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MARKET VIEWS

Borrowed Time: The U.S. Economy at the End of Exceptionalism

By

Shahed Hassanaly

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For information about Rosa&Roubini Associates, please send an email to info@rosa-roubini-associates.com or call +44 (0)20 7101 0718.

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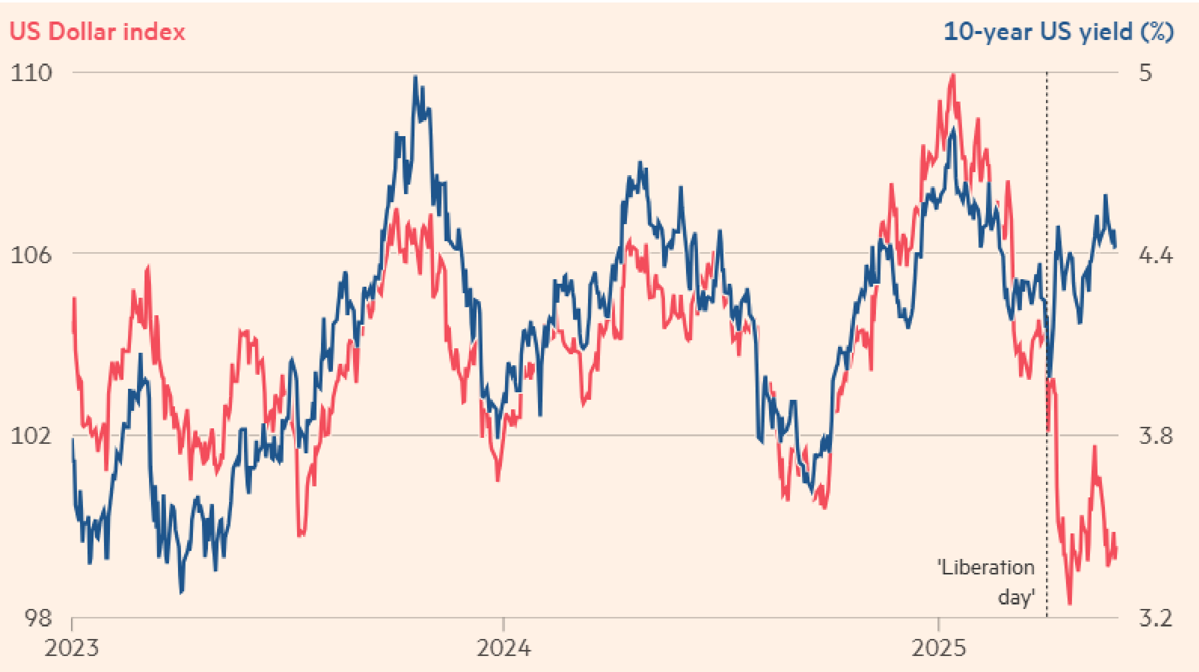
Executive Summary

- The United States commands an extraordinary set of advantages: a dynamic technological sector, deep financial markets, unparalleled cultural reach, and immense latent productivity. But those advantages cannot indefinitely counterbalance unchecked debt, political dysfunction, or strategic complacency.
- History is littered with empires that believed themselves indispensable until they were not. Britain, Rome, and others all had moments of self-assurance even as their power frayed at the edges. The challenge for America is not merely economic but existential.
- This paper answers the following questions: Can the US adjust to a world where it is first among equals, not hegemon? Can it learn to compete on the strength of its fundamentals rather than the inertia of its past? After the Introduction in Section I, each section of this paper examines a key pillar of this thesis.
- **Section II** explores the fiscal unsustainability of the U.S. government
- **Section III** draws historical parallels to Britain's imperial unwinding, showing how global status can persist even as fiscal and industrial decline takes root.
- **Section IV** addresses the evolving role of the dollar.
- **Section V** examines dysfunction in the U.S. Treasury market and the growing problem of finding reliable buyers for U.S. debt.
- **Section VI** analyses how the U.S. economy is beginning to behave like an emerging market—volatile, politicized, and increasingly reliant on market sentiment.
- **Section VII** critiques the narrative of industrial "reshoring," arguing that logistical and structural realities hinder any meaningful manufacturing renaissance.
- **Section VIII** discusses the divergence between America's private sector–driven digital currency strategy and the state-centric models emerging in China and Europe.
- **Section IX** explores the effects of populism, "Trumpenomics," and fiscal nihilism on economic stability.
- **Section X** offers concluding thoughts on whether the U.S. can manage this decline into a new form of global relevance—or whether it will collapse under the weight of its contradictions.

Key Picture: Global Investors Are Losing Confidence in US Assets



Source: Financial Times, via LSEG

"How did you go bankrupt?" "Two ways. Gradually, then suddenly."

Ernest Hemingway, *The Sun Also Rises*, 1926

I. Introduction: The Fragile Foundations of American Power

For most of the twentieth century, the United States represented a unique convergence of economic dynamism, technological innovation, and global political leadership. Its military might, demographic expansion, and vast domestic market positioned it as the uncontested anchor of the postwar liberal world order. From the ashes of World War II emerged an American system that defined the rules of global commerce, dictated the tempo of technological progress, and sustained an international financial regime centered on the U.S. dollar. The Bretton Woods institutions, NATO, and later the WTO were were institutional reflections of U.S. primacy.

At the heart of this exceptionalism was an economic model that enabled the U.S. to spend far more than it earned without facing the immediate constraints faced by other nations. This was made possible by the dollar's role as the world's reserve currency and the Treasury market's dominance as the global risk-free asset. In practical terms, it meant that the U.S. could borrow in its own currency, sell debt to foreign buyers with near-infinite appetite, and run persistent deficits without currency crises or inflationary blowback, exceptional conditions few other nations enjoy. The phrase "exorbitant privilege," coined by then–French Finance Minister Valéry Giscard d'Estaing, captured this asymmetry.

But the age of unchallenged American supremacy is ending, maybe not in dramatic collapse, but in structural erosion. Indicators once seen as rock-solid are now flashing red. Public debt has exceeded $34 trillion, with interest costs poised to surpass defence spending within a decade. Long-term real growth is stagnating, even as interest rates rise. Institutions like the Congressional Budget Office and the Federal Reserve warn of unsustainable fiscal paths, yet political *laissez-faire* blocks meaningful reform. Meanwhile, geopolitical rivals (most notably China) are developing parallel trade and financial systems to escape the gravitational pull of the dollar.

In this new era, what made America exceptional is becoming its Achilles' heel. The same reliance on foreign capital, global trust, and financial engineering that once sustained the U.S. now exposes it to extraordinary risk. The economic model that facilitated 75 years of global dominance: cheap money, open capital flows, and offshored industrial production, is ill-equipped to navigate a world of geopolitical fragmentation, demographic decline, and fiscal overstretch.

This paper presents a comprehensive argument: the U.S. is entering a phase of unmanaged imperial decline. This is not meant in the sensationalist sense of collapse or civilizational failure. Rather, it draws a parallel with the slow and painful unwinding of British dominance in the early 20th century. The U.S., like Britain, is confronting a strategic moment where its privileges are increasingly contested, its commitments increasingly unaffordable, and its domestic politics increasingly unstable.

II. Debt Dynamics and the "R Minus G" Trap

At the core of modern fiscal economics lies a deceptively simple equation: $r < g$ — where "r" represents the real interest rate on government debt, and "g" is the real growth rate of the economy. When r is less than g, a country can, in theory, sustain rising debt levels without compromising its long-term fiscal health. Under such a regime, the economy grows faster than the cost of servicing its debt, allowing debt-to-GDP ratios to stabilize, or even shrink over time without any actual budget surpluses. This favourable dynamic underpinned U.S. fiscal policy for much of the 2010s and early 2020s, granting policymakers a sense of comfort even as deficits ballooned (**Figure 1**).

But this benign period is ending.

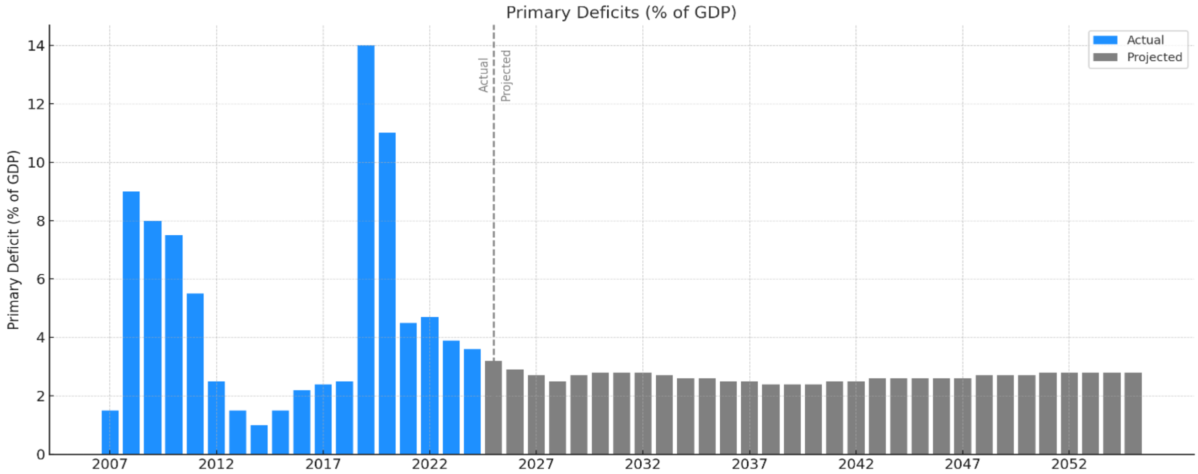
In 2025, U.S. Treasury yields—especially on 10-year notes—rose to levels not seen since before the global financial crisis, consistently holding in the 4.3-4.8% range (**Figure 2**). At the same time, real GDP growth has slowed to **1.5%–2.0%**, a product of demographic aging, declining productivity growth, and higher capital costs.

The result is that **r** is now greater than **g** a reversal with profound implications. In this environment, debt no longer passively stabilizes. It compounds.

This dynamic has already produced hard fiscal consequences. According to the **Congressional Budget Office (CBO)**, net interest payments on the U.S. federal debt will rise from around $659 billion in 2023 to over $1.6 trillion by 2033, overtaking defense spending. By 2032, interest will become the largest single item in the federal budget. Unlike discretionary spending, these obligations cannot be delayed or politically negotiated but are contractually owed.

What makes this moment especially precarious is that **the U.S. is running structural deficits**. In other words, these shortfalls persist even during periods of economic growth and without any fiscal emergencies like war or recession. The deficit as of 2024 hovers near 7% of GDP, and the CBO projects deficits averaging 6%–7.5% of GDP through 2055, assuming no major tax or entitlement reforms. This level of peacetime borrowing is unprecedented in American history.

Figure 1: US Primary Deficit as a Percentage of GDP



Source: Peterson Foundation

The result is a self-reinforcing debt spiral. The government must issue more debt to cover interest payments, which raises total debt, which increases interest obligations, and so on. Economists call this the "snowball effect." In the past, snowball dynamics were primarily a concern for emerging markets. But today, the United States, the world's wealthiest country is inching toward that same trajectory.

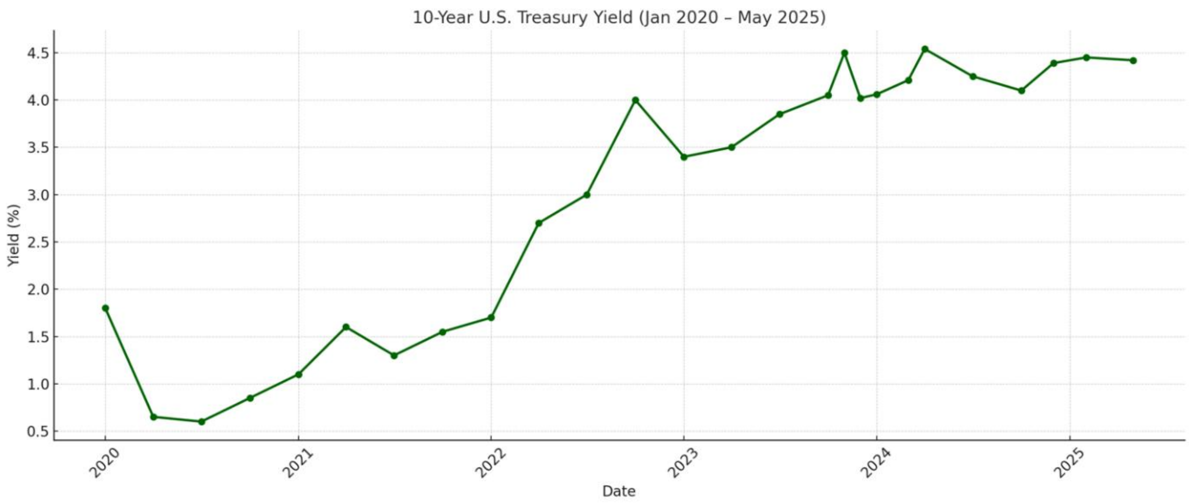
The Investor Confidence Crisis

The risk is not simply about arithmetic. The sustainability of debt hinges on **market confidence.** Investors must continue to believe that U.S. fiscal policy remains broadly under control. If that confidence erodes—whether due to political dysfunction, inflation fears, or Treasury market instability—then yields can rise **not just due to Fed policy**, but as a risk premium demanded by investors.

This is already happening. U.S. credit default swaps (CDS) which measure the cost of insuring against a government default, have widened notably, trading at levels comparable to some eurozone periphery countries. The downgrade of the U.S. sovereign credit rating by Moody's in 2025, while symbolic, reflect growing unease over America's political willingness—not just its economic ability—to manage debt.

The **Treasury market itself has begun to strain** under the weight of excessive issuance. Primary dealers are absorbing more risk. Auction coverage is deteriorating. The Federal Reserve is no longer a buyer of last resort—having transitioned from quantitative easing (QE) to quantitative tightening (QT). Foreign central banks, particularly China and Japan, are reducing their Treasury holdings. This has forced a shift toward more yield-sensitive buyers, which increases volatility and raises rollover risk, with a target yield for the **10 year treasury at 5% by year end.**

Figure 2: US 10y Treasury Yield



Source: St Louis Fed

Modern Monetary Theory and Its Illusions

During the 2010s and early 2020s, a growing school of thought—Modern Monetary Theory (MMT)—argued that countries issuing debt in their own currency could never face insolvency. Under MMT, deficits are merely tools to control inflation and ensure full employment, not problems in and of themselves. While this theory gained traction during the pandemic, reality has delivered a harsh correction.

Yes, the U.S. cannot technically default on its dollar-denominated debt. But it can still suffer a **real default**—through inflation or currency debasement. That's the danger. When investors fear that debt monetization (via the Fed) will dilute the value of their holdings, they demand higher nominal yields, sell off long-dated Treasuries, or exit the currency entirely.

What MMT overlooks is that **the limit of sovereign borrowing is not mechanical—it's psychological.** The credibility of the U.S. Treasury rests on decades of institutional trust and global stability. But that trust is not eternal. And once lost, it cannot be quickly regained.

Interest Payments Crowd Out Public Investment

As interest costs rise, they begin to crowd out other areas of the federal budget. Already, the **"**net interest**"** **line item is projected to exceed defense spending, Medicare, and all discretionary non-defense programs in 2025.** This not only constrains fiscal flexibility, but also limits future investment in infrastructure, R&D, and human capital, the very inputs needed to boost productivity and long-term growth.

In effect, the U.S. is being forced to finance its past (interest payments) rather than its future (investment). This is the fiscal equivalent of an aging empire paying pensions rather than training new workers or building roads. It is a classic sign of strategic exhaustion.

Demographics, Entitlements, and Inescapable Arithmetic

The demographic picture exacerbates the problem. The U.S. population is aging rapidly. By 2030, all Baby Boomers will be over 65, placing enormous pressure on Social Security and Medicare, two of the largest and fastest-growing budget items. Without reform, these programs will consume an ever-larger share of GDP (**Figure 3**).

Worse, the political system has shown itself utterly incapable of addressing these challenges. Both parties have incentives to preserve entitlements and cut taxes. Any meaningful reform is seen as politically suicidal. The result is what economists call **"policy drift"** a situation where inaction leads to worse outcomes than unpopular action would have. In short, the U.S. fiscal position is being crushed between higher interest rates, lower growth, rising entitlements, and political paralysis. This is the "r minus g" trap in action.

Figure 3: US Budget Projections

	Average 1974-2023 (%G	2023 Actual (%GDP)	2024 (%GDP)	2025 (%GDP)	2034 (%GDP)	2023 Actual ($B)	2024 ($B)	2025 ($B)	2034 ($B)
Revenues	17.3	16.5	17.5	17.1	17.9	4439.0	4935.0	4996.0	7474.0
Individual income taxes	8.0	8.1	8.8	8.6	9.5	2176.0	2469.0	2520.0	3973.0
Payroll taxes	6.0	6.0	5.9	5.9	5.9	1614.0	1663.0	1734.0	2466.0
Corporate income taxes	1.8	1.6	2.0	1.7	1.3	420.0	569.0	494.0	551.0
Other	1.5	0.8	0.8	0.8	1.2	229.0	234.0	247.0	485.0
Outlays	21.0	22.7	23.1	23.1	24.1	6123.0	6517.0	6768.0	10032.0
Mandatory	11.0	13.9	13.9	13.9	15.1	3742.0	3908.0	4061.0	6298.0
Social Security	4.4	5.0	5.2	5.3	5.9	1348.0	1453.0	1545.0	2471.0
Major health care programs	3.4	5.8	5.6	5.5	6.7	1556.0	1574.0	1619.0	2781.0
Medicare	2.1	3.1	3.2	3.2	4.2	832.0	896.0	940.0	1740.0
Medicaid, CHIP, and marketplace subsidies	1.3	2.7	2.4	2.3	2.5	724.0	678.0	679.0	1042.0
Other mandatory	3.2	3.1	3.1	3.1	2.5	838.0	881.0	897.0	1046.0
Discretionary	8.0	6.4	6.2	6.0	5.1	1722.0	1739.0	1756.0	2106.0
Defense	4.2	3.0	2.9	2.9	2.5	805.0	822.0	845.0	1034.0
Nondefense	3.7	3.4	3.3	3.1	2.6	917.0	917.0	911.0	1074.0
Net interest	2.1	2.4	3.1	3.2	3.9	659.0	870.0	951.0	1628.0
Total deficit (-)	-3.7	-6.2	-5.6	-6.1	-6.1	-1684.0	-1582.0	-1772.0	-2557.0
Primary deficit (-)	-1.6	-3.8	-2.5	-2.8	-2.2	-1025.0	-712.0	-821.0	-929.0
Debt held by the public at end of period	48.3	97.3	99.0	101.7	116.0	26240.0	27897.0	29479.0	48300.0

Source: CBO

III. Echoes of Empire: Britain's Decline and America's Parallels

History does not repeat itself, but it often rhymes. The current trajectory of the United States bears striking parallels to the imperial decline of Britain in the early 20th century. While the U.S. still enjoys unmatched military power, world-class technological infrastructure, and deep financial markets, these strengths were also once claimed by Britain at the height of its empire. The arc of imperial overreach, financial exhaustion, and political complacency is structurally recurrent.

Britain's rise to global dominance in the 18th and 19th centuries was driven by industrial innovation, naval supremacy, and a global trade empire underwritten by the pound sterling. Like the U.S. today, Britain's dominance gave it unparalleled access to global capital and markets. The pound became the reserve currency of its time, and London the financial centre of the world.

Yet by the early 20th century, cracks were forming. The costs of maintaining empire were growing, and the returns were shrinking. Global challengers like Germany and the United States were rising. Most critically, Britain's relative economic weight was declining even as its global commitments remained unchanged. The result was a classic case of imperial overextension: a mismatch between global ambition and domestic capacity.

America today is facing a similar condition. It maintains a sprawling global military footprint—750 bases across 80 countries—while its domestic infrastructure crumbles. It provides security guarantees to allies from Europe to the Indo-Pacific while struggling to fund its own social programs. It acts as the lender of last resort in global crises but does so with a fiscal position increasingly dependent on debt monetization. This tension between external projection and internal fragility is the hallmark of hegemonic overstretch.

The Fiscal-Military Dilemma

One of the central dynamics in Britain's decline was the **fiscal-military dilemma**: the inability to fund imperial commitments without undermining domestic stability. Wars and global policing drained the treasury, forcing either higher taxes or borrowing. Both options generated political resistance and economic strain. The Suez Crisis of 1956—when Britain was forced to withdraw under U.S. pressure—marked the symbolic end of British global power, but the real decline had started decades earlier, hidden behind the inertia of past achievements.

The United States has not yet faced a Suez moment, but the logic of decline is already underway. The wars in Iraq and Afghanistan, costing an estimated $6–8 trillion, delivered little in terms of strategic benefit and hasn't contributed to more stability in the regions, sometimes even the opposite. Meanwhile, the fiscal cost of global hegemony continues to rise. U.S. defense spending remains above $850 billion annually, and rising geopolitical tensions with China and Russia suggest no peace dividend is on the horizon.

This leads to an inescapable question: **Can the U.S. continue to act as global hegemon when it cannot balance its own books?** Can it credibly deter rivals and sustain alliances when its own fiscal house is in disarray?

Financial Hegemony: The Pound and the Dollar

The most direct parallel lies in the status of the reserve currency. For over a century, the pound sterling was the backbone of international trade and finance. It allowed Britain to borrow cheaply, run deficits without punishment, and project power far beyond what its economy alone could sustain. But after World War I, the pound began to decline in importance. Britain tried to restore its pre-war position by returning to the gold standard at an overvalued rate, triggering deflation and unemployment. The decision proved disastrous.

As the U.S. rose economically, the dollar gained ground. By **1944**, with the signing of the **Bretton Woods Agreement**, the dollar officially replaced the pound as the world's reserve currency, marking the final step in Britain's financial demotion.

The U.S. today enjoys the same privileges the pound once commanded: reserve currency status, dominant payment infrastructure, and the global demand for its sovereign debt. But history shows that these privileges are not permanent. They erode with time, especially when trust is compromised. Rising concerns about U.S. political dysfunction, fiscal recklessness, and weaponized finance (i.e., sanctions overreach) are slowly chipping away at the aura of dollar invincibility.

Major economies, including China, Russia, Brazil, and Saudi Arabia, have begun diversifying reserves, settling trade in alternative currencies, and building parallel payment systems. The **BRICS bloc** is even exploring a **commodity-backed settlement currency.** While these efforts are still nascent, they mark the beginning of a process of **financial multipolarity**.

Just as the pound did not collapse overnight, the dollar will not either. But once a tipping point is reached, where the marginal buyer of Treasuries demands a premium, or a major trading bloc exits the dollar system, the unravelling can accelerate swiftly.

Technological and Industrial Decline

Another striking parallel is the decline in industrial primacy. Britain invented the industrial revolution, pioneered railroads, and dominated shipbuilding. But by the late 19th century, its industrial base had ossified. Germany and the U.S. were more dynamic, more innovative, and more productive. British elites clung to legacy advantages, assuming that financial power could substitute for manufacturing strength. It could not.

Similarly, the U.S. once stood as the world's manufacturing powerhouse. But over the last four decades, it has hollowed out its industrial base, offshoring production to East Asia in pursuit of cost efficiency. Today, the U.S. runs a trade deficit in goods exceeding $1 trillion annually. Its supply chains are vulnerable, its domestic factories outdated, and its skilled labour force insufficient for large-scale industrial revival.

The COVID-19 pandemic and subsequent geopolitical shocks triggered calls for "reshoring." But the costs and frictions of reversing decades of globalization are immense. Like Britain in the interwar years, the U.S. risks being caught between nostalgia and necessity by wanting to lead the world industrially, but unwilling to bear the structural reforms needed to do so.

The Illusion of Eternal Privilege

The central error of declining empires is to assume that **past dominance ensures future relevance.** Britain believed that its naval power and financial prestige would protect its status. It failed to invest in emerging technologies (like aviation and electronics), misjudged the pace of change, and remained overly reliant on a global system that no longer aligned with its capacity.

The U.S. risks repeating the same mistake. It assumes that because the dollar is dominant today, it will remain so tomorrow. That because its financial markets are deep, its debt will always find buyers. That because its tech sector leads today, innovation will not migrate elsewhere.

History says otherwise. Empires decline not because they lose all power, but because **the gap between their commitments and their capabilities becomes unmanageable.** Britain declined gracefully because the U.S. was ready to assume its mantle. The U.S. has no such successor and that makes its decline more dangerous, more contested, and potentially more destabilizing.

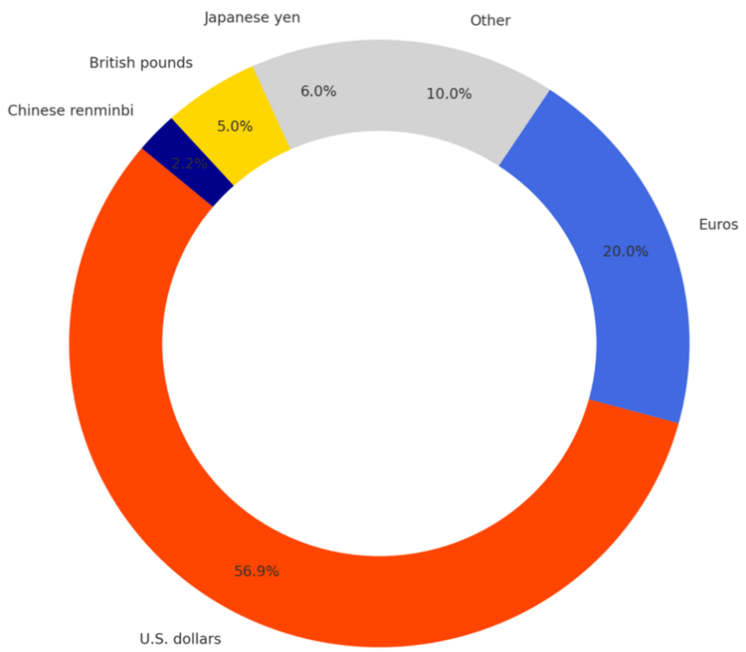
IV. The Dollar's Inertia vs. the Momentum of Alternatives

For nearly eight decades, the U.S. dollar has served as the foundation of global finance. It is the most widely used currency for trade settlement, the most held reserve asset by central banks, and the benchmark unit for commodities like oil and gold. As of 2024, the dollar accounts for nearly 59% of global foreign exchange reserves, over 80% of global trade finance, and nearly 90% of foreign exchange transactions (**Figure 4**). It is the primary currency for cross-border debt issuance, and Treasury securities form the backbone of collateral markets worldwide.

This dominance, however, is not simply a matter of economic scale. It is the product of trust: trust in the depth and liquidity of U.S. financial markets, trust in the rule of law, trust in the Federal Reserve's credibility, and trust in America's global leadership. But trust is not immutable. It is shaped by history and vulnerable to strategic missteps.

While the dollar's supremacy remains intact, **alternative monetary systems are emerging**. From China's RMB cross-border payments infrastructure to the creation of regional digital currencies and bilateral trade in local currencies, the architecture of global finance is beginning to fragment. The result is not immediate "de-dollarization," but monetary diversification—a slow, uneven erosion of the dollar's monopoly power.

Figure 4: Global Foreign Exchange Reserves (Share, Q3 2024)



Source: Reuters

Inertia: Why the Dollar Still Dominates

The U.S. benefits from what economists call network effects. Because so many global transactions are already denominated in dollars, it becomes easier and more cost-effective for other actors to also transact in dollars. This creates a positive feedback loop. Liquidity attracts liquidity. Pricing power begets more pricing power.

Moreover, there are **no clear substitutes.** The euro, while deep and liquid, suffers from governance fragmentation and structural limitations in the eurozone. The Japanese yen and British pound are regional rather than global currencies. China's RMB, while increasingly internationalized, remains under strict capital controls, limiting its convertibility and trustworthiness as a global reserve.

In other words, while dissatisfaction with the dollar may be rising, **no rival currency has yet offered the full suite of benefits** the dollar provides: legal protection, deep markets, institutional credibility, and strategic neutrality (at least in the past).

However, this inertia can mask brewing vulnerabilities. Just as the British pound remained dominant long after Britain's relative economic power faded, the dollar today is benefiting from **legacy privilege** more than fundamental strength. And when cracks appear in legacy systems, change can be sudden.

Sanctions and the Weaponization of the Dollar

A key turning point in the global perception of dollar dominance came in **2022**, when the U.S. and its allies froze over $300 billion in Russian foreign reserves following the invasion of Ukraine. While this was applauded in the West as a legitimate use of financial power to enforce geopolitical norms, it also sent a chilling message to non-Western states: your assets are only safe as long as you align politically with Washington.

This triggered a strategic reassessment in capitals around the world. China, Saudi Arabia, Turkey, Brazil, and even some Southeast Asian states began increasing gold purchases, reducing exposure to U.S. assets, and exploring local currency trade arrangements. The BRICS countries accelerated their work on an alternative settlement mechanism, while the Shanghai Cooperation Organization ramped up discussions on monetary cooperation.

While none of these efforts pose an existential threat to the dollar in the short term, they mark the beginning of a **political diversification away from U.S. financial infrastructure.** In the long term, the use of sanctions as a routine foreign policy tool may backfire—not by forcing behavior change, but by undermining the very system that gives sanctions their potency.

Diversification: What the Data Shows

While the dollar remains dominant, **trends in reserve diversification are already visible.**

- The IMF's COFER data shows a gradual decline in the dollar's share of global reserves—from over 71% in 2000 to just under 59% in 2024.
- Central banks in emerging markets are reducing dollar exposure and increasing allocations to gold, RMB, and even euros.
- The number of bilateral trade agreements settled in local currencies—such as India-Russia, China-Brazil, and UAE-India—has surged.
- The proportion of non-dollar-denominated energy contracts is small but growing.

These are not speculative indicators—they are strategic responses to perceived risks in dollar dependence.

The Dollar Trap and the Global Safety Valve

Yet even as alternatives rise, many countries remain trapped in the dollar system. Dollar-denominated debt, especially in emerging markets, creates **path dependency**. Shifting away is risky and slow. Moreover, during crises, demand for dollars spikes, not falls. The "global dollar shortage" during the 2020 pandemic reaffirmed the dollar's role as the world's ultimate **liquidity backstop.**

This duality—**resentment of the dollar's dominance but reliance on its safety**—creates a paradox. The dollar will not be displaced by rhetoric or policy alone. It will require the emergence of an ecosystem that matches the dollar's **depth, trust, and utility.** That day has not arrived. But for the first time in decades, it is no longer unimaginable.

V. Structural Dysfunction: Treasuries, Deficits, and the Vanishing Bid

The United States Treasury market is the bedrock of the global financial system. It sets the benchmark for risk-free interest rates, collateralizes trillions in global derivatives, anchors sovereign wealth portfolios, and serves as the most liquid asset in the world. For decades, the uninterrupted demand for Treasuries was a testament to the credibility of the U.S. government and the stability of its economy. But in recent years, cracks have begun to appear in this once-flawless system.

At the centre of this emerging instability lies a growing disconnect between **supply and demand**. The U.S. government is issuing debt at a record pace, driven by chronic deficits, rising entitlement costs, and interest payments on existing debt. At the same time, traditional buyers of Treasuries—foreign central banks, domestic banks, and the Federal Reserve—are stepping back. The result is a structural imbalance that threatens the integrity of the very market that underpins the global dollar system.

A Deluge of Supply

In fiscal year 2023, the U.S. government issued over $2.5 trillion in net new debt. That figure is projected to grow to **$3 trillion annually by the early 2030s**, according to the Congressional Budget Office. This is not wartime spending, nor is it stimulus for a depressed economy. It is **peacetime structural overspending**, driven by an aging population, stagnant tax revenues, and political paralysis.

Compounding the issue is the need to roll over existing debt. As of 2024, more than 40% of outstanding Treasuries mature within the next three years. This creates a constant need to refinance at higher interest rates, pushing up annual interest costs and exacerbating the fiscal outlook. The Treasury is not just issuing new debt—it's also reissuing old debt at higher yields, creating a compounding pressure on the federal budget.

The Retreat of Natural Buyers

For decades, the Treasury could rely on a stable group of buyers:

1. **The Federal Reserve**: Through quantitative easing (QE), the Fed bought trillions in Treasuries, providing artificial demand and suppressing yields. But since 2022, the Fed has reversed course, shifting into quantitative tightening (QT). Instead of buying Treasuries, it is now allowing them to roll off its balance sheet, removing a key buyer from the market.
2. **2. Foreign Central Banks**: Once dominant players—especially China and Japan—foreign holders are reducing their exposure to U.S. Treasuries. **China's holdings fell to $765.4 billion in March 2025**, down **$18.9 billion** from the previous month, according to U.S. Treasury data. This marked the fifth consecutive month of net offloading and brought China to its **lowest level of Treasury holdings since 2009**, causing it to **drop to third place** among foreign holders, behind Japan and the United Kingdom. The reduction reflects **Beijing's broader efforts to diversify its foreign exchange reserves**, amid fears of financial weaponization in the context of ongoing trade and geopolitical tensions with the United States. Meanwhile, **Japan remains the largest foreign holder**, though officials have downplayed any plans to use its holdings as leverage. About 30% of US Treasuries are Foreign owned.
3. **U.S. Commercial Banks**: Under **Basel III regulations**, banks were encouraged to hold "safe assets" like Treasuries. But with rising yields, mark-to-market losses, and balance sheet constraints (as seen during the Silicon Valley Bank collapse in 2023), banks have become more selective. Treasury exposure now carries real risks.

With these traditional players retreating, the market has turned to **yield-sensitive private investors**—mutual funds, hedge funds, pensions, and individuals. These buyers demand higher returns, are more volatile, and tend to flee in times of uncertainty.

Auction Stress and the Liquidity Mirage

One of the more troubling developments is the increasing **fragility of Treasury auctions**. Several recent auctions including May 2025 saw—low bid-to-cover ratios, weak indirect bidder participation, and high tail spreads. While none triggered outright failure, they revealed a market that is no longer functioning with the mechanical smoothness of the past.

Market participants are also warning of declining liquidity in the secondary Treasury market. Despite trillions in daily volume, actual depth—the ability to execute large trades without moving the price—has deteriorated. During periods of stress (e.g., the UK gilt crisis of 2022 or the U.S. regional bank turmoil in 2023), Treasury spreads widened sharply, and pricing became erratic.

This is a dangerous dynamic. If the world's most trusted collateral becomes unreliable or illiquid during stress events, the consequences ripple across global markets—from repo operations to derivative clearing to margin calculations.

Duration Risk and the Maturity Wall

Another structural problem is the shortening duration of Treasury issuance. In recent years, the Treasury has favoured short-term bills over long-term bonds to reduce interest costs. But this creates a **maturity wall**—a wave of obligations that must be refinanced frequently, exposing the government to rate spikes and liquidity shocks.

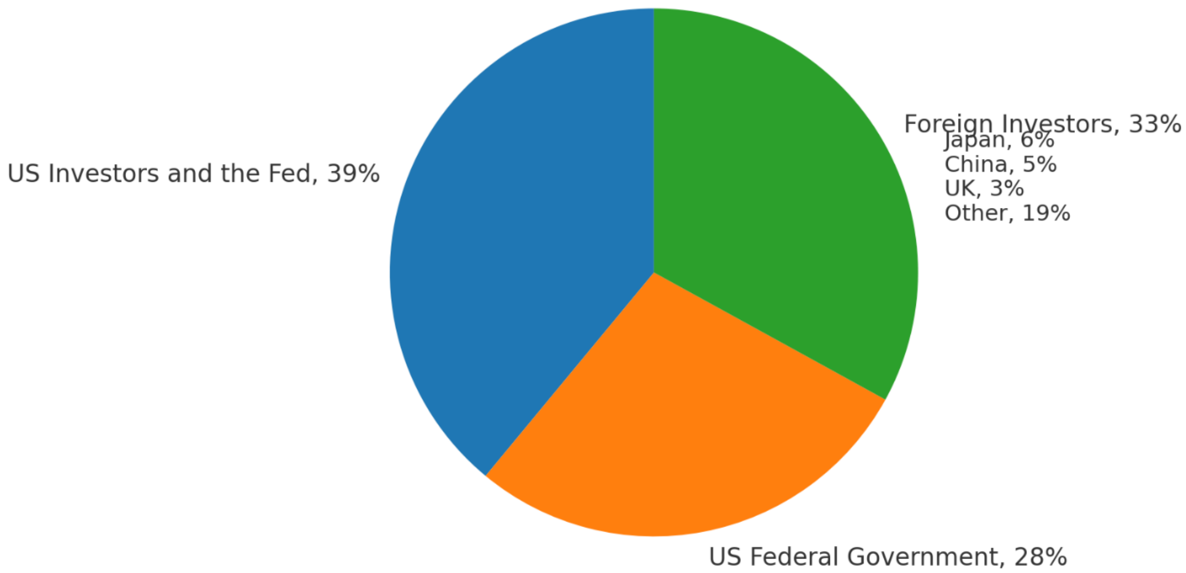
As of 2024, the average maturity of U.S. debt is just over 6 years, and trending lower. This is risky. If inflation expectations rise, or if investors demand a premium for fiscal risk, the rollover cost could surge. The U.S. would find itself in a position where it cannot refinance without blowing up its budget.

A Sovereign in Need of Its Own Central Bank

Ironically, the U.S.—issuer of the world's reserve currency—is beginning to behave like a **sovereign emerging market** in some respects. It is **increasingly reliant on its own central bank** to absorb debt, manage market expectations, and smooth volatility. In other words, the Fed is no longer just setting interest rates—it is acting as a buyer of last resort, a role more commonly associated with Argentina or Turkey than with the United States.

This is not a sustainable equilibrium. If inflation resurfaces or political constraints tighten, the Fed may be forced to pull back. When that happens, the Treasury could face a genuine **funding crisis**, not because investors doubt repayment, but because they doubt **value preservation**.

Figure 5: Ownership of US Treasuries



Source: Reuters

VI. The Emerging Market Within: How the U.S. Now Mirrors the Fragility It Once Cured

For much of the postwar period, the United States functioned as the stabilizing anchor of the global financial system. During emerging market crises—from Latin America's debt defaults in the 1980s to the Asian Financial Crisis of 1997—the U.S., through the IMF and its own financial institutions, prescribed fiscal discipline, institutional reform, and monetary credibility as cures for volatility and capital flight.

Ironically, many of the symptoms that once plagued emerging markets—currency pressure, fiscal dysfunction, and capital volatility—are now surfacing in the United States itself. This does not mean the U.S. is becoming Argentina. But it does mean that the distinction between "developed" and "emerging" market behavior is narrowing in key respects, especially in the Treasury and FX markets.

Market Volatility as a Policy Signal

A defining feature of emerging markets is the **link between policy missteps and immediate market punishment.** When a government overspends, underdelivers, or politicizes monetary policy, its currency sells off, bond yields spike, and investor flight ensues. These feedback loops act as real-time referenda on credibility.

In recent years, U.S. policy decisions have elicited similarly acute market reactions. For example:

- When the U.S. neared the debt ceiling in mid-2023, yields on short-dated Treasury bills spiked to over 7%, reflecting default fears—an event once unthinkable for the world's benchmark credit.
- During the **banking instability in March 2023**, regional lenders like Silicon Valley Bank collapsed, sparking fears of broader contagion. The Treasury had to guarantee deposits and backstop money markets.
- When **fiscal stimulus packages** were announced without accompanying funding plans, long-dated Treasury yields rose in tandem with inflation breakevens—indicating a loss of trust in fiscal restraint.

These are not isolated shocks. They are symptoms of a system that is beginning to price in **risk premia** not just for inflation, but for institutional incoherence and political dysfunction.

Currency Volatility and the Yield-DXY Breakdown

Historically, the **U.S. dollar (DXY)** and Treasury yields have moved in tandem: when yields rise, the dollar strengthens, as investors flock to higher returns. But this correlation has broken down at times in 2023–2025. Rising yields have coincided with dollar weakness, especially against hard-asset currencies like gold or energy-linked currencies like the Canadian dollar.

This reflects a shift in perception. Yields are no longer interpreted solely as signals of growth or Fed policy—they are increasingly viewed as **risk signals**. Rising yields can now indicate fiscal stress or liquidity scarcity, not economic optimism. This is classic emerging market behavior.

Moreover, the dollar's real effective exchange rate has become **more sensitive to geopolitical developments**, commodity cycles, and shifts in capital flows—rather than purely macroeconomic fundamentals. In other words, the dollar is behaving **less like a hegemonic currency** and more like a **cyclical one**, dependent on the risk-on/risk-off moods of global investors.

Loss of Policy Coherence

One of the key characteristics that separates advanced economies from emerging ones is the **coherence of monetary and fiscal policy.** In the U.S., that coherence is breaking down.

- The **Federal Reserve** is tightening monetary policy to fight inflation, raising rates aggressively and shrinking its balance sheet.
- Meanwhile, the **Treasury** continues to run large deficits, issuing record volumes of new debt and pushing up demand for liquidity.

This disconnect—tight money and loose fiscal—creates **conflicting signals** for markets. It also raises borrowing costs through **term premium**, amplifies volatility, and undermines investor confidence. Again, this is typical of emerging markets, where policy institutions are fragmented or politically constrained.

Moreover, the rising politicization of institutions like the Fed and the Supreme Court has raised concerns about the durability of **rule-of-law guarantees** that traditionally underpinned U.S. asset safety. The line between independent institutions and partisan agendas is blurring—a hallmark of institutional fragility.

Capital Flight, Tax Arbitrage, and Elite Behavior

In emerging markets, elites often hedge against domestic instability by **offshoring wealth**, purchasing foreign real estate, or acquiring dual citizenship. These behaviors are now increasingly visible among American ultra-high-net-worth individuals and corporations.

- The rise of offshore tax havens used by U.S. billionaires has accelerated.
- Major firms are redomiciling profits to low-tax jurisdictions.
- Wealthy individuals are purchasing **gold, crypto assets, and foreign property** to hedge against domestic political and fiscal risk.

While this behavior remains limited to a small subset of Americans, it reflects a broader erosion of confidence in **domestic financial stability and tax sustainability.**

Political Polarization and Institutional Volatility

Emerging markets often struggle with political instability: contested elections, populist leadership, and frequent policy reversals. The U.S. now mirrors this pattern. The **2016 and 2020 elections**, the **January 6 Capitol riot**, and the increasing influence of populist factions in both major parties have undermined perceptions of American political continuity.

Furthermore, the judicial system—once seen as apolitical—is now embroiled in ideological battles. Regulatory agencies are underfunded or politicized. Budget negotiations routinely bring the government to the brink of shutdown.

Markets may tolerate high debt or slow growth. What they cannot tolerate indefinitely is **uncertainty about institutional function**. The U.S. is reaching the outer bounds of this tolerance.

VII. Reshoring Illusions and the Reality of Industrial Fragility

The idea of "reshoring" American industry has become a political mantra. From bipartisan speeches in Congress to executive orders from both Democratic and Republican administrations, there is now near-universal acknowledgment that the United States has lost too much of its manufacturing base—and that bringing it back is essential to national resilience, supply chain security, and geopolitical competitiveness.

Yet the ambition to reindustrialize the U.S. economy confronts a harsh reality: the deindustrialization of the past four decades cannot be undone with rhetoric or subsidies alone. The obstacles are structural, strategic, and deeply embedded in the logic of globalization that American corporations themselves helped engineer.

This section explores why **industrial reshoring is proving far more difficult and limited than advertised**, and why the United States may struggle to rebuild the foundations of production essential to long-term economic independence.

The Scale of Offshoring

To understand the magnitude of the reshoring challenge, we must first appreciate the scale of offshoring.

Between 2000 and 2020, the U.S. lost nearly 5 million manufacturing jobs and shut down more than 70,000 factories. Entire supply chains—especially in electronics, textiles, steel, and pharmaceuticals—migrated to Asia, where labor was cheaper, environmental regulations were weaker, and production could be scaled with ruthless efficiency.

Today, over 90% of active pharmaceutical ingredients (APIs) are sourced abroad. The United States produces **zero advanced lithography machines**, **few high-end semiconductor fabs**, and is dependent on imports for critical minerals like **rare earth elements** and **lithium**, crucial for battery production.

This is not just about cheap labor. It's about **ecosystems**. Taiwan, South Korea, and China have built integrated industrial networks with deep supply webs, trained labor pools, and logistics systems that take decades to replicate.

The Limits of Incentive-Based Policy

In recent years, the U.S. government has launched an unprecedented push to reverse this trend:

- The **CHIPS and Science Act** (2022) allocated over **$52 billion** to incentivize domestic semiconductor manufacturing.
- The **Inflation Reduction Act** (2022) funneled **hundreds of billions** into clean energy manufacturing and electric vehicle supply chains.
- Additional executive orders have targeted critical mineral development and defense industrial capacity.

While these efforts have led to high-profile announcements—Intel, TSMC, and Samsung are all building fabs in Arizona and Texas—the overall impact remains modest.

Many projects under the CHIPS and Science Act are facing significant setbacks. According to the Financial Times, approximately **40% of major manufacturing projects** announced under the IRA and CHIPS programs have been **delayed or put on hold**, citing high interest rates, economic uncertainty, and sluggish demand

Moreover, reshoring often turns into **"friend-shoring"**—moving production from China to Vietnam, Mexico, or India, rather than bringing it back to the U.S. This may improve geopolitical resilience, but it does little for American workers or industrial capacity.

Labor and Skills Bottlenecks

The American labor force is not ready for industrial revival.

Manufacturing today is not the same as it was in the 1950s. It requires **highly skilled technicians, process engineers, and digital specialists**. But the U.S. education system has not produced sufficient talent in these fields. The vocational pipeline is underdeveloped. Apprenticeship systems—common in Germany or South Korea—are weak or nonexistent.

As a result, many reshored projects face acute **labor shortages**. In 2024, TSMC's Arizona project was delayed due to a lack of qualified U.S. workers. Korean and Taiwanese engineers had to be flown in to install and operate the equipment. Even for simpler facilities, training workers from scratch takes months or years.

This is not a question of will—it is a question of **human capital infrastructure**. Without long-term investments in training, reskilling, and education, the U.S. will lack the workforce needed to make reshoring viable at scale.

Cost Structure and Competitiveness

Even if labor and skills were available, cost remains a major barrier.

The average cost of manufacturing in the U.S. is **higher** than in Asia, due to wages, regulations, environmental standards, and energy prices. This makes large-scale reshoring economically unattractive without **permanent subsidies or trade protection**.

Private firms, whose fiduciary duty is to maximize shareholder returns, will not move production back home unless the math works. This is why so many reshoring initiatives are announced with fanfare—but quietly shelved when the cost realities emerge.

Moreover, the dollar's strength acts as a headwind. A strong dollar makes imports cheaper and exports less competitive, reducing the incentive to produce domestically. Unless there is a **strategic rethinking of U.S. trade and currency policy**, reshoring will remain constrained by global pricing dynamics.

Regulatory and Infrastructure Constraints

Beyond cost, the **regulatory environment** also slows industrial revival.

Building a factory in the U.S. requires navigating **environmental permits, zoning laws, community resistance, and federal-state jurisdictional overlaps.** What takes 12 months in Taiwan may take 4 years in Ohio. Infrastructure is also inadequate. Ports, railroads, and power grids are aging. Broadband access is still inconsistent in rural areas. High-speed rail and industrial parks—staples of Chinese and European industrial strategies—are largely absent.

Until these foundational gaps are addressed, even the best reshoring incentives will deliver limited results.

Strategic Necessity vs. Market Logic

There is a growing recognition that **market forces alone cannot rebuild American industry**. In strategic sectors—semiconductors, defense, clean energy, biomanufacturing—**national security considerations must override pure cost-efficiency**. This means accepting that some reshoring efforts will be expensive, politically contentious, and slow.

The challenge is to develop a coherent **industrial strategy** that aligns public investment, education, procurement, and private incentives. This does not mean top-down central planning. But it does require government coordination, patient capital, and the willingness to support industries through their scaling phase.

Lessons from History

The U.S. has done this before. In the 1940s, it built the world's most powerful industrial base to win World War II. In the 1960s, it led the space race with coordinated public-private partnerships. In the 1990s, it catalyzed the internet economy through DARPA and NSF funding.

The question is not whether the U.S. can reindustrialize—it is whether it still has the **political vision, institutional capacity, and social cohesion** to do so.

VIII. Digital Currency Strategy: U.S. Stablecoins vs. Global CBDCs

The global monetary order is undergoing a foundational shift. While the dollar still reigns as the world's dominant currency, the technological foundations of money are evolving rapidly. Central bank digital currencies (CBDCs), stablecoins, and blockchain-based payment rails are redefining how value moves within and across borders. These changes are not only technical—they are profoundly geopolitical.

The next decade may see the emergence of parallel monetary architectures: one led by states and central banks (CBDCs), and another by private actors (stablecoins and decentralized platforms). At the center of this competition lies a critical question: Can the United States maintain its monetary primacy in a world where it no longer leads the rules of money's design?

The Rise of Commodity-Linked and Digital Alternatives

Another dimension of the dollar's vulnerability is the emerging conversation around commodity-backed currencies and digital monetary frameworks.

Russia and Iran, locked out of SWIFT and the Western financial system, have experimented with barter systems and bilateral trade using gold or oil-backed arrangements. China has created the Cross-Border Interbank Payment System (CIPS) to bypass SWIFT for RMB-based transactions, especially in Eurasian trade corridors. The Petroyuan—China's attempt to denominate oil contracts in yuan—has seen limited but growing uptake, particularly with countries that are politically aligned or economically dependent on China.

At the same time, central banks around the world are exploring central bank digital currencies (CBDCs). China's e-CNY is already in pilot mode with millions of users. The European Central Bank is progressing toward a digital euro. Over 130 countries, representing 98% of global GDP, are now researching or piloting CBDCs. These tools are not just about modernizing payments—they are about reclaiming monetary sovereignty in a digitized world.

In contrast, the U.S. has been slow to act. Political resistance to a “digital dollar” is high, driven by privacy concerns and skepticism of centralized monetary control. Instead, the innovation frontier in the U.S. lies with private-sector stablecoins like USDC, PayPal USD, and soon—possibly—consortium-backed coins by major U.S. banks. This divergent path means that America’s monetary innovation is occurring outside the state, raising questions about regulatory coherence, monetary transmission, and dollar control.

The Rise of CBDCs

More than 130 countries are now exploring or piloting CBDCs. Some of the most notable examples include:

- **China’s e-CNY**: Already in live trials across multiple provinces and used in cross-border pilots with Hong Kong and the UAE. The digital yuan is programmable, traceable, and integrated into China's broader geopolitical ambitions.
- **European Central Bank**: The digital euro is entering its preparatory phase, with the goal of preserving eurozone monetary sovereignty and reducing reliance on private-sector stablecoins.
- **India, Brazil, Nigeria, and South Korea**: These nations have launched pilot CBDCs for retail and wholesale use, aiming to modernize payments, reduce costs, and improve financial inclusion.

CBDCs offer central banks greater control over the money supply, transaction transparency, and the potential to conduct direct-to-citizen transfers in times of crisis. They also enable countries to bypass U.S.-controlled systems like SWIFT, reducing exposure to sanctions and dollar-based financial surveillance.

From a geopolitical lens, CBDCs are an attempt to reassert monetary sovereignty in an age where private technology firms increasingly intermediate payments.

The U.S. Approach: Deliberate or Delinquent?

Unlike its peers, the United States has taken a cautious, even resistant stance toward CBDCs. Federal Reserve Chair Jerome Powell has repeatedly emphasized that any move toward a digital dollar would require broad congressional approval and public consensus. Key arguments against a CBDC include:

- **Privacy concerns**: Americans are skeptical of government-controlled digital money that could track spending.
- **Bank disintermediation**: A widely adopted CBDC could reduce deposits in commercial banks, destabilizing the financial system.
- **Political polarization**: The U.S. legislative gridlock makes passing bold monetary experiments extremely difficult.

This caution has slowed innovation. While the U.S. debates the philosophy of digital currency, other powers are writing the protocols that may define the next monetary era.

The Private-Sector Workaround: Stablecoins

In the absence of a digital dollar, the U.S. private sector has stepped into the vacuum. Stablecoins, which are digital tokens pegged to fiat currencies (usually the dollar), have exploded in usage:

- **USDC (Circle)** and **USDT (Tether)** together account for over $150 billion in circulating supply, with use cases in remittances, decentralized finance (DeFi), and crypto trading.
- **PayPal USD (PYUSD)** launched in 2023, signaling the entrance of mainstream fintech into the stablecoin space.
- In 2025, there are rumors that **JPMorgan, Citi, Bank of America, and Wells Fargo** may collaborate on a consortium-issued stablecoin, potentially creating an institutional-grade alternative to CBDCs.

These developments are transforming the role of banks and payments infrastructure. Stablecoins offer instant settlement, 24/7 transferability, and global interoperability, all built on blockchain rails.

Critically, stablecoins are expanding dollar usage abroad, even in jurisdictions where the Federal Reserve has no reach. A Nigerian startup or a Turkish freelance developer can receive USDC without going through a bank. In this sense, stablecoins extend the dollar's reach—but outside the state's control.

Regulatory Catch-Up

The rise of stablecoins has alarmed regulators, who worry about systemic risk, money laundering, and lack of transparency. The collapse of Terra/LUNA in 2022 and the FTX scandal underscored the dangers of unregulated digital assets.

In response, the U.S. is now moving to impose guardrails:

- Stablecoin issuers may soon be required to hold 100% reserves in short-term Treasuries or cash.
- Issuers could be brought under the supervision of federal bank regulators, effectively treating them as narrow banks.
- Disclosure standards and redemption guarantees are being debated in Congress and at the SEC.

But the broader question remains: Should monetary innovation be driven by the state or the private sector?

The U.S. is unique in its reliance on private capital and decentralized innovation. But this model comes with trade-offs: slower coherence, greater risk, and fragmented oversight.

Strategic Implications

There is a deep irony in the current moment: America's monetary future may be led by corporations, while its geopolitical rivals are embracing state-led money.

If U.S. stablecoins dominate global payments, it may strengthen the dollar's reach. But it could also weaken the Fed's control over monetary policy. If USDC becomes a dominant medium of exchange in Southeast Asia or Latin America, and is not backed by the central bank, what happens during a financial crisis? Who acts as the lender of last resort?

Moreover, the fragmentation of the dollar—into cash, reserves, and competing digital forms—could create monetary silos that complicate policy transmission, data gathering, and regulatory oversight.

On the other hand, if CBDCs succeed abroad and become the preferred settlement tool in trade corridors like BRICS, ASEAN, or the Belt and Road, the dollar's centrality could erode—not by force, but by technological obsolescence.

The Digital Bretton Woods Moment

What the world faces today is akin to a Digital Bretton Woods moment. Just as the original Bretton Woods system set the rules of postwar monetary order, the protocols and governance structures of digital money will determine who shapes value in the 21st century.

Will it be the U.S., through a patchwork of private innovators loosely overseen by the Fed and Treasury? Or will it be a coalition of digitally-empowered states—China, the EU, India—creating interoperable public money networks?

The answer will determine more than financial flows. It will shape the sovereignty, resilience, and leverage of nations in the digital age.

IX. Strategic Delay: How U.S. Dominance Masks the Absence of a Grand Strategy

For all the alarms surrounding American decline—rising debt, industrial atrophy, fiscal dysfunction—one might ask: why hasn't the system broken yet? Why do global investors still flock to U.S. Treasuries? Why does the dollar still account for over 58% of global reserves? Why do America's tech giants still dominate innovation?

The answer lies in a paradox: **American dominance persists not because of coherent long-term strategy, but because of institutional inertia, global dependency, and the lack of viable alternatives.** In other words, the United States remains dominant not by design, but by default.

This section explores how the **absence of a grand economic strategy**—a long-term plan aligning fiscal, monetary, industrial, and geopolitical goals—has been papered over by America's inherited advantages. But as global multipolarity accelerates, that strategy vacuum may prove fatal.

The Strength of Inertia

The U.S. benefits from a set of deeply entrenched privileges that perpetuate its role at the center of the global economy:

- **The Dollar's Dominance**: Oil, food, and commodity trade are still priced in dollars. Global banks need dollar liquidity for cross-border settlement. This structural demand sustains the greenback even amid domestic mismanagement.
- **Depth of Capital Markets**: U.S. equity and bond markets are the most liquid and transparent in the world. Foreign investors have few substitutes of similar scale and stability.
- **Rule of Law and Property Rights**: Despite rising polarization, U.S. institutions still offer stronger legal recourse than most emerging markets.
- **Network Effects**: From Visa and Mastercard to Google Cloud and Microsoft Azure, U.S.-based platforms are embedded in global commerce and infrastructure.

These strengths create a **lag between strategic decay and functional collapse**. The U.S. can run twin deficits, suffer political gridlock, and mismanage policy—yet still be the preferred destination for capital.

But lag is not immunity. In the absence of reform, these same advantages can breed **complacency**, delaying the hard choices required to maintain real leadership.

The Missing Grand Strategy

What does a coherent economic strategy look like? It means answering three interlocking questions:

1. **What should America produce?**
2. **How should it be financed?**
3. **What global role should the U.S. economy serve?**

Right now, the U.S. answers none of these consistently. Industrial policy is fragmented. Budgeting is dominated by short-term election cycles. Foreign economic policy toggles between free-market evangelism and protectionist backlash.

There is **no consensus** on whether the U.S. should be an open-market consumer economy, a high-tech industrial hub, a green energy superpower, or a financial hegemon exporting capital.

Instead of choosing, policymakers try to be everything at once—subsidizing semiconductors, cutting taxes, increasing military spending, and trying to maintain low interest rates—without reconciling the trade-offs.

The result is **policy incoherence** masked by asset inflation and reserve currency privilege.

Short-Termism as Governance

The most damaging feature of U.S. economic policy is **short-termism**.

- Congress passes **stopgap spending bills** rather than long-term budgets.
- Infrastructure projects are delayed by **political gridlock**, not technical infeasibility.
- Economic decisions are dominated by **quarterly earnings pressures**, not national competitiveness.
- Regulatory clarity on digital assets, AI, and biotechnology lags far behind innovation.

Even major pieces of legislation—the Inflation Reduction Act, the CHIPS Act—were passed under **narrow time windows**, without bipartisan consensus, and remain vulnerable to repeal or underfunding.

No major power in history has maintained global dominance without **state capacity**, a long-term vision, and institutional coordination. The U.S. increasingly lacks all three.

Delegated Sovereignty to Private Actors

In the absence of a strategic state, much of America's global role has been outsourced to the **private sector**.

- **Microsoft, Google, Apple, and Nvidia** are setting the pace of global innovation
- **JPMorgan, BlackRock, and Visa** are the de facto financial infrastructure for many countries.
- U.S.-based **crypto firms, fintechs, and cloud platforms** are building the architecture of tomorrow's internet.

This model has been profitable and adaptive. But it is **not sustainable** in a geopolitically competitive world. China, the EU, and India are asserting digital sovereignty. They are building national champions, regulating foreign platforms, and erecting firewalls around their data, currency, and infrastructure.

A decentralized empire run by corporations cannot respond to **state-level challenges**—military threats, climate disasters, technological bifurcation. The U.S. must reclaim strategic sovereignty or risk becoming a **platform, not a polity.**

The Illusion of the Soft Landing

Many in Washington and Wall Street still believe in a **soft landing** scenario: that America's economic imbalances can be unwound slowly, that inflation will subside, that growth will resume, and that the dollar will remain supreme.

This belief rests on the assumption that the world has no alternative.

But history shows that **hegemonies erode slowly, then suddenly.**

- The British Empire remained militarily dominant long after it was financially insolvent.
- The Roman Empire maintained nominal control of provinces long after losing logistical capacity.
- The Soviet Union projected strength until the day it collapsed under internal contradiction.

The U.S. may not face the same fate. But if it continues to **confuse inertia for strategy**, it may discover too late that dominance without coherence is fragile.

X. Conclusion: Borrowed Time and the Future of American Power

America's global pre-eminence—economic, financial, and technological—was never guaranteed. It was the product of a rare historical confluence: the destruction of rivals in World War II, the creation of a dollar-centric global order, an unmatched industrial base, and a system of institutions that translated raw power into durable influence. For decades, these advantages created the illusion of permanence.

But that illusion is fading.

This paper has argued that the United States is not in immediate collapse, but it is on **borrowed time**—coasting on the institutional, monetary, and geopolitical privileges of the past, while the structural foundations of those privileges erode. Debt is rising faster than growth. Trust in governance is weakening. Industrial capacity has been hollowed out. The dollar is challenged—not dethroned, but questioned. The coherence of American strategy has fractured.

To be clear: the United States still commands immense resources. Its universities, tech companies, and capital markets remain world-leading. Its military footprint spans the globe. Its culture shapes global narratives. And its entrepreneurial ecosystem continues to produce breakthroughs at breath-taking speed.

But **power without discipline decays.** Influence without reform corrodes. And dominance without strategy invites entropy.

America's crisis is not one of capacity—but of coordination. The tools to rebuild are available. The moment to choose is now.

The Path Forward: Three Strategic Imperatives

If the U.S. is to reverse its trajectory and reassert sustainable leadership, it must confront three interlocking challenges:

1. Fiscal and Monetary Discipline

The era of free borrowing is over. With real interest rates above growth, debt must be confronted as a strategic vulnerability.

This does not mean immediate austerity. But it does require a credible long-term plan to stabilize the debt-to-GDP ratio, restrain non-productive spending, and ensure that interest costs do not cannibalize the state's core functions.

The Fed must also clarify its role in a digital world. Should it issue a central bank digital currency? Should it regulate stablecoins? Should it accommodate fiscal dominance or resist it? These questions must be answered not ad hoc—but as part of a comprehensive monetary framework.

2. Industrial Strategy and Technological Sovereignty

America must choose what it wants to produce—and why.

Reshoring cannot be symbolic. It must focus on strategic sectors: semiconductors, biomanufacturing, energy, AI hardware, and defense. Government must work with industry, labor, and academia to build industrial ecosystems—not just isolated factories.

Immigration reform, workforce development, infrastructure renewal, and smart procurement will all be essential. The goal is not autarky—but **resilient interdependence**: supply chains that reflect strategic logic, not just cost efficiency.

3. Institutional Renewal and Strategic Clarity

No empire survives without functioning institutions. America's Congress, courts, civil service, and regulatory bodies must be depoliticized and modernized.

Beyond that, the U.S. must articulate a **clear economic role in the world.**

- Is it the defender of open markets or the champion of industrial policy?
- Will it lead global digital standards or allow others to write the rules?
- Will it use sanctions as a weapon—or build alternatives to reduce dependency on their use?

These questions require a grand strategy. And grand strategy requires leadership—across parties, across generations, and across sectors.

A Closing Reflection: Decline Is a Choice

The British Empire did not collapse because it lacked ships or banks or colonies. It collapsed because it lost **fiscal solvency, industrial competitiveness, and moral authority**. America risks the same fate—not through external invasion, but through internal atrophy.

But decline is not destiny.

Empires fall when they **fail to adapt**, not simply because others rise. The United States still has time—borrowed time—to confront its contradictions, renew its purpose, and define a post-exceptionalist future that is more resilient, more sustainable, and more just.

That future will not look like the 1950s or the 1990s. It will be more multipolar, more digital, and more contested. But it can still be led—if America chooses to lead itself.