

Research Paper – April 2025

The Strength of America's Economic Foundations

As successive waves of economic, trade and geopolitical policies are launched on the world by America, one of the critical questions this poses is how strong America's economic foundations are? With the Trump administration announcing sweeping tariffs on all its trade partners on 2nd April, and entering into an escalating trade war with China, the narrative of US economic dominance is being tested. Following the initial tariff announcement, the S&P500 index declined by 10.5% in two days, wiping out c.US$6.6 trillion of shareholder value[1] , and a sharp bond market sell-off led to a spike in treasury yields, prompting the administration to announce a 90-day pause on most of the tariffs (except on China). The S&P500 regained c.US$5 trillion of value[2], delivering huge losses to many and huge profits to a few.

The president's economic strategy at least partially rests on the premise of American exceptionalism, the assumption that as the world's largest, most advanced, and most innovative economy, the US can unilaterally reset the terms of trade with its partners and competitors. However, a closer analysis of the US economy suggests that, contrary to popular belief, it is not powered by technological breakthroughs, financial institutions, and the innovations of its global corporations; the evidence suggests that its primary engines of economic growth are debt-fuelled private consumption, government spending, and healthcare expenditure far in excess of what other countries spend.

Moreover, America's rapid growth relative to its developed country peers masks deeper structural vulnerabilities, including high consumer and government indebtedness, increasing economic inequality, high levels of poverty for a developed country, and an increasing concentration of wealth amongst the elite and the largest corporations. Furthermore, the erosion of the US dollar's supremacy and reserve status in global markets, which are potentially being accelerated by the Trump Administration's tariffs, would not only represent a blow to the impression of America's economic exceptionalism, but also undermine its trading and financing position with the rest of the world. As such, the most important implications of current events are the impacts on the trajectory of American power

Under such circumstances, the current worldwide trade and tariff war launched by the administration combined with its attack on government spending, in the absence of a powerful alternative set of economic drivers, risks precipitating the collapse of America's economy, and the world's. Under such circumstances, the relative strength of the American economy vis-à-vis others becomes mostly irrelevant to its own situation.

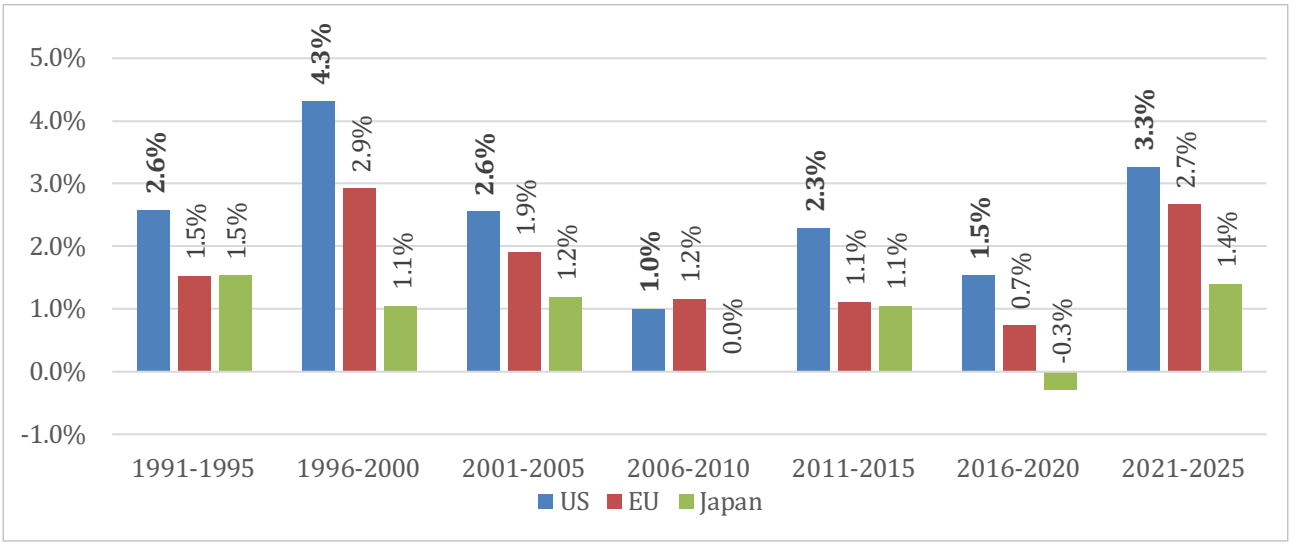
This month's Research Paper, drawing on data from a wide range of sources, examines the strengths and weaknesses of American economic power, the foundations of the American

economy, and the key implications of the analysis.

American Economic Supremacy

Economic outperformance. The US has been among the most resilient and fastest growing advanced economies, and it has consistently outperformed other developed economies on both growth and productivity gains since the end of the Cold War.

US vs. EU and Japan: Average GDP Growth (5-Year Intervals)[3]



Multiple advantages built. America's rapid growth (vs. other developed countries) has been driven by a series of structural advantages that have been built over several decades. Its historical openness to immigration and strong rule of law helped it to become a go-to destination for not only investment capital from all over the world but also the best talent globally with 55% of its start-up unicorns founded by immigrants, with a global innovation hub and a centre for the largest giants of the information era [4]. America has also been a major beneficiary of the global trade and investment system it helped to create in the post-war period. Trade liberalisation has helped keep prices lower and boosted an average American household's purchasing power by an estimated 10% or c.US$10,000[5], the US has become the largest destination for foreign direct investment[6] globally, and nearly 30% of revenue of its leading corporations are from abroad. Its corporations account for a disproportionate share of the world's most valuable companies, and it has the largest and deepest equity and debt capital markets globally, remaining the default hub for global finance.

Primacy and democratic advantage. America's unique advantages have helped it secure a dominant global position; the US economy is the largest economy in the world[7], the largest trading country[8], and the 2nd largest manufacturer (after China)[9]. While historic dominance tends to fade as other powers (such as China, the EU and India, in this case) rise, America has sufficient strengths for the timing and deferral of its decline to be the subject of much debate. Indeed, despite projections showing China overtaking the US by mid-century, given the many strengths of the US aside from its economic ones – such as its military superiority, control of multilateral institutions, technological superiority, unrivalled diplomacy and soft power – the possibility of America regaining its geopolitical and economic primacy was seen as a realistic possibility [10]. Its ability to align democracies in Europe and India under its leadership would make that an even stronger possibility. Hence, the current moment is a critical juncture for American power.

Significance of change of approach. While the US economy continued to expand at a robust pace of 2.8% in 2024[11], recent data suggests a slowing trajectory. GDP growth slowed to 2.4% in the last quarter of 2024 from 3.1% growth the previous quarter [12] , and consensus forecasts prior to the tariff announcement pointed to 2.5% growth in Q1 2025[13]. While short term volatility is not necessarily significant in long term projections of power, meaningful shifts in the foundations of that power can prove deeply consequential. The current US government has brought a significant change in America's approach to its allies and trade with the world.

Earlier this month, President Trump announced sweeping tariffs on virtually all of America's trading partners, prompting a sharp correction in equity markets, a bond-market sell-off, and a 90-day pause on tariffs on most partners, except for China, ostensibly the US' largest current trading partner, which incurred 145% in tariffs on most of its exports to America, and retaliated with increased tariffs on American exports to China. The early indications are that the US economy is widely expected to slow down in response (by Q2 2025) as the impact of tariffs and slowing trade materialise[14], and there are concerns that it could tip into a recession in the second half of the year[15]. With US unemployment rising from to 4.2% in March 2025 from 3.7% in January 2024, the Sahm Rule recession indicator – which suggests that recession has begun when unemployment increases by more than 0.5% in a 12-month period – is at risk of being triggered[16].

The US dollar has depreciated by 3-5% in the month to date against major currencies since the initial announcement, while the yields on the 10-year treasury bills have increased from 4.0% to 4.5% (eventually settling at c.4.4%) while the 20-year treasury yield has increased from c.4.4% to c.4.8% currently, suggesting that the tariff announcements may have had a lasting impact on US borrowing costs (30-40 basis points as on date), and faith in the US dollar[17].

Seeming strengths also reveal major vulnerabilities. A closer examination of US economic performance reveals certain structural weaknesses. While higher productivity and headline GDP growth broadly would indicate resilience, most of the economic expansion last year has been driven by consumer credit fuelled household spending, casting doubt on its sustainability. Similarly, while America's leadership in many technologies continues to outpace those of its global peers, and most of the most valuable tech companies are American ones, the increasing concentration of corporate resources among the largest ones suggests an oligopolist economy and a declining competitive edge, the data for which is presented below.

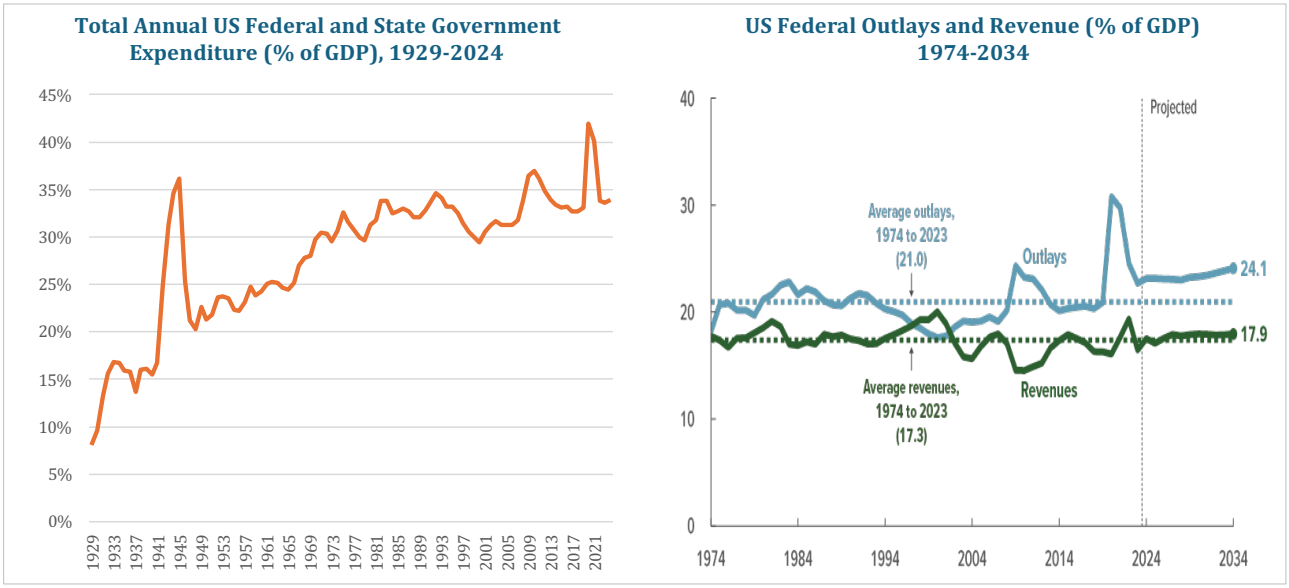
Given the history and current moment, an examination of the foundations of the US economy may provide a picture of its strengths and weaknesses and allow for an assessment of the risks and opportunities inherent in its current domestic and international economic strategy.

The Strength and Vulnerabilities of America's Economic Powerbase

American economic exceptionalism, and US dollar's role as the *de facto* global reserve currency until recently, has been based on a strong underlying belief in America's fundamental economic strengths, the breadth and depth of its markets, the strength and independence of its institutions and systems, and the predictability of its economic and trade policies through various administrations. Through data, we look at these core economic fundamentals, the strengths and vulnerabilities they reveal, and the key questions for America (and the world) in a period of increased economic uncertainty.

1. Government-Funded Growth Underpins America's Economy

Since 2023, government spending has been responsible for over 25% of job creation in the US[18], more than any private-sector industry. While this has contributed to sustaining full employment, it raises concerns about long-term economic dependence on public spending. Measured as a percentage of GDP, federal outlays are expected to exceed their 50-year average every year from 2024 to 2034, while revenues are expected to fall below their 50-year average in 2025 and significantly fall short of outlays.



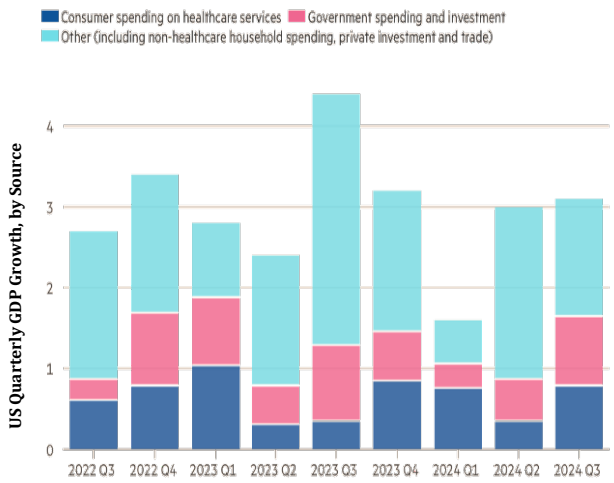
Sources: US Department of Commerce, Bureau of Economic Analysis (BEA), Congressional Budget Office

Observation: **While government spending has been the foundation of socialist economies through the 20th century (and China's into this century), and it is an important tool in capitalist ones for responding to shocks like the Great Depression, it has not been perceived as the mainstay of America's economy. However, given the reality, it is unlikely it can be rolled back quickly without causing damage to America's economic position.**

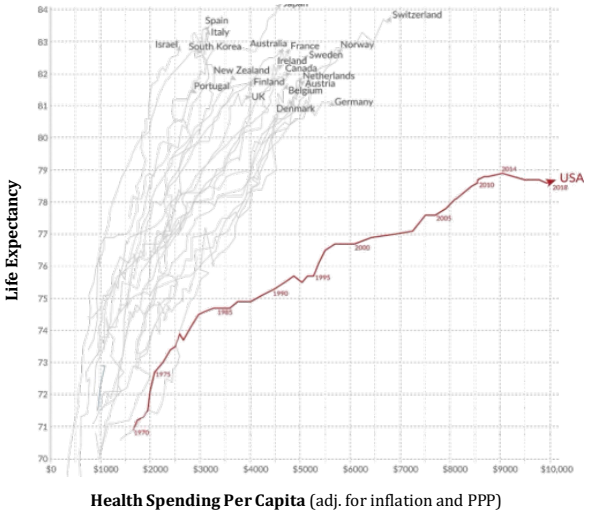
2. Healthcare-Driven GDP Growth Material for the US

Health expenditure accounts for 18% of US GDP[19], and it has been growing rapidly and is one of the largest contributors to America's economic growth. However, higher levels of expenditure have not translated into better health outcomes, raising concerns about the effectiveness of this sector.

Health and Government Spending: Contribution to US GDP Growth



Healthcare Spending Per Capita vs. Life Expectancy: US Vs. Other Developed Markets



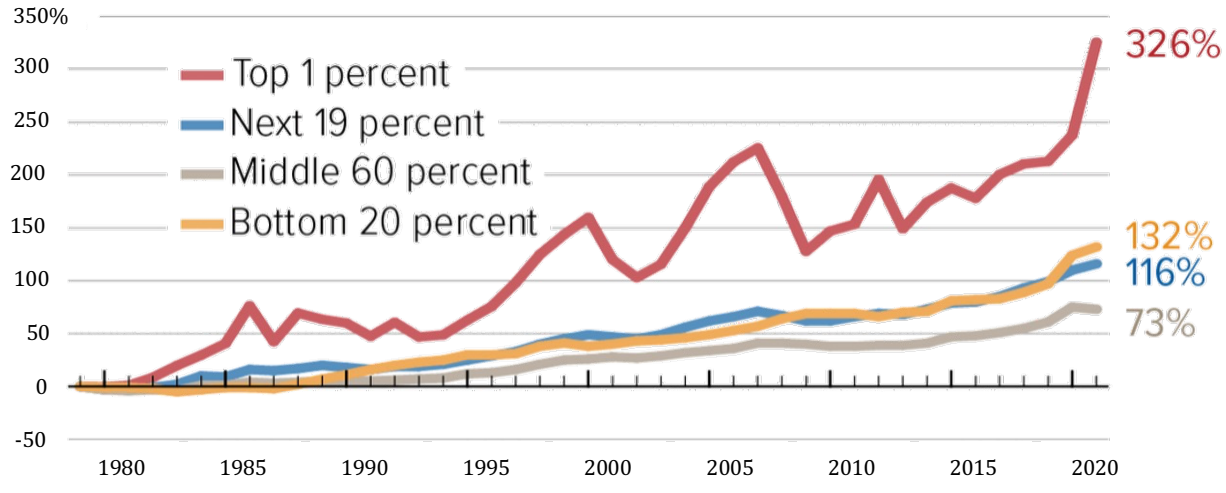
Sources: US Department of Commerce, Bureau of Economic Analysis (BEA), Haver Analytics, World Bank

Observation: **While a high-cost (lower performing) healthcare system increases GDP growth figures, it is not the basis of longer-term economic outperformance and serves to mask other weaknesses.**

3. Income Inequality, A Growing Time-Bomb for Stability

Since 1979, income growth in the US has disproportionately favoured the top 1%, whose incomes have increased 326%, compared to 132% for the bottom 20%, and 73% for the middle 60%. Adjusted for inflation, the top 1% experienced real income growth 50% beyond inflation, while the middle and lower-income groups saw limited gains, increased reliance on debt, and reduced financial security.

% Change in Income (after transfers and taxes) for Different Income Groups in US Since 1979

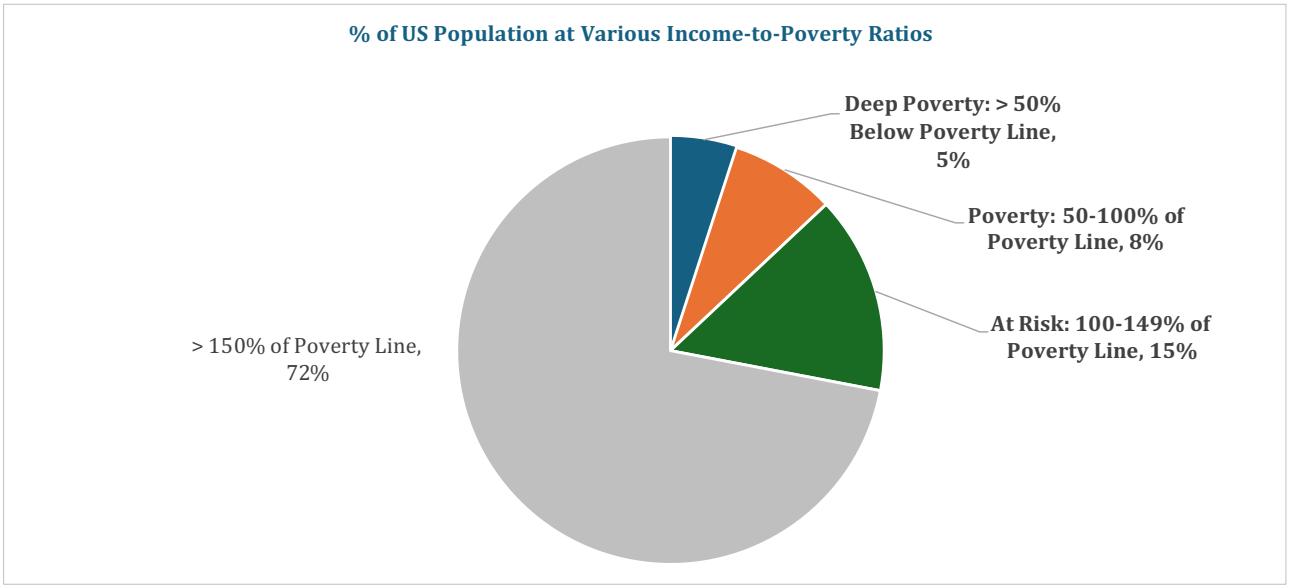


Source: Center on Budget and Policy Priorities (CBPP), Congressional Budget Office

Observation: **America's system of enterprise offers outsized rewards for risk taking and corporate leadership, but in doing so, it also generates extreme inequality. While these disparities lead to support for radical solutions to address inequalities[20], as structural features of the system, they cannot sustainably be addressed by taxing the world.**

4. Poverty, High Levels of Poverty and Near Poverty Source of Destabilisation

Critically, in the midst of one of the richest nations on earth, nearly 100 million people live in poverty or near poverty; 13% of Americans (43 million) live in poverty, of which 5% (15 million) are in deep poverty, and another 15% (49 million) just above the threshold and at risk of poverty, underscoring persistent economic insecurity[21]. While the incidence of poverty is higher for immigrants in the US, they represent only 15% of the total number of people living in poverty, with the balance 85% of the people in poverty being American citizens[22].

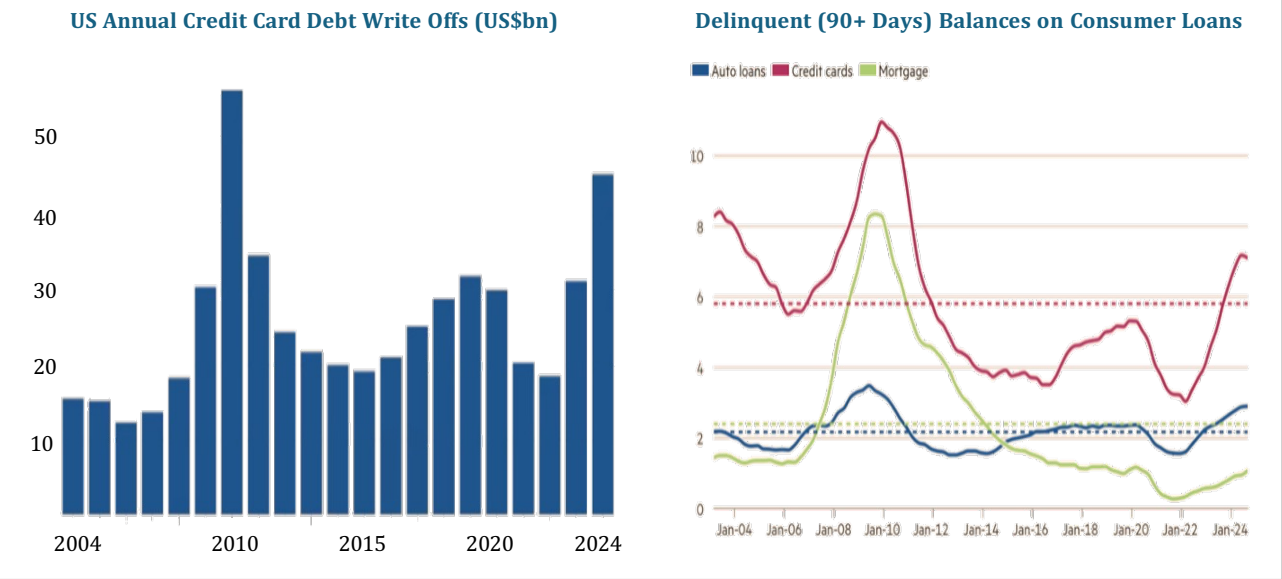


Source: Peter G. Peterson Foundation, United States Census Bureau

Observation: **America is a wealthy nation, adopting a market-driven success model for its people's prosperity, yet nearly a third of its people live in poverty or near-poverty. Addressing this contradiction will require radical changes to how the country educates, employs, skills and re-skills its people as well as to the fundamental values that govern social and economic priorities.**

5. Consumer Debt and Delinquencies, an Unsustainable Economic Way of Life

Consumer spending accounted for c.68% of US GDP in 2024[23] and has been one of the most critical components of America's growth, however, as of 2025, household debt has reached record levels, with credit card delinquency rates exceeding pre-2008 financial crisis levels, which suggests that consumer spending is primarily fuelled by excess borrowing rather than wage growth.

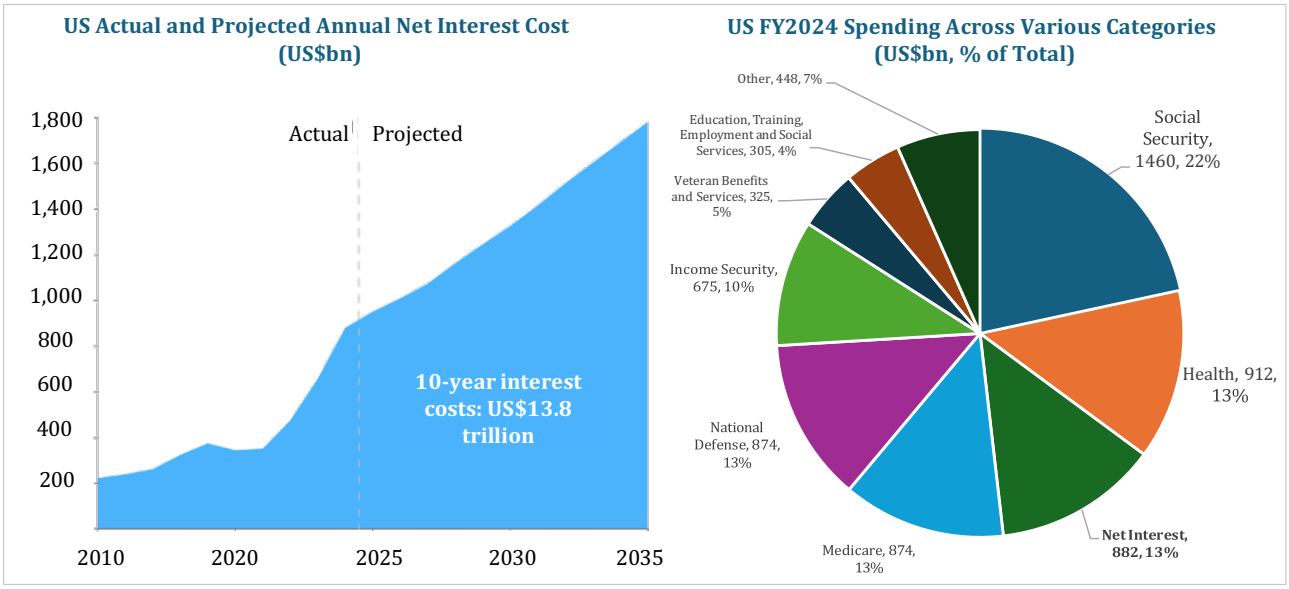


Sources: Financial Times (Jan 2025), New York Fed Consumer Credit Panel, Equifax

Observation: **The US economy's reliance on debt-driven consumer spending indicates living standards have outpaced what is sustainably affordable, serving as an important indicator of a future crisis.**

6. Interest Costs, A Growing Tax on the Future American Economy

In 2024, the US government paid US$882bn of net interest, its third-largest expense, exceeding defence and income security. Federal interest payments are projected to reach US$1.8 trillion by 2035, surpassing spending on Medicaid, defence, and all non-defence discretionary programmes, making it second only to Social Security (US$2.6 trillion), and straining budget resources and limiting funding for essential programs.

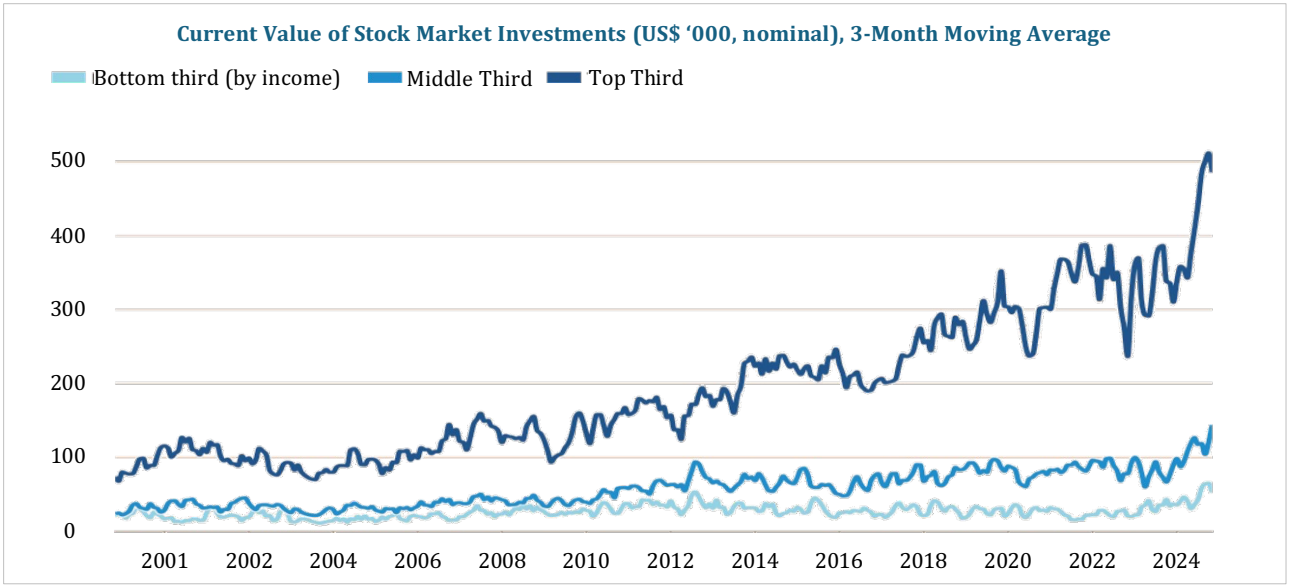


Sources: Peter G. Petersen Foundation, Congressional Budget Office, Office of Management and Budget, US Treasury

Observation: **Given government policies determine the cost of debt, and debt levels continue to rise, two problems are evident; first, policies that alienate international creditors could backfire, and second, cuts to critical social and infrastructure programmes further increase the cost of living for low-income households, deepening social divides.**

7. Stock Market Gains and Wealth Creation, Not Benefitting the Mass Population

While the S&P500 has seen a c.400% increase in value over the past 20 years, the bottom 50% of Americans own less than 1% of total financial assets[24], as a result of which the gains have accrued largely to the top third of Americans by income whose equity portfolios on average are worth c.10x those of the bottom third of Americans. This calls into question the stock market's ability to deliver value to the mass public.

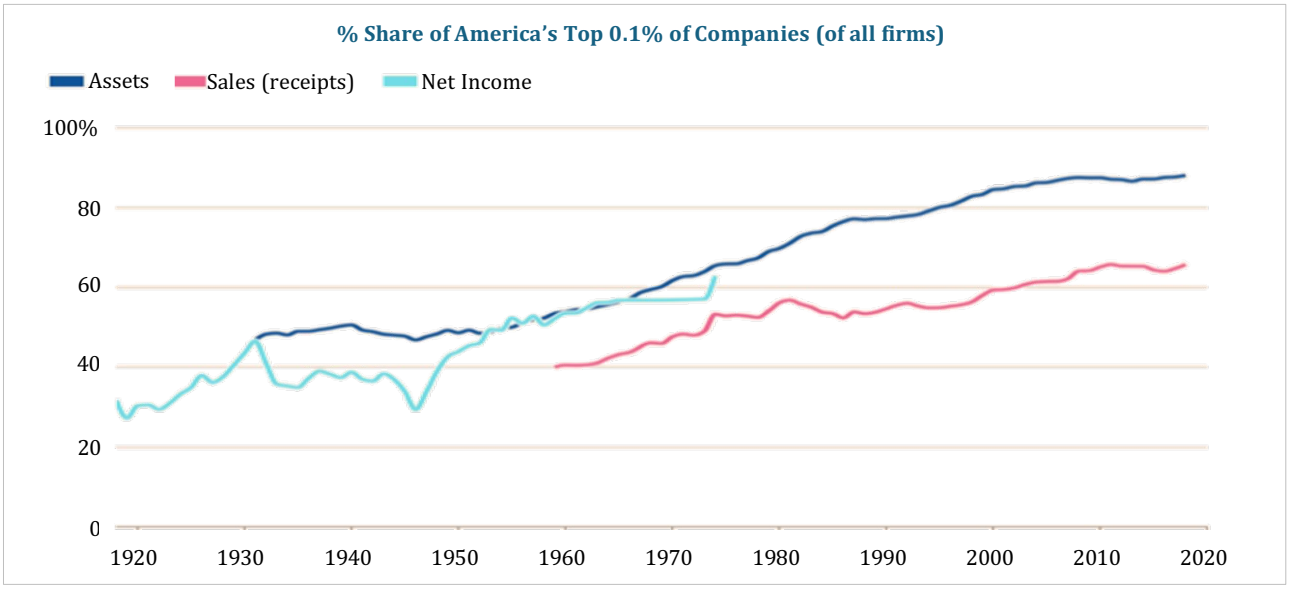


Sources: Financial Times, University of Michigan

Observation: **America has the world's deepest, broadest and most valuable stock market, attracting global capital flows, but given its concentration, it risks serving less as a driver of broad societal value, and more as tool for enriching America's elite.**

8. Corporate Concentration, Indicator of Losing Competitive Edge

The share of total US corporate assets held by the top 0.1% of its companies has surged from 47% in 1931 to 88% in 2025, reflecting a very high level of resource concentration, and a growing monopolisation of economic power. While America has been the most prolific producer of 'unicorns' producing c.700 startups with a valuation over US$1 billion, more than twice as many as the next biggest (China), its pace of creation of new unicorns has declined by c.80% from 287 new unicorns in 2021 to only 56 new unicorns last year[25].

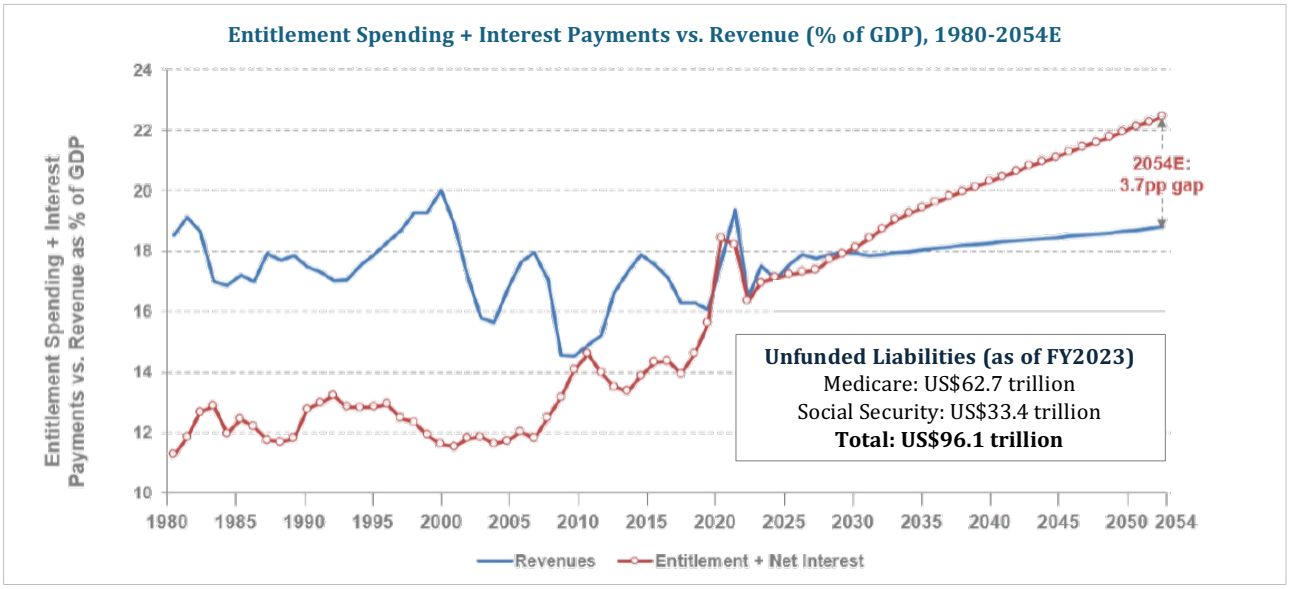


Sources: 100 years of rising corporate concentration (Kwon, Ma, Zimmerman), May 2022, Financial Times

Observation*:* The extreme and growing concentration of corporate wealth signals a decline in competition and growing barriers for new entrepreneurs to scale their businesses, serving as indicators of industrial oligopolies and the declining value of innovation.

9. Unfunded Entitlement Program Liabilities, a Rapidly-Growing Ticking Time Bomb

The US' spending on its entitlement programs grew to US$3.8 trillion in 2023, and has grown c.15x since 1965 (vs. a c.4x growth in GDP in the same period), and together with interest spending is equivalent to all the revenue generated by the government (US$4.4 trillion). Entitlement spending is expected to continue to grow to a point where it will overwhelm the federal budget, and to further complicate matters, the programs are already underfunded to the extent of US$96 trillion as of 2023.

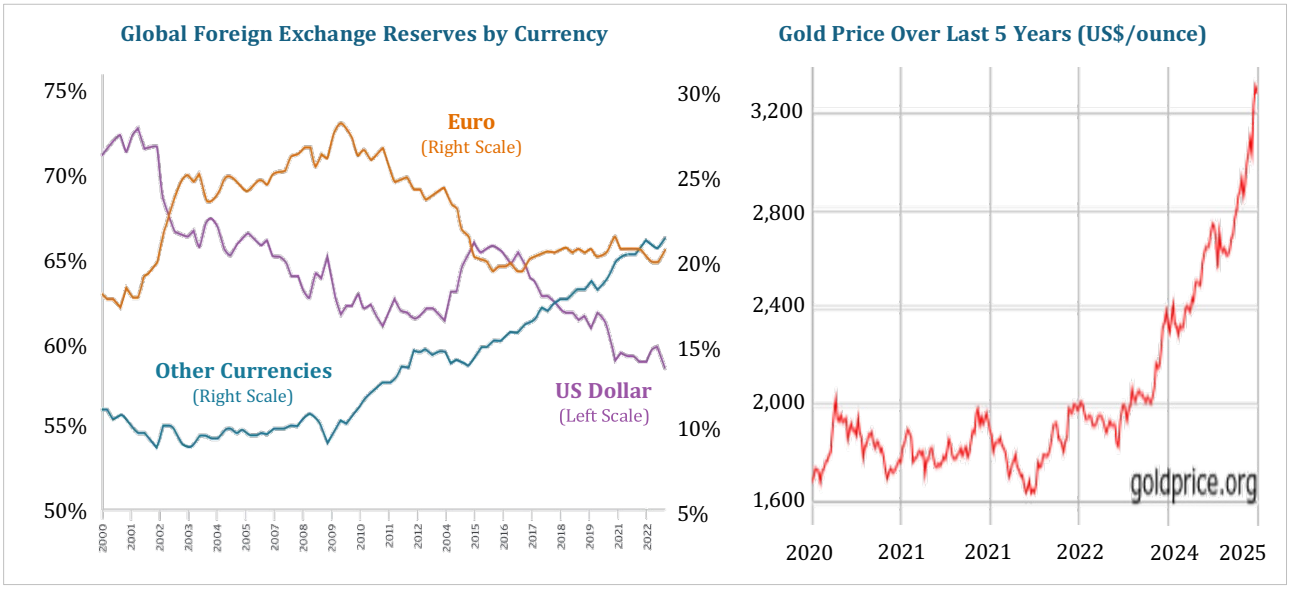


Source: Meeker, M. & Krey, A. (2025). USA Inc. (Mar '25): A Basic Summary of America's Financial Statements – Revisiting Our 2011 Report. BOND.
https://www.bondcap.com/report/pdf/USA_Inc_Revisited.pdf?utm_source=spread

Observation: The explosive growth in entitlement programs and unfunded liabilities raises serious questions about the long-term sustainability of America's social safety net in the absence of structural reforms, as mounting commitments risk crowding out critical investments and undermine fiscal credibility, while risking social stability.

10. Dollar Dominance, Erosion Impacts Global Influence

The share of US dollars in global foreign exchange reserves had already declined to its lowest level in three decades prior to the tariff announcement. Following the announcement, the US dollar has depreciated by 3-5% this month against major currencies, signalling a potential shift away from American financial hegemony and the dollar's role as the global 'safe haven' reserve currency. The price of gold – historically, a safe-haven in times of heightened uncertainty – had already increased c.1.5x in the 18 months preceding the announcement and has increased by a further 11% since.



Sources: JP Morgan, IMF Currency Composition of Official Foreign Exchange Reserves (COFER), www.goldprice.org

Observation: The fall of the sterling as a reserve currency is seen as indicative of Britain's postwar economic and political decline, shaped by diverse, country-specific economic and political factors, and by retrenchment; similarly, today's US policy faces the risk of contributing to a global shift away from the dollar, potentially foreshadowing a broader decline in American economic and geopolitical influence.[26]

American Economic Exceptionalism (or not) and the Implications for the World

Given the scale of the US economy, any weaknesses in its position are not only a domestic issue but are also a matter of great importance to the world, given its effects extend beyond national borders and affect global economic stability. The analysis suggests far-reaching issues that are systemic (related to its system of enterprise) and structural (related to its costs and revenues). Despite its system of enterprise being the most robust system of wealth creation among international economies of scale, the data suggests significant challenges to its ability to not only create but distribute wealth and suggest that these challenges are mounting.

Topic	Key Statistic	Key Issue
1. Government-Funded Growth	25% of job creation since 2023 due to government spending	Unsustainable due to high level of spend and persistent deficit
2. Healthcare Spending	18% of US GDP is spent on healthcare	Questionable efficiency, given poorer health outcomes
3. Income Inequality	4.3x income gain for top-1% since 1979 vs. 1.7-2.3x for rest	Growing inequality supports politically radical agendas
4. Poverty	28% of the US population living in or near poverty	Challenges notion of free markets lifting all boats
5. Consumer Debt	c.US$45 billion of credit card write-offs in 2024	Consumer spend supported by unsustainable level of debt
6. Interest Expense	US$13.4 trillion of net interest liability in next 10 years	Rising cost of debt will make interest burden unsustainable
7. Stock Market Gains Distribution	10x equity portfolio gains for top 1/3rd vs. bottom 1/3rd	Narrow participation in equity markets, exacerbates inequality
8. Corporate Concentration	c.90% of corporate assets owned by top 0.1% of firms	Extreme consolidation reduces competition and innovation
9. Unfunded Entitlement Programs	c.US$100 trillion of unfunded Social Security and Medicare	Crucial entitlement programs becoming unaffordable
10. Dollar Dominance	13% reduction in share of global reserves held in US$	Dollar's role as a safe haven asset critical to US funding

The data raises several fundamental questions regarding the economic foundations of America's position today, including:

1. If others' economies are worse along some or even all the same dimensions, why does it matter that America's economic foundations are challenged?
2. If the economic foundations of America are weak or fragile in some key dimensions, what is required to solve them?
3. What are the risks from pursuing aggressive confrontational economic policies at home and abroad, if one's economic foundations are weak, fragile or vulnerable?
4. Can a target (or group of targets) of such economic policies retaliate in ways that increase the risk?
5. How severe are the consequences of actions that do not address the issues but aggravate others?

The simplistic answers (in order) are: 1. Because America is a superpower and one of the keys to that power is economic, others are not vulnerable to losing such a position but some can gain from America's loss; 2. Given the challenges are systemic and structural, and have been decades in the making, there are no short term solutions, and require the careful management of fundamental societal and economic change; 3. The risks stem from the interconnected nature of the global economic and financial system such that any actions have consequences for every part of the system, and can result in self-harm. 4. Once the countries or domestic groups targeted by its current economic policy (such as tariffs or denied

funding) understand the vulnerability of the American economic system, it is possible to construct retaliations that exacerbate weaknesses and force reversals in such measures, placing America in a weaker position to be an aggressor. 5. Measures that do not address the root causes and drivers of weakness may deepen the very vulnerabilities they aim to fix, driving the overall system closer to collapse. Of course, these questions demand deeper consideration which is beyond the scope of this paper.

However, what is clear is that America's increasing use of tariffs, and some of its cuts in government spending, which may address political objectives, raise the risk that both America and the world economic system will be adversely affected, and potentially risk a systemic breakdown of economic performance, with wider geopolitical consequences. For example, aggressive trade policies disrupt supply chains, drive up costs, and lead to retaliation which will reduce US exports, weaken domestic industries, result in significant job losses, (with an estimated 400,000 net US jobs currently at risk[27]), and also threaten key relationships around the world. More importantly, they may force realignments between allies and rivals that are not in America's interests.

In this context, there are three broader long-term implications for global stakeholders to consider. First, the global trade system will fracture from a series of bilateral tariff and trade wars, with countries encouraged to explore trading alliances that exclude the US, and supply chains being diverted away from the US to avoid providing future leverage to America. Second, the reliance on America and the dollar will diminish over time, it is already shifting to gold but will diversify further to incorporate major trading partners' currencies, and this will likely raise the borrowing cost for the US. Third, if America is seen as an unreliable partner, or a partner who will use its position to extract value from others in ways they deem unfair, its diplomacy and soft power will also decline over time and its ability to influence matters of security will also decline. As these implications unfold, America's major economic issues outlined in the analyses above will likely be more difficult to address.

Conclusion: The Far-Reaching Consequences of Economics

The broader idea of American exceptionalism is based on several pillars of national power. In a post-colonial world, economic exceptionalism – based on globalisation, free trade and democracy – has been one of the most critical sources of America's power. The data shows that America's economic strength has been waning along multiple critical fronts and requires renewal.

The Trump Administration recognised the weakness, and its rhetoric resonated with the public. The question is whether the pursuit of an aggressive American tariff-driven economic policy, and an equally aggressive attack on domestic public spend, is the right response to the multi-faceted problems facing America's economy. And whether the current approach risks precipitating a collapse in its economy, economic power relative to others, and/or the global economic system. Importantly, if its economy is not as strong as assumed by the administration, an aggressive or heavy-handed approach may represent a major strategic risk for the US, and especially so if its targets (domestic and foreign) are able to see it as an error and retaliate forcefully. Given the potentially damaging consequences for America, and the world at large, it does not matter if tariffs are a tool to extract better trading terms or to extract another prize; they make America more vulnerable.

More fundamentally, the erosion of America's economic strengths poses significant risks for both domestic stability and its global influence. The US has historically used trade policy and financial

influence as tools of power projection, but its increasing reliance on tariffs risks weakening the effectiveness of these and other tools. The latest wave of tariffs, many now paused or withdrawn, threaten global and North American trade integration, weaken supply chain resilience, and invite retaliatory measures that will inevitably damage key American industries. While intended to reinforce US manufacturing and economic security, these measures instead push allies to seek alternative economic partnerships, reducing American leverage in shaping global trade norms.

The broader shift away from multilateralism also risks accelerating de-dollarisation, and with it leads to global markets diversifying away from US financial systems, centres and institutions. Countries that once depended on the dollar are hedging their risks by boosting gold reserves and expanding regional trade arrangements. Ultimately, this raises America's borrowing costs and further weakens its economy. This will also erode America's ability to use economic pressure as a foreign policy tool and weaken the effectiveness of its economic sanctions.

Further, the unpredictability of US trade policies is straining international confidence. The departure from established WTO principles and the growing use of trade as a weapon is undermining global trust in American leadership. This places America's, not just the current administration's, credibility as a trading partner at stake. And its willingness to disregard agreements struck by previous administrations raises the question of trust in America itself, positioning it as a partner that will opportunistically re-trade its counterparts. As a result, several other alliances are set to grow in value as alternative trading groups to the US, for example, if the European Union, The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (which includes major economies such as Japan, Canada and Australia), and China coordinate strategies to cooperate, America risks self-inflicted isolation.

As the sole superpower, America has many tools at its disposal to address its issues. The wide-ranging nature of the challenges in its economic foundations require far-reaching changes that will take time to implement. In the meantime, America is still one the world's largest economies, traders, and providers of goods and services, with leadership of most industries. Maintaining this leadership likely requires a shift from protectionism to a longer-term vision that buys it the time to address its issues, fosters global economic resilience, strengthens alliances, and reinforces multilateral cooperation. Such an approach would position America to help shape the global order for the next information era of world development and avoid leaving a power vacuum that adversaries will be eager to fill.

American economic performance exceeds others, and yet it has critical weaknesses that make it vulnerable to missteps, and to retaliatory responses to its policies, the consequences of which are on the one hand the risk of systemic and structural collapse of economies and, on the other hand, a shift in the world order towards a new multilateralism and multipolarity.

The Leader: Endnotes

[1] The Wall Street Journal. (2025, April 4). *Stocks head for record two-day wipeout.* https://www.wsj.com/livecoverage/stock-market-tariffs-trade-war-04-04-2025/card/stocks-head-for-record-two-day-wipeout-Oph5W2WKWqGaPYRh5Zea

[2] Source: GPC estimate based on data from S&P and Dow Jones

[3] International Monetary Fund. (2024, October). *World Economic Outlook Database.* https://www.imf.org/en/Publications/WEO/weo-database/2024/October

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[5] Bradford, S. C., Grieco, P. L. E., & Hufbauer, G. C. (2005). *The payoff to America from global integration*. In C. F. Bergsten (Ed.), The United States and the world economy: Foreign economic policy for the next decade (pp. 65–110). Peterson Institute for International Economics. https://www.piie.com/publications/chapters_preview/3802/2iie3802.pdf

[6] Leino, T., & Gavrilovic, M. (2025, February 20). *Foreign direct investment increased to a record $41 trillion*. IMF Blog. https://www.imf.org/en/Blogs/Articles/2025/02/20/foreign-direct-investment-increased-to-a-record-41-trillion

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