities. That is politics. Favouring a sector is a policy choice. Favouring a firm because of political proximity is an institutional question. If political proximity increasingly affects regulation, procurement, enforcement or government support, the basis of competition changes. Strong profits or equity markets do not settle the question. They can coexist with greater political discretion.

The third test is **state capability**. Can the public administration retain expertise and implement policy? Can regulators operate consistently? Can government respond effectively to shocks? Can the political system reconcile competing claims on public resources? Fiscal policy belongs here. Persistent deficits do not prove institutional deterioration. But if the political system repeatedly proves unable to make adjustments that economic conditions require, fiscal Outcomes may eventually provide evidence about the capability of the institutions producing them.

The fourth test is **behaviour**. Institutional change matters to investors when it begins to alter decisions. Are companies less willing to make large, long-term and difficult-to-reverse investments? Are investors demanding higher returns or stronger contractual protection? Are investment horizons shortening? Are lenders demanding greater compensation to hold long-duration government debt? Aggregate investment and market performance may remain strong while the composition, duration or price of capital changes.

The tests are symmetrical. Evidence of recovery matters as much as evidence of erosion: court rulings obeyed, administrative capability retained or restored, fiscal choices made when required, uncertainty reduced and long-term investment remaining robust. Courts may constrain executive action even as those constraints are tested. States can resist federal policy. Elections remain consequential. Companies continue to invest and innovate. These are evidence of resilience and should carry weight.

This is where feedback and inflection points matter. Institutional pressure can provoke resistance and correction. But institutional and economic pressures can also reinforce one another. Fiscal governance provides a simple example. If persistent deficits contribute to higher borrowing costs, those costs reduce future fiscal flexibility. If the political system then adjusts, the episode may demonstrate institutional resilience. If it repeatedly cannot, the Outcome begins to tell us something about the Enabler.

None of these tests provides a verdict on America in 2026. Nor should they. The investor's question is narrower: are changes becoming persistent enough to alter expectations, incentives and behaviour? If the system absorbs the pressure and corrects itself, that is evidence of resilience. If successive episodes leave constraints weaker, capability lower, rules less predictable or policy adjustment more difficult, the evidence points the other way.

We invest without the benefit of hindsight. The task is to identify what evidence would change our view, and then watch for it.

## 5. From Country Risk to Investment Judgement

Suppose the evidence does point to some institutional deterioration. Does that mean we should not invest in America? No. That would confuse country analysis with investment judgement. A country can become less attractive than it was and still remain attractive. It can deteriorate and still improve relative to the alternatives. The issue is not simply whether country risk has increased. It is how that risk reaches the investment being considered.

Consider three investors looking at the same United States. One holds a three-month Treasury bill. Another makes a five-year corporate loan. The third builds infrastructure expected to operate for thirty years. Institutional change may matter little to the first and a great deal to the third. The same applies across sectors. A software company, regulated utility, defence contractor and manufacturer exposed to tariffs face very different forms of government discretion and political risk. Country risk is common. Exposure to it is not.

Current developments illustrate the point. A technology company may benefit from strong innovation, capital availability and productivity growth even as broader country-level pressures increase. A regulated utility or infrastructure project may be more exposed to changes in regulation, permitting, taxation or public policy. A manufacturer may gain or lose from tariffs and industrial policy. None of these exposures is permanent. Policy changes, technologies evolve and companies adapt. The Rutter is concerned with direction, not labels. **The current is common. The vessel, its exposure and the wind in its sails are not.**

The investor therefore needs to translate country trajectory into sector exposure and then into the economics of the individual investment. How dependent is the sector on government policy? Does the company require licences, concessions, subsidies or government contracts? Could tariffs or regulation alter its competitive position? Are its assets fixed or mobile? Can it redirect production or capital? How long is the investment horizon? The greater the dependence on government discretion and the harder the investment is to reverse, the more institutional change matters.

Price and structure matter too. Higher risk does not necessarily mean no investment. It may mean a higher required return, shorter duration, stronger contractual protection, different financing or less exposure. This is why an attractive country can contain poor investments and a difficult country can contain good ones. Country trajectory informs the investment decision. It does not determine it.

Institutional change can also create winners. A company benefiting from tariffs, subsidies, government contracts or favourable regulation may become more profitable. But the source of those returns matters. If they depend increasingly on political access, they may also depend on who holds power. Political favour can raise returns. It can also make them less durable.

Confidence cuts across these decisions. Investors commit long-term capital partly because they expect rules to remain reasonably predictable and impartially applied. Once that belief weakens, they may wait, shorten commitments, demand more protection or favour assets that are easier to exit. The composition, duration and price of investment may reveal more about changing confidence than the headline investment number.

This brings us back to America in 2026. Its current condition remains exceptionally strong. But that alone tells us little about whether to buy a Treasury bond, finance a technology company, lend to a regulated utility or build a thirty-year infrastructure asset. The country assessment is the starting point. It must be translated through the sector and the particular exposure before it becomes an investment judgement.

The question is therefore not simply: Would you invest in America? It is: In what, for how long, at what price, and on what terms?

## 6. The Investor's Rutter

The Rutter organises country analysis around four dimensions. Endowments are the relatively slow-moving foundations of a country—geography, natural resources, demography and inherited capabilities. Enablers are the institutions, governance and state capacity that determine how effectively those resources are used. Context captures the domestic and external forces acting on the country at a particular time. Outcomes are the economic and financial results that emerge from their interaction. The investor then asks not only where each stands, but how it is changing and how those changes interact

The metaphor comes from the rutters used by early sailors. They recorded coastlines, hazards, winds and currents needed to navigate unfamiliar waters. Investors face a similar problem. The weather is what we see now: an election, tariff, court ruling, fiscal announcement or political confrontation. The winds are more persistent forces: government policy, fiscal choices, reform, investment cycles, technology and geopolitics. The currents run deeper: institutions, demographics, geography, human capital, social cohesion and the distribution of political and economic power. They operate at different speeds and can move in different directions.

The Rutter helps separate those speeds of change. It asks whether a shock is isolated or part of a pattern, whether institutional change persists, whether different forces reinforce or offset one another, and whether behaviour is changing. New evidence can strengthen a view, weaken it or reverse it. Outcomes then provide a test of the expectations on which the original judgement was based.

But the Rutter does not stop at the country. It begins there. Country analysis identifies the broad environment and its trajectory. The investor must then ask how those forces transmit through the sector, company or project, and ultimately the instrument being considered:

**Country trajectory → sector transmission → company or project exposure → instrument structure → investment judgement.**

### BOX 3 — FROM INSTITUTIONAL ASSESSMENT TO INVESTMENT DECISION

Once a country's institutional quality and trajectory have been assessed, the next step is risk translation: mapping that judgement into the risks of the sector, company or project, and ultimately the instrument being considered.

Institutional weaknesses—such as weak property rights, administrative discretion, unreliable contract enforcement or corruption—may require higher expected returns, reduced exposure or changes in deal structure. These can include stronger guarantees, ring-fencing of assets, enhanced due diligence, arbitration or escrow arrangements, shorter duration and staged commitments. Some risks, however, cannot be adequately priced or mitigated. The appropriate response may be not to invest.

Quantitative tools can complement this judgement. Institutional indicators can inform scenario analysis, hurdle rates, stress testing and portfolio-level risk assessment. But they should not create false precision. The objective is to determine how much risk can be priced, structured or mitigated—and what residual risk remains.

The objective is to convert institutional assessment into actionable investment judgement: exposure, structure, price and terms.

The transmission mechanism matters. At the sector level, regulation, tariffs, subsidies, sovereign conditions or government contracts can amplify or offset country-level forces. At the company or project level, political dependence, competitive position, pricing power, asset mobility, management and adaptability determine exposure. At the instrument level, duration, seniority, security, covenants, currency, liquidity and price determine how much of that risk the investor actually bears. The same country risk can therefore produce very different investment risks.

This changes the role of country analysis. It is neither a ranking nor a veto. A deteriorating country trajectory does not automatically mean investments should be avoided. Nor does an improving trajectory make every investment attractive. Country categories are labels. Risk characteristics are variables. Those variables must be traced through the particular exposure before they become investment risks.

The four countries in 1965 make the point. Singapore and Botswana remind us that weak starting conditions need not imply a weak trajectory. Ceylon and Zambia show that substantial initial advantages need not be sustained. America in 2026 presents the mirror image. Its starting position remains exceptionally strong, but the investor still needs to judge the direction of change—and what that direction means for the investment being considered.

The Rutter therefore provides a sequence rather than an answer. Read the country. Identify the trajectory. Trace its effects through the sector and company. Examine the instrument. Make the investment judgement. Then continue to test it as new evidence arrives.

Country analysis should not tell us what to think about a country. It should improve how we think about an investment. The investor does not need to know the future. The investor needs a better way to judge it before it arrives.

**Selected intellectual anchors**

The discussion draws in particular on Douglass North on institutions, incentives and path dependence; Daron Acemoglu, Simon Johnson and James Robinson on institutions and long-run development; Avinash Dixit and Robert Pindyck on irreversible investment under uncertainty; Mancur Olson on distributional coalitions and rent-seeking; and Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi on governance indicators and their interpretation. The treatment of inequality, political influence and politically connected firms also draws on the empirical work of Thomas Piketty, Emmanuel Saez and Gabriel Zucman; Martin Gilens and Benjamin Page; and Mara Faccio. The historical discussion of Botswana and East Asia draws on J. Clark Leith and the World Bank, respectively. (Full references are available from the authors.)