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The Decline of American Economic Hegemony: Is the U.S. Losing Its Grip over the Global Economy?

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The Decline of American Economic Hegemony: Is the U.S. Losing Its Grip over the Global Economy?

Abstract

The following article argues that the hegemonic role of the United States over the global economy has been in decline since the golden era of capitalism ended. The two most influential factors for this decline are the ever growing global distrust for US led institutions and the domestic issues that plague the US with no solution in sight. By examining the IMF's internal inefficiencies and controversial policy choices this article examines how it has contributed to the decline of American Economic hegemony. At the same time the article also analyses how the United Nations has failed to live up to expectations by being unable to fulfil their role as a war preventing organization. Finally, when tackling domestic issues, the analysis focuses on the unyielding inflation the nation faces as well as the growing threat to the country's democracy. The following factors have contributed significantly to the country's multilayered decline of its hegemonic grip over the global economy.

Introduction

Ever since World War II ended the United States have dominated the international political landscape. Its economic influence surged until the mid-70's and its role as the sole economic hegemon was solidified once the Soviet Union and the eastern bloc collapsed. However, once the golden age of capitalism ended the US has been experiencing a steady decline of its global influence both economically and politically. The article argues that the decline of U.S. economic hegemony stems primarily from two driven factors: the global erosion of influence of the U.S. backed institutions such as the UN and the IMF and a combination of domestic issues – unyielding inflation and consistent democratic erosion.

The Case of The US Led Global Institutions

To begin, this section will critically assess the global opinion on the US led global institutions, by examining the ones that exert the most influence on the global scene. The most influential of those is the United Nations. The United Nations was founded right after the Second World War with the sole purpose of bringing the international community together and to solve issues that plague humanity such as preventing conflict. The founding father of the United Nations was also the then president of the United States Franklin D. Roosevelt, making the country the most influential nation within the United Nations even to this day. This is also due to the fact that the majority of funding for the UN comes consistently from the US with the nation having provided over 17 billion dollars in 2022 alone ¹. As a result of this, it is safe to assume that the United States has the last saying when it comes to the UN (as it has both founded and funded it

¹ 'Funding Sources | Financingun.Report'.

in its majority) making the organization an extension of the United States soft power in the global political scene. The organization, although intended to be a helping force when it comes to universal issues has actually faced major criticism since its founding following a pattern of decline in its global influence and trust similar to that of the United States. In more recent years, the conflicts in the middle east as well as the Russian invasion of Ukraine have exposed the limitations that the UN faces as its being accused of not being able to prevent or even stop wars ². This inability of the US's most influential institution to act out its intended purpose has raised questions regarding the status of hegemony that the US has both politically and economically. As more nations lose their trust to the US' ability to overshadow its opponents the quest to explore new partners and invest in new markets takes actual form. This phenomenon that has been taking place over the years has caused the US's share in global GDP to fall steadily from 40% in the 1960's to a mere 24% in 2019 further indicating how the US's slowly loses its hegemonic status over the global economy ³.

Additionally, looking beyond the United Nations, the analysis of the downfall of American economic hegemony couldn't be completed without mentioning the IMF. Founded near the end of WWII, the IMF aimed to prevent another Great Depression. It's designed to give policy advice to its member countries, manage debt crisis and promote sustainable economic growth. While the IMF was designed to be a helping force, the organization slowly loses its credibility and just like the United States its influence is falling out of place. Evident of this is the way that the organization is structured which is also one of the major reasons the organization slowly loses its social credibility. The IMF

² Gowan, 'How the World Lost Faith in the UN'.

³ 'Visualizing the U.S. Share of the Global Economy Over Time'.

is composed of 191 member countries around the globe which all hold voting powers to collectively decide on common issues. However, that voting power amongst nations is poorly distributed and it's based on the wealth of each nation. As a result, the US currently has 16.7% veto power while the 55 member African countries combined only possess a 7.2% veto power ⁴. This uneven distribution of powers within the organization has had the effect of the social credibility of the IMF being diminished over the years while still maintaining its normative legitimacy due to the organization's legal mandate and expertise. Furthermore, the IMF is accused of fueling social unrest in nations where its loan policy is implemented. That happens because it's a creditor centered policy and most of the times austerity measures are applied just so creditors can get their money back. The case of Jordan shines proof to those allegations. Jordan has had policy implementations by the IMF since 2012 just so their economy can be self-sustainable and fight poverty that has been plaguing the country. However, those implementations have done more harm than good because as of 2022 the country's Debt to GDP ratio is higher than when the IMF started implying policy controls and austerity measures to the country over a decade ago ⁵. Additionally, the IMF alongside the world bank have established a program for transferring funds directly into households as a means of combating poverty in the country. However, this was another failed attempt by the organization to implement a policy as this program only reached 5 % of the households in the country or 120.000 households out of 11.000.000 ⁶. To conclude, both the United Nations and the IMF serve as an extension of the US's soft power implementation around the world. The

⁴ Ohiocheoya Omiunu and Chioneso Samantha, 'Reforming the International Financial Architecture: Addressing the IMF's Social Legitimacy Crisis'.

⁵ 'Public Debt Interest Increased 10% in 2022 to Reach JD1.76b - Jordan News | Latest News from Jordan, MENA'.

⁶ Humans Right Watch, 'IMF'.

inability of those organizations to solve issues which were designed to solve them from the moment they were founded makes the world turn away from the US both economically and politically while also looking for alternatives to replace them with authoritarian regimes.

Domestic US Problems

Building on this loss of global institutional trust, it is also crucial to look at the issues that trouble the US domestically and how those issues affect how the US behaves outside of its borders. Specifically, by looking at how inflation influences the US domestically, an analysis can be made as to why more nations globally don't look to the US anymore as a reliable economic partner. Inflation in the US had always been a major issue, as the country has been experiencing a steady rise in inflation from 1925 all the way until present times with the most recent spike in 2022 hitting 9.1% ⁷. It goes without saying that inflation greatly affects the citizens of the country. Everyday goods like groceries or the gas one puts in his car increase in price as the value of the currency diminishes. Social classes are also affected by inflation as poorer ones struggle to make ends meet while in general everyone must pay more money when purchasing a product. However, domestic economic issues such as inflation also greatly affect the country's place in the global political arena. The persistent inflation that the US has been experiencing over the decades has led many of its trading partners to look elsewhere to trade as this persistent inflation is a sign of long-term instability. Protectionist measures like Trump's newly imposed tariffs risk exacerbating inflationary pressure, further

⁷ 'Historical U.S. Inflation Rate by Year'.

weakening U.S. credibility as a stable economic partner.⁸ In the case of the US where the dollar currently works at the world's reserve currency, economic partners will start questioning the reliability of the country and may look in elsewhere for new partners to trade with. That is a trend already on display as countries in Europe set to distance themselves from the United States, achieve self-sustainability and explore new markets while that is observed not only by the governments of each country but also is a trend within the general populace⁹. To conclude, as inflation plagues the US, its partners no longer look at the country as the beacon of economic stability it once was. Its longer-term partners are exploring new markets while its political rivals look to dethrone the US dollar as the world's reserve currency.

Furthermore, an additional major domestic issue that the US faces is protecting its democracy. Historically, the US was always seen as a bastion of democracy. From leading the efforts in World War 2 to defeat fascism, to the cold war where it was the primary reason that democracy and the free market prevailed over communism. However, in recent years the US democracy has been under threat especially since when president trump took office. The statistics prove it as Americans believe that the biggest issue that the US is currently facing is its crumbling democracy¹⁰. This has been a result of the election of populist leaders like Donald Trump that do not adhere to the traditional values the US is known to uphold. His administration efforts to carve up Ukraine alongside an authoritarian Russia, his distrust of the election system by dismissing the results of the 2021 presidential election and even his attempts to bully other countries to

⁸ 'Fed Chair Says Inflation Set to Rise, Economy to Slow Following Trump Tariffs'.

⁹ 'Nearly Half of EU Citizens No Longer See US as Most Important Ally'.

¹⁰ Dina Smeltz, 'Domestic Issues Overshadow Foreign Conflicts in 2024 Voting Decisions'.

submission even with the threat of military intervention proves just that. It shouldn't be a surprise that for those reasons mentioned that the US has been demoted to a flawed democracy in 2025 experiencing major setbacks in political culture and functioning of its government ¹¹. This shift threatens U.S. trade alliances, which historically relied on shared democratic values. For the majority of US' history, it was seen as the biggest democratic power both politically and military hence its allies always looked at the US for political guidance. Seeing the shift away from democratic norms that the US currently is experiencing its allies will naturally look elsewhere for alliances because of values. Not only that but with the absence of the US as a democratic superpower, another country will step up and replace the US further weakening the country's grip towards global economy. It is because of the rapport that the US has built for itself over the decades as the democratic bastion of stability that its partners engage in trading with the nation and trust the US with the role of the global hegemon. If this trend continues and the US keeps shifting towards authoritarianism while keeping its domestic issues unsolved, it is a real possibility that the US along with the dollar will be dethroned of its global economic hegemonic status and be replaced by a nation authoritarian in nature.

¹¹ 'America Demoted to a "Flawed Democracy" - Democratic Erosion'.

Conclusions

In conclusion there are many reasons that the US is in fact losing its grip over the global economy but the two most important are the growing distrust for US led global institutions and the domestic economic problems that the country faces without a permanent solution in the near future. The United Nations alongside the IMF were an American initiative in order to prevent future catastrophes. While both organizations have employed experts to maximize results, both of them have failed to live up to expectations. Their structural inefficiencies have repeatedly prevented them from fulfilling their foundational missions. Additionally, the domestic issues that the US faces such as inflation and a threat towards the country's democracy don't help the situation. Together, these forces paint a picture of a hegemon in retreat, shifting away from its traditional values making its allies distrustful and inclined to explore new markets and trading partners. If these trends continue gaining momentum, the U.S. not only risks diminished influence but also displacement by authoritarian challengers whose perceived stability now appeals more to a shifting global order than the ideals the U.S. once symbolized.

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